



# **Management Board Report on performance of the Energa Capital Group in the first half of 2020**

**Gdańsk, 29 July 2020**

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## 1. SUMMARY

### ENERGA GROUP IN H1 2020



One of the leading energy groups and a reliable supplier of electricity and services for nearly ¼ of Poland, with a 53% share of RES in own production.

#### Financial data

Revenues	EBITDA	EBITDA margin
PLN 6,145 m	PLN 1,055 m	17.2%

#### Renewable energy sources

Installed capacity	RES production	
539 MWe	750 GWh	<p>Wind 45% Run-of-river plants 38% Biomass 16% PV 1%</p>

#### Operating data

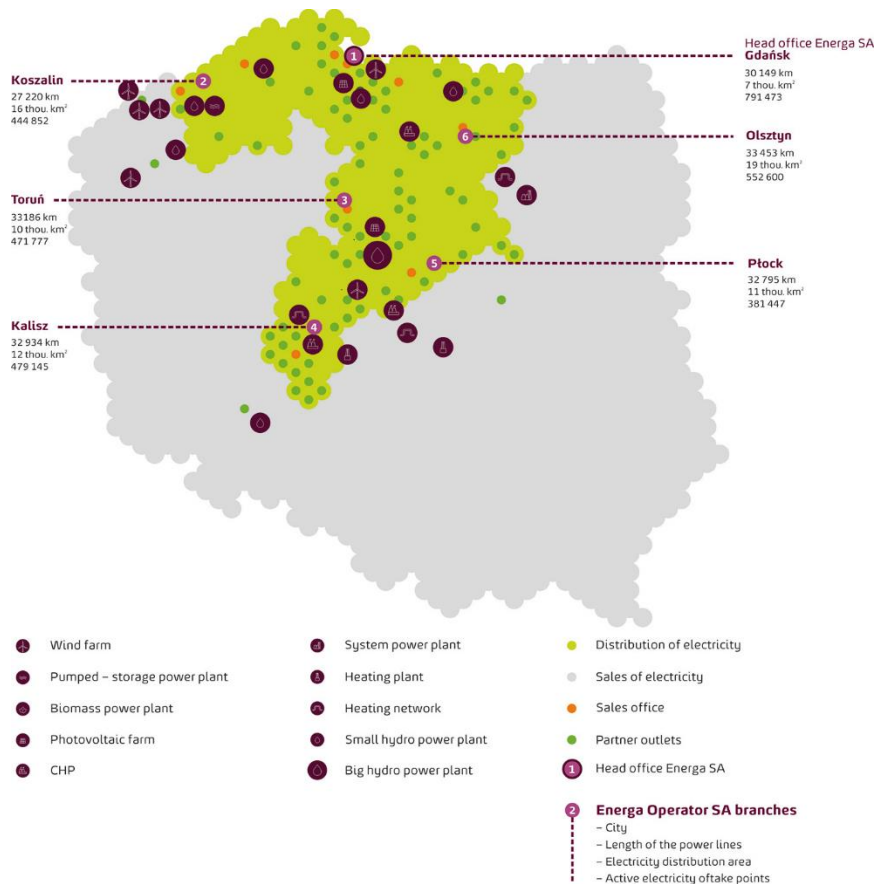
Volume of electricity supplied	Gross electricity production	Retail sales of energy
<p>10.7 TWh</p>	<p>1.4 TWh</p>	<p>9.3 TWh</p>

#### Basic facts for investors

Capitalization*	Share price*	Member of indices:	Fitch rating of Energa
PLN 3.4 bn	PLN 8.14	WIG WIG30 MWIG40 WIG-Energia WIG ESG	BBB-

\*at the end of H1 2020

Key resources		
Length of distribution network	Installed capacity	Employees
191 k km	1.38 GWe <i>Of which 39% are RES</i>	9.9 k



Key Business Lines		
Distribution	Generation	Sales
EBITDA: PLN 940 m	EBITDA: PLN 98 m	EBITDA: PLN 52 m

Investments			
PLN 815 m	New customers	Upgrade of high-, medium- and low-voltage lines	New RES
<i>Of which Distribution: PLN 579 m</i>	29 thousand	1,418 km	251 MW



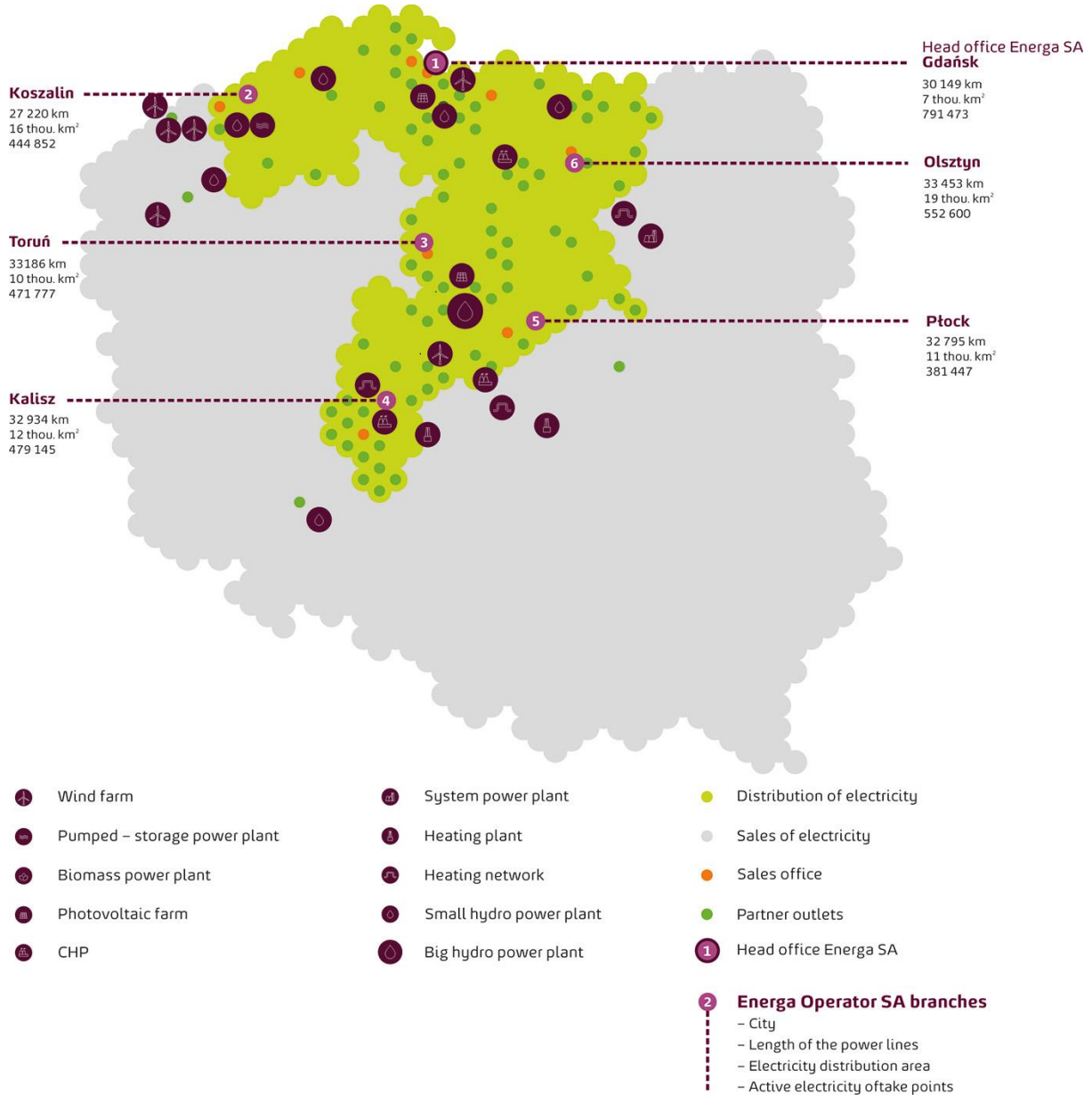
Hydro plant Żelkowo

## Key information about the Energa Group

## 2. KEY INFORMATION ABOUT THE ENERGA GROUP

### 2.1. Activities of the Group

Figure 1: Business locations and main assets of the Group



The core business of the Energa Group involves the distribution, generation and trading in electricity and heat and concentrates on the following business lines:

**Distribution Business Line.** This is the business line of key importance to the Group's operating profitability, consisting in the distribution of electricity (which is a regulated activity in Poland) and based on tariffs approved by the President of the Energy Regulatory Office (URE). Energa Operator SA is the leader in this Line. The Energa Group has a natural monopoly position in the northern and central part of Poland which hosts the Group's distribution assets through which the Group supplies electricity to 3.2 m customers, approx. 3.0 m of whom are customers with universal agreements and 184,000 are TPA (Third Party Access) customers. As at 30 June 2020, the total length of the power lines was 191 thousand km and covered almost 75 thousand km<sup>2</sup>, i.e. about 24% of the country's landmass.

**Generation Business Line.** The operation of this Business Line is based on four Generation Areas: the Ostrołęka Power Plant, Hydro, Wind and Other (including cogeneration – CHP). At the end of H1 2020, the total installed generation capacity in the Group’s power plants was 1.38 GW. The Leading Entity in this Business Line is Energa OZE SA.

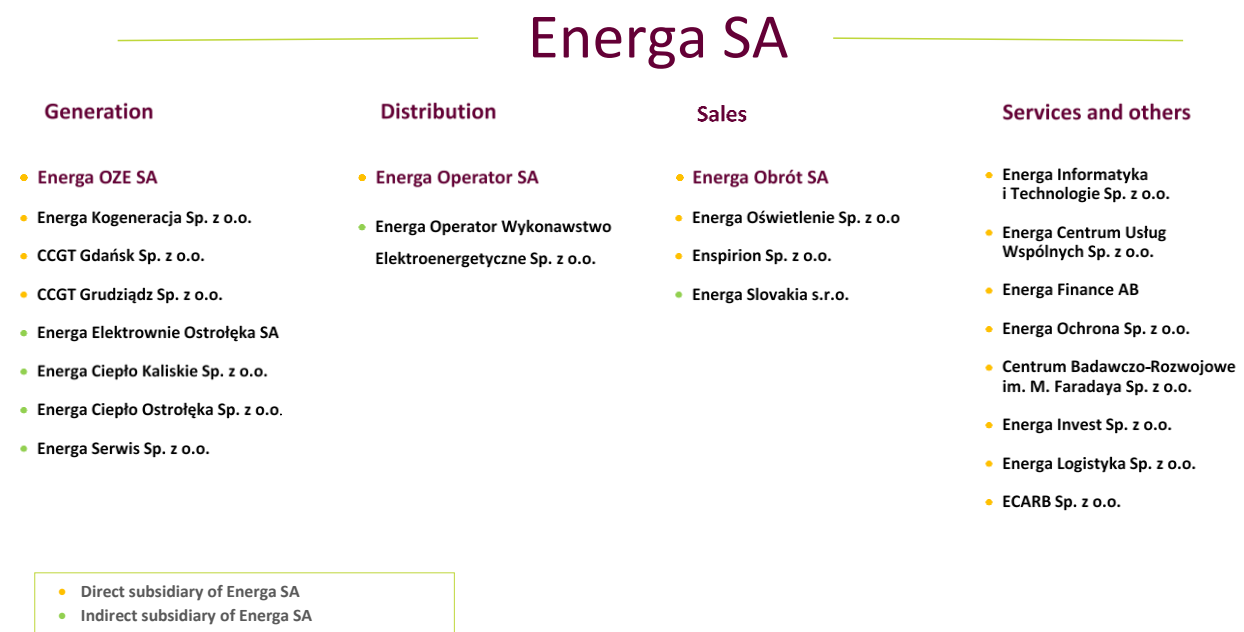
The Energa Group owes its leading position in terms of the percentage of renewable electricity in the total energy mix primarily to the generation of energy in hydro- and wind power plants. Green energy is produced by 46 hydro power plants, 6 wind farms and biomass-fired installations (in Energa Elektrownie Ostrołęka and Energa Kogeneracja) as well as 2 photovoltaic installations.

**Sales Business Line.** The Business Line with Energa Obrót SA as the Leading Entity sells electricity, gas and additional services offered to clients both as separate products and in packages. Products and services are sold to all customer segments, from industry through large, medium and small enterprises, to households. As at the end of H1 2020, the Energa Group had ca. 3.1 m customers, including almost 2.8 m classified as G tariff customers, with the remainder being customers from tariff groups: C, B and A, in a decreasing order.

## 2.2. Structure of the Group

As at 30 June 2020, the Energa Group consisted of 23 companies, including its parent company, Energa SA (“Energa”, “Company”).

Figure 2: Simplified organizational chart of the Energa Group as at 30 June 2020



Additionally, as at 30 June 2020 the Group held shares in joint ventures: Polska Grupa Górnicza SA (“PGG”), Elektrownia Ostrołęka Sp. z o.o. (formerly Elektrownia Ostrołęka SA) and in associates: Polimex-Mostostal S.A. (“Polimex”) and ElectroMobility Poland SA.

## Major changes in the Group's structure and organisation

On 30 April 2020 PKN ORLEN S.A. ("PKN ORLEN"), as a result of settlement of the purchase of shares covered by subscriptions as part of the tender for all shares issued by Energa SA, increased its share in the Company's share capital and in the total number of votes in the Company to 80.01% and 85.20%, respectively.

### Energa Ciepło Ostrołęka

On 24 March 2020, Energa Elektrownie Ostrołęka signed a purchase agreement for shares of Energa Ciepło Ostrołęka from Energa Kogeneracja Sp. z o.o. The value of the transaction was PLN 37 m.

### Energa Serwis

On 28 April 2020, Energa Elektrownie Ostrołęka signed a purchase agreement for 4,000 shares of Energa Serwis sp. z o.o. from Energa SA. The total nominal value of shares amounted to PLN 2 m and they constituted 14.08% of the company's share capital.

### ECARB

The company was registered in the National Court Register on 4 May 2020. The main subject of actual activity is other financial service activities, servicing the block of shares of Polska Grupa Górnicza S.A. in terms of developing the strategy and analyzes necessary to perform the activities and rights and obligations arising from the holding of PGG shares.

On 11 May 2020, Energa OZE signed a purchase agreement for 1,275 shares of ECARB sp. z o.o. from Energa SA. The total nominal value of shares was PLN 63.7 thousand and they constituted 35.40% of the company's share capital.

## 2.3. Key events in H1 2020 and after the balance sheet date

### **Results of the Tender Offer to subscribe for the sale of the Company's shares, announced on 5 December 2019 by PKN ORLEN S.A.**

On 28 January 2020, the Management Board of Energa adopted, pursuant to Article 80 of the Act of 29 July 2005 on Public Offering and the Terms of Introduction of Financial Instruments to an Organized Trading System and on Listed Companies, a position regarding the Tender Offer to subscribe for the sale of the Company's shares, announced on 5 December 2019 by PKN ORLEN S.A., in which the Management Board stated that the price of shares proposed in the Tender Offer is within the estimated fair value of the Company's shares.

The Company's Management Board adopted its position based on the company's opinion of Deloitte Advisory sp. z o.o. limited partnership and information from the Tender Offer.

The start of the subscription for shares in the Tender Offer took place on 31 January 2020, and the end of the subscription for shares, originally scheduled for 9 April 2020, took place on 22 April 2020.

On 15 April 2020 the Management Board of PKN ORLEN decided to increase the price in a tender offer to subscribe for the sale of all shares of Energa from the level of PLN 7 to the level of PLN 8,35 per one share. The increased price in the Tender Offer was paid for all shares of Energa subscribed for sale in the whole period of the Tender Offer, i.e. from 31 January 2020 to 22 April 2020.

On 29 April 2020 the Management Board of Energa received a notification from PKN ORLEN concerning a change by PKN ORLEN of its share in the Company's share capital and in the total number of votes in the Company, according to which on 24 April 2020 PKN ORLEN, as a result of settlement of the purchase of shares covered by subscriptions made during the first 70 days of accepting subscriptions (i.e. until 9 April 2020 inclusive) as part of the Tender Offer, it increased its share in the Company's share capital and in the total number of votes in the Company to ca. 8.1% and ca. 6.0%, respectively.

On 30 April 2020 the Management Board of Energa received another notification from PKN ORLEN concerning a change by PKN ORLEN of its share in the Company's share capital and in the total number of votes in the Company, according to which on 30 April 2020 PKN ORLEN, as a result of settlement of



the purchase of shares covered by subscriptions made from 10 April 2020 until 22 April 2020 inclusive as part of the Tender Offer, it increased its share in the Company's share capital and in the total number of votes in the Company to 80.01% and 85.20%, respectively. At the same time, the Company received from PKN ORLEN a notification about establishment of parent – subsidiary relationship between PKN ORLEN and the Company, which is the result of settlement of all transactions of purchase of shares covered by subscriptions made under the Tender Offer.

### **Signing of agreements concerning the Ostrołęka C Power Plant project**

On 13 February 2020, Energa concluded an agreement with Enea S.A. ("Enea") on the suspension by both companies of financing of the project of construction of a new coal-fired unit at the planned Ostrołęka C power plant in Ostrołęka with a capacity of approx. 1,000 MW ("Project").

The financing was suspended in particular in connection with the need for, and for the duration of, the analyses to be carried out by both companies regarding further actions under the Project, including its continued financing.

By a reason of abovementioned, on 14 February 2020, the Management Board of Energa was informed that Elektrownia Ostrołęka sp. z o.o. (a special purpose vehicle implementing the Project) had instructed the general contractor under the Contract for construction of Ostrołęka C Power Plant of a capacity of approx. 1,000 MW of 12 July 2018 and the contractor under the Agreement on reconstruction of the railway infrastructure for Ostrołęka C Power Plant of 4 October 2019 to suspend performance of all works under the contracts, effective as of 14 February 2020.

On 2 June 2020 the Management Board of Energa accepted the final report on analyses conducted in collaboration with Enea. The conclusions from the analyses do not justify continuation of the Project in its existing form, i.e. the project to construct a power plant generating electricity in the process of hard coal combustion. The following aspects have, among other things, influenced the above evaluation:

- regulatory changes at the level of the European Union and credit policy of individual financial institutions, indicating a significantly higher availability of financing for energy projects based on gas combustion than coal projects; and
- takeover of control over the company by PKN ORLEN, whose strategy does not envisage any investment projects in the production of energy based on coal combustion.

At the same time, the technical analysis confirmed that a power plant producing energy as part of natural gas combustion may be built in the existing location of the coal-fired power plant being built ("Gas Project").

As a consequence, the Management Board of the Company took a decision intending to continue the construction of the generating unit in Ostrołęka, upon accounting for the change in the fuel source from coal to gas.

On 2 June 2020, Energa, Enea and PKN ORLEN entered into a trilateral agreement setting out the following main terms of cooperation under the Gas Project:

- subject to the below restrictions, the Company will continue to cooperate with Enea as part of the existing special-purpose vehicle, that is the company Elektrownia Ostrołęka Sp. z o.o. and will settle with Enea the Project-related costs as well as will settle with the project contractors, according to the existing rules.
- accounting for the role, if any, of PKN ORLEN in the Gas Project as a new partner,
- the participation of Enea in the Gas Project as a minority shareholder with a limit on the exposure amount; as a consequence, Enea will not have joint control over Elektrownia Ostrołęka sp. z o.o.,
- subject to obtaining the necessary corporate approvals, entering into a new shareholders' agreement on the implementation of the Gas Project, upon accounting for the above terms of cooperation,
- the Company together with PKN ORLEN taking actions to obtain funding for the Gas Project.

### **Decision to launch a review process of available strategic options concerning combined cycle gas turbine projects (CCGT) located in Gdańsk and Grudziądz**

On 27 February 2020, the Management Board of Energa passed a resolution concerning the launch of the procedure leading to a review of available strategic options, including conduct of in-depth market reconnaissance and making enquiries with external entities to determine their interest in a potential strategic partnership or purchase of the Company's special-purpose vehicles carrying out the projects consisting in construction of combined cycle gas turbines (CCGT) located in Gdańsk and Grudziądz, namely CCGT Gdańsk sp. z o.o. and CCGT Grudziądz sp. z o.o.

### **Decisions to settle out of court all disputes regarding the invalidity of the agreement for the sale of property rights under certificates of origin between Energa Obrót and three of the sued wind farms**

In 2020, until the date of this quarterly report, Energa Obrót, a subsidiary, and two out of the 22 wind farms sued by Energa Obrót (about which the Company informed in the current report no. 37/2017) settled amicably all their disputes regarding the agreement for the sale of property rights under certificates of origin (CPA agreement):

- On 27 February 2020. The parties to the settlement agreed not to continue their cooperation in purchasing property rights under the agreements challenged by Energa Obrót SA and the terms of the settlement have a neutral effect on the financial result of Energa Obrót SA;
- On 8 May 2020. The parties to the settlement considered their relationship based on the agreement challenged by Energa Obrót to be definitely terminated, with the terms of the settlement having a neutral impact on Energa Obrót's financial result.

As at the end of June 2020, Energa Obrót concluded 8 settlements with the sued wind farms (of which 3 settlements in 2019 and 2 settlements in 2020). The total capacity of the facilities affected by the settlements accounted for approx. 59% of the total installed capacity of all sued wind farms.

### **Changes to the composition of the corporate bodies of Energa**

In 2020, there were changes on the corporate bodies of Energa SA. They are presented in note 3 to the Condensed interim consolidated financial statements of the Energa Group for the six month period ended 30 June 2020.

The CVs of all members of the Company's bodies can be found online at <https://grupa.energa.pl/en/energa-group/company-management>.

### **Global coronavirus pandemic and its potential impact on the Group's activity**

On 11 March 2020, the World Health Organization (WHO) declared the SARS-CoV-2 coronavirus pandemic. On 14 March 2020, the state of epidemiological threat was declared in the territory of the Republic of Poland. On 20 March 2020, the state of epidemic was announced in the territory of the entire country.

The pandemic of SARS-CoV-2 coronavirus causing COVID-19 illness is a phenomenon that will undoubtedly have a huge impact on the global economy and on the situation in Poland.

In the current market conditions, the Group identifies the following potential market risks:

- declining demand for electricity, especially from end customers from A, B and C tariff groups - the Group estimates a decrease in the volume of energy sales to end users by 5% compared to the situation before the pandemic;
- the need for a sale with a loss of excess electricity by Energa Obrót SA due to the decrease in energy consumption by end users,
- deteriorating payment discipline of customers due to their deteriorating financial situation;
- eroding work performance, likely to arise from sick leaves, compulsory quarantine and implemented work reorganization designed to prevent the spread of the virus, also through the use of remote work;

- the need for Energa Obrót to submit new collaterals securing its purchase transactions to the Clearing and Settlement House (Izba Rozliczeniowa Giełd Towarowych S.A. or IRGiT) within the framework of topping up security deposits as a direct result of the currently observed decline in electricity prices. It should be stressed, however, that a broader range of tools enabling submission of non-cash collaterals to IRGiT has been implemented currently within the scope of introduction of shielding measures by the Polish Government in connection with the pandemic meant, among other things, to hedge against liquidity risk in the companies trading on the Polish Power Exchange. Remedial measures introduced by the act are to be in operation until the end of Q3 2020.

The total impact of the CoV-2 pandemic on the Group's EBITDA in H1 2020 was estimated at approx. PLN 95 m.

It should be noted, however, that the dynamics of events related to the coronavirus epidemic means that forecasting economic effects is burdened with a high risk of making incorrect assumptions. The Group has the ability to effectively counteract any adverse phenomena that may occur, both in the short, medium and long term. Risks associated with possible revenue erosion and timely collection of revenue with the concurrent need for servicing credit liabilities shall be mitigated through an appropriate curbing of costs and investment outlays.

Consequently, there is no evidence of any threat to the Company continuing as a going concern.

### **Covering the net loss for 2019**

On 28 May 2020, the Management Board of Energa decided to recommend to the General Meeting of Energa SA to cover the Company's net loss of PLN 374 m for the financial year 2019 from the supplementary capital.

On 1 June 2020 the Company's Supervisory Board issued a positive opinion on the Company Management Board's recommendation on covering the Company's net loss for 2019. The Management Board's recommendation along with the opinion of the Supervisory Board was submitted to the General Meeting on 29 June 2020, which made the final decision on covering of the Company's net loss from the supplementary capital.

### **Fitch Ratings downgrades Energa SA rating**

On 29 May 2020 Fitch Ratings downgraded the Company's long-term foreign and local currency Issuer Default Ratings (IDRs) from 'BBB' to 'BBB-' with a Stable Outlook, rating for the bonds issued by the Company's subsidiary Energa Finance AB (publ) to 'BBB-', and rating for Energa SA's hybrid bonds to 'BB'.

The main reason for the downgrade as provided by the agency is the acquisition of the Company by PKN ORLEN, effective from 30 April 2020 (detailed information is presented in chapter 7.3. *Ratings*).

### **Impairment losses and creation of a provision**

In Q2 2020, valuations of shares were carried out as well as tests for impairment of fixed assets. As a result, it proved necessary to create:

- an impairment loss on generation assets of the subsidiary Energa Elektrownie Ostrołęka SA - in the amount of PLN 473 m,
- an impairment loss on investments in a joint venture in Polska Grupa Górnicza S.A., over which the Energa Group exercises joint control through a block of 15.32% of PGG shares held by Energa Kogeneracja Sp. z o.o. - in the amount of PLN 145 m,
- an impairment loss on shares in Energa Kogeneracja Sp. z o.o. - in the amount of PLN 79 m,
- an impairment loss on shares in ENERGA AB Finance (publ) – in the amount of PLN 84 m.

At the same time, in connection with the decision on the intention to change the power source from coal to gas for the Ostrołęka C power plant project ("Project") carried out by the company Elektrownia Ostrołęka Sp. z o.o., the Company finds it necessary to:

- create a provision in the amount of PLN 218 m, which reflects possible currently estimated amounts of funding of the company Elektrownia Ostrołęka Sp. z o.o. for the settlement of the Project implementation to date,
- create an impairment loss on loans, including interest, granted to the company Elektrownia Ostrołęka Sp. z o.o. - in the amount of PLN 185 m.

Detailed Information on impairment losses and creation of a provision is contained in the consolidated and standalone interim financial statements for the six-month period ended on 30 June 2020.

## 2.4. Innovation activities

The Energa Group carries out research, development and innovation (R&D&I) projects identified in the Strategic Research Agenda ("SRA"), which specifies key growth directions for the Group in the years 2019-2028.

### Strategic Research Agenda for 2019-2028



Flares	Business and technological improvements			Innovative business models			Future technologies		
	Intelligent, automatic and reliable grid	Digitization and customer satisfaction	Optimization of production capacity and DSR	Smart City	Electromobility	Microgrids*	RES	Energy storage**	Alternative stable generation sources
Areas	Reliable and efficient management of grid assets	Customer behavior and satisfaction surveys	Regulatory alignment of generating assets	Smart City strategies and business models	Strategies and business models, and promotion of electromobility	Participation in energy clusters and promotion of microgrid solutions	PV and BiPV technologies	Water tank machines	Hybrid power plants
	Smart Grid	Customer relationship management systems	Effective management and operations of generating assets	Test platforms for new Smart City products and services	Solutions for infrastructure operators and charging service customers	Products and services for microgrid operators and customers	(Land and sea) wind energy technologies	Energy accumulators	Hydrogen technologies and fuel cells
Subareas	Measurement data management and monetization	Integrated and available customer data	DSR services	IT platforms and applications for Smart City	IT systems and platforms for charging infrastructure management	IT systems and platforms for billing and microgrid traffic management	Hydropower (inland) technologies	Other energy reservoirs (kinetic, CAES, UTES, etc.)	Energy from waste/ biomass
	Reliable and effective IT infrastructure	Mobile and internet platforms and applications for customers	Virtual power plants (VPP)	Integrated devices and systems for Smart City	Demonstrators of infrastructure, charging and cooperation with EV	Demonstrations of microgrid infrastructure, devices and systems	Offshore energy technologies		Geothermal energy and other sources of heat and cold
Objective	Operational improvement of processes and products using technologies/ solutions existing on the market			Search for new sources of value and growth for the Energa Group. Participation in new currently emerging markets			Preparation of the enterprise for energy sector transformation		
	Implementation of solutions available on the market, with the need to adapt existing infrastructure			Creation of an innovative market offer in new business areas based on existing and acquired competence and partnerships			Industrial research and participation in scientific and research consortia to improve and commercialize innovative technologies		
Approach									

\* microgrids are understood as Local Balancing Areas

\*\* energy storage is understood as both storage of electricity and other types of energy (e.g. heat, cold)

Selected R&D projects currently executed by the Energa Group:

- **NEDO** - the goal of the project is to build a battery-based energy storage at the Bystra Wind Farm. The project will provide the Energa Group with expertise in the area of operation, design and development of large-size (unrivaled in the country) electricity storage systems. The project was granted funding by the Japanese government agency NEDO.
- **EUniversal** - a demonstration project in the area of grid flexibility development, testing options to use flexibility services on the energy market. The anticipated goals of the project are: improved grid operation safety and optimization of grid extension ranges in areas with high congestion of microgeneration and/or growing EV infrastructure. The project is implemented by an European consortium and funded by the Horizon 2020 program.
- **RSOC** - the goal of the project is to develop and build a system that generates nitrogen using process steam (power-to-gas), based on the stack of solid oxide electrolyzer cells, also to work in the reversible mode. The device may be instrumental in the development of

energy storage systems implementing the P2G concept, i.e. the generation of synthetic fuels using excess electricity, notably from renewable energy sources.

- **SORAL** – the goal of the project is to develop expertise and tools to improve management efficiency of the MV cable grid. The system developed in the project will provide data to facilitate preventive actions intended to limit the number of failures and support the cable line upgrade process. Funding for the project was granted by the National Center for Research and Development ("NCBiR").
- **PV panels on the water** - the goal of the project is to develop and test a floating PV system in order to effectively use water bodies in the future (including at former mining sites).
- **Innovative variable-phase heat and cold stores** – the goal of the project is to prepare a comprehensive implementation of variable-phase heat and cold stores to interact with the district heating system or with renewable sources. To support the heat supply system, a storage system will be developed using PCM as the material, whose phase transition temperature is between 60°C and 100°C. The project received funding from NCBiR.
- **Lighting pole-mounted charging stations** – a project in which Energa Oświetlenie will test the option of charging electric vehicles from charging stations integrated with lighting poles which are the company's assets. AC charging stations will be developed in the project, properly adapted to the installation on lighting poles, as well as modified lighting and other infrastructure power control and supply systems. The project envisages the launch of the charging stations for general use for the duration of the project.

The Energa Group's research and development activities also include the publication, for over 10 years already, of a research magazine Acta Energetica. The audience of the quarterly are those involved in power generation and engineering. In early 2020, Acta Energetica was listed as a journal that publishes reviewed scientific papers, graded as level I (80 points) by the Ministry of Science and Higher Education. Acta Energetica contributes to dissemination of knowledge and growth of scientific expertise and development of its practical applications in business projects.

## 2.5. Capital expenditures and realization of key projects

In H1 2020, capital expenditures of the Energa Group totaled PLN 815 m and were PLN 39 m, or 5% higher compared to H1 2019. Investments of Business Line Distribution accounted for 71% of all expenditures incurred by the Group and amounted to PLN 579 m.

The investments of the Distribution Business Line included grid expansion aimed at connecting new customers and producers as well as upgrades to improve the reliability of electricity supply.

In Generation Business Line, investment amounted to PLN 197 m, of which a significant share were tasks related to the construction of a new Przykona Wind Farm and adaptation to environmental requirements, carried out at the Ostrołęka B Power Plant.

In the Sales Business Line, on the other hand, PLN 23 m was allocated for investments, of which most of works related to lighting assets.

Table 1: Status of the investment programme as at 30 June 2020

Project description	Capital expenditure in H1 2020 (PLN m)
<b>Distribution Business Line</b>	<b>579</b>
Modernisation of the distribution net-work to improve the reliability of supply	192
Grid development related to connection of new customers	239
Grid development related to flows in the high-voltage grid and connection of EE sources	41
Other capital expenditures, collisions and adjustments	107
<b>Generation Business Line</b>	<b>197</b>
Ostrołęka B Power Plant (Construction of IOS II)	46
Przykona Wind Farm	124
Upgrading hydro power plants	3
Modernization of sources and networks for cogeneration sources	4
Other capital expenditures	20
<b>Sales Business Line</b>	<b>23</b>
Capital expenditures for lighting assets	11
Sales Support System	1
Other capital expenditures	11
<b>Other companies, projects and adjustments</b>	<b>16</b>
<b>Total</b>	<b>815</b>

### Przykona Wind Farm

The farm, with an installed capacity of 31.05 MW, is being built in the reclaimed areas of the coal mine in Przykona. It includes 9 wind Vestas V-126 turbines with a capacity of 3.45 MW each. In addition, the farm includes access roads, maneuvering areas, RSN Przykona and Żuki buildings as well as MV cable lines with optical fiber lines inside the wind farm (about 6.5 km) as well as power output (about 11 km). The structural installation of 9 wind energy turbines was completed in December 2019.

Planned operational tests took place in Q1/Q2 2020. Coronavirus epidemic in Poland did not affect the planned final date for the completion of construction and commissioning. On June 10, 2020 (three weeks ahead of time) the management boards of Energa OZE SA and Energa Invest Sp. z o.o. concluded an agreement for the sale of the Przykona Wind Farm, which means putting the facility into operation for Energa OZE.

### Construction of IOS II in Ostrołęka B Power Plant

The project concerns the adaptation of technological equipment of Energa Elektrownie Ostrołęka SA to the requirements of Directive 2010/75 / EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control, the so-called IED Directive). The completion of the project will allow Elektrownia Ostrołęka B to achieve the abovementioned Directive on sulfur dioxide (SO<sub>2</sub>) emissions in flue gas below 200 mg/Nm<sup>3</sup> downstream of the emitter, effective from 1 January 2016.

In 2020, site and commissioning works for the new installation will continue and the planned completion date of the investment is Q3 2020.

## Smart Grid

The project, aimed at ensuring the stability and flexibility of the distribution system by implementing intelligent power grid solutions, is co-financed by the EU under the Infrastructure and Environment Operational Program Project. Purchase and installation of overhead load switches on medium-voltage lines, indoor switchgears along with remote-control sets and TETRA telecommunications modems is continued.

As part of the project, the SCADA power network traffic control system will be developed with a fault location module, which will shorten the duration of electricity supply interruptions.

A part of the project is the construction of an energy storage facility, dedicated to stabilize the operation system of the 4 MW PV farm in Czernikowo. The energy storage facility will be made in lithium-ion battery technology and will have a power of 1 MW and a capacity of 2 MWh.

### Energy storage facility in Bystra

The last phase of construction of a hybrid electricity storage facility at a wind farm in Bystra with a target capacity of 6 MW and a capacity of 27 MWh (the largest facility of this type in Poland and one of the largest in the world) is underway. Currently, electrical devices and installations are being assembled along with the necessary electrical measurements.

Due to the pandemic announced by World Health Organization (“WHO”), the project schedule will be extended.

In June 2020, a notification was submitted to the Poviast Inspectorate for Construction Supervision about the completion of the energy storage facility.

### Investment program in CHP area

The program is aimed at carrying out restructuring activities within the CHP area in the Energa Group, as a result of which profitability will be restored and will generate positive cash flow, also for the potential sale of selected CHP assets. The investment program assumes maintaining position on the heat markets in Elbląg and Kalisz.

### CCGT Grudziądz and CCGT Gdańsk – new gas-steam power plants

The projects concern the construction of a new gas-steam power plants. Modern energy infrastructure will allow the development of its generating base for the needs of providing capacity services and electricity sales.

The status of works:

- CCGT Grudziądz - design works were carried out and key administrative decisions were obtained to achieve the project's readiness for implementation. Works related to the selection of the General Contractor are ongoing (EPC&LTSA tender). The project is scheduled to participate in the Capacity Market auction in 2020 for the deliveries in 2025. According to the Act on the Capacity Market, the project was submitted for general certification on 3 January 2020 and obtained an entry into the Capacity Market Register.
- CCGT Gdańsk - design works are ongoing to secure the property rights along with obtaining key decisions for power output from the planned power plant.

### Project of construction of Ostrołęka C power plant

The project of construction of Ostrołęka C power plant in Ostrołęka is currently under conversion due to the change in the fuel source from coal to gas (detailed information is presented in the chapter 2.2. *Key events in H1 2020 and after the balance sheet date* of this document).

## 2.6. Awards and distinctions

### Energa in Responsible Companies ranking

In the 14th edition of Responsible Companies ranking, the Energa Group was again ranked 4th in the “Fuels, energy, mining” sector.

The Energa’s 12<sup>th</sup> place in the general ranking was earned by a number of initiatives demonstrating the growing importance of the Environmental, Social and Governance (ESG) area. In the survey, the companies are evaluated according to the quality of their Corporate Social Responsibility system.



### Vigeo Eiris high rating

At the beginning of March 2020, Vigeo Eiris, an international agency and a subsidiary of Moody’s, announced its rating. The Energa Group was rated 41st out of 66 enterprises from the power and gas sector. Introduction of the EcoManagement and Audit Scheme (EMAS) at the Group’s key companies, as well as adoption of the environmental strategy and implementation of efficient raw materials management were appreciated here. The social dialogue pursued by the Energa Group companies with stakeholders within the framework of ongoing investment processes and drafting of the Corporate Social Responsibility (CSR) report was also recognized. The focus on human rights was rated equally highly, above the sector’s average. Energa’s anti-mobbing and anti-discrimination mechanisms in place as well as its code of ethics and compliance management system all contributed to the Group’s high score. Quality of work, including implementation of flexible working time and the home working option, was also taken into consideration and greatly appreciated.

This year’s Vigeo Eiris rating improves Energa’s financial prospects. The score awarded to our company rose by 9 points compared to the previous rating. For the first time in the history of the Group, the ESG rating may have an impact on tangible benefits for the Energa Group, as the credit margin of some of the financing obtained is related to the rating level.

Vigeo Eiris specialises in rating enterprises based on the social and environmental criteria as well as specifications associated with sustainable growth.

### Good practices recognized by Responsible Business Forum

Good practices implemented in the Energa Group were presented in the “Responsible Business in Poland 2019. Good practices” report published by RBF. In the report, they were presented within the context of the UN Sustainable Development Goals of 2015. 11 good practices implemented by the Group in 2019 were positively evaluated by the Expert Committee. The following educational initiatives were recognized: Drużyna Energii (Energy Team), Planeta Energii (Energy Planet), Energ(i)a do Nauki (Energy for Education), Museum of Energy in Toruń, as well as a vocational training class in Ostrołęka, where future energy experts receive their education. The good practices included also the activities of the training range at Bąkowo, where the employees of the Energa Group improve their qualifications, e.g. train themselves in working with live current. Moreover, The Aktywni Charytatywni (Active Charity) support action as well as the activity of Fundacja Kropelka Energii (Drop of Energy Foundation) met with approval.





Pumped storage power plant in Żydowo

## Regulatory and business environment

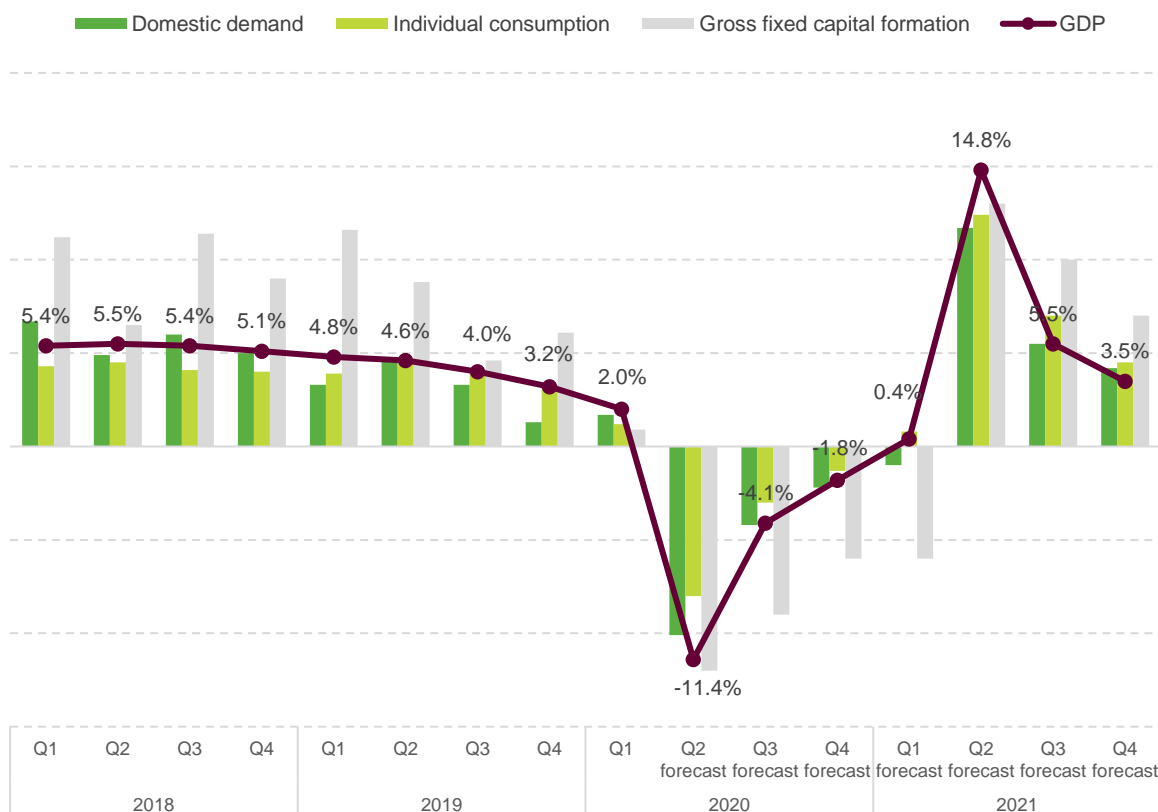
### 3. REGULATORY AND BUSINESS ENVIRONMENT

#### 3.1. Macroeconomic situation

The key operating market for the Energa Group companies is the domestic market. Therefore, market cycles, expressed by means of the rate of GDP changes, inflation, or unemployment rate, have a bearing on the prices of electricity, heat and gas and the development of demand for products supplied to end customers. In Q2 2020, a material event that continued to affect Polish and global economies and, in consequence, the activities of the Energa Group companies, was the SARS-CoV-2 virus (coronavirus) pandemic and the spread of the COVID-19 disease.

According to tentative estimates of Statistics Poland (GUS), Poland's GDP in Q1 2020 was 2% higher in real terms compared to the same period in the previous year, while in Q2 analysts expect a deep slump, at ca. -11% y/y, since the published macroeconomic details indicate that unfavorable trends in the Polish economy accumulated in April. The economic slowdown was primarily caused by the quick spread of the coronavirus pandemic, resulting in social and economic restrictions, which translated into reduced private consumption and CAPEX. The key risk factors remain the pace of unlocking the economy in Poland and elsewhere, barriers to international trade as well as the effectiveness of activities undertaken to limit the extent of economic losses and to limit the return wave of the pandemic and the repeated growth of infections.

Figure 3: Annual changes in the GDP, domestic demand, individual consumption and capital expenditures



Source: GUS data and Santander Bank Polska SA forecasts, (July 2020)

As a result of the epidemiological situation in the country, a marked drop in current and future consumer sentiments was recorded in Q1 2020. At the end of Q2 this year, when a gradual unlocking of the economy began, a certain improvement in this respect was noted relative to the previous months, however the analysis of y/y performance reveals a decrease in the indicators. The current consumer confidence index, serving as a summary indicator of current trends in individual consumption, stood at -28.7 in Q2 2020, down by 37.1 pp. relative to the same period of the previous year. In turn, the leading consumer confidence index, specifying individual consumption trends in the forthcoming months, stood

at -36.3 in Q2 2020, dropping over one year by more than 41 pp. The country's future economic outlook and the unemployment rate were among the constituents of the above indices that dropped the most. Negative values of both indices show that there are more pessimistic than optimistic consumers.

The economic slowdown in the Polish manufacturing sector is also reflected by the PMI index (leading index of the Polish industry), which remained below the 50 pts threshold in Q2 2020, indicative of economic recovery. In April this year, the PMI was at 31.9 pts, being its lowest value ever (since 1998 when it was first measured). The April results showed a decrease in output as many businesses suspended their activities during the quarantine. Record delays were also reported in deliveries and a decline in new orders and orders from foreign customers, which was attributable to social restrictions introduced in Europe and globally in the fight against the coronavirus pandemic. According to IHS Markit data, shrinking order books have forced the Polish entrepreneurs from the manufacturing sector to cut employment and restrict their purchasing activity. The gradual lifting of preventive restrictions in the economic activity translated favorably into improved economic conditions, and PMI in May and June grew to 40.6 and 47.2 pts, respectively. The unemployment drop, outstanding liabilities and purchasing activity slowed down, but Polish manufacturers were more optimistic about the future 12-month output. Despite the continued shrinkage of Polish manufacturers' order book volumes, the drop decelerated to the smallest value since August 2019.

The pandemic and the resultant recession left their mark on the labor market as well. In January-May 2020, a drop in the average employment rate in the enterprises sector was 0.1% relative to the same period in the previous year, whereas the same value stood at 3.2% y/y in May this year. The unemployment rate as recorded in May this year was 6%, growing by 0.8% since the beginning of the year. Despite the drop in unemployment, the average salary (gross) increased by 4.7% y/y in the period from January to May this year, standing at PLN 5,119.94 in May 2020. As demonstrated by the analysts of Bank PKO BP, Poland has a high share of self-employed persons and those with fixed-term employment contracts, which renders ca. 30% of jobs highly sensitive to an economic downturn, and so the Polish labor market is among those European markets that are most vulnerable to the risk of a rapid unemployment growth (only partially alleviated by a significant share of foreign workers in Poland).

In order to mitigate negative effects of the pandemic, the Monetary Policy Council (Council, RPP) took fiscal steps to reduce the rate of decrease in household and business income, and to stimulate the economy. In Q2 2020, the Council decided to cut interest rates twice and was purchasing assets. NBP's monetary policy easing is intended to improve the financial standing of borrowers and reinforce the financial system's stability, however, as noted by RPP, the rate of the uptick in economic activity may be thwarted by the uncertainty over the effects of the pandemic, reduced income and less optimistic sentiments of businesses than in previous years. The rate of the economic recovery may also be limited by the absence of a clear adjustment of the PLN exchange rate to the global shock caused by the pandemic and to NBP's monetary policy easing.

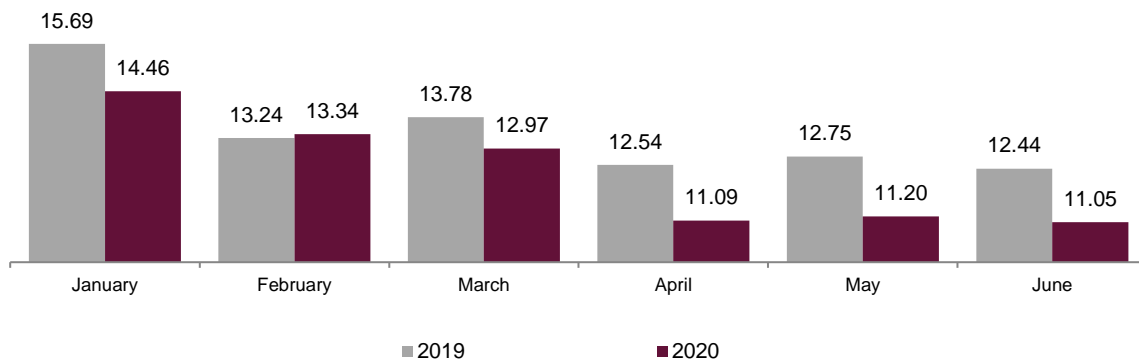
### **3.2. Electricity market in Poland**

Developments in the market environment are of key importance for the financial performance of the Group. In this light, attention is particularly drawn to the production and consumption of electricity, the cross-border power exchange in Poland, prices of electricity in Poland and selected neighbouring countries, prices of property rights, fee for the operating power reserve and costs of emission allowances.

#### **Domestic production and consumption of electricity**

According to data published by Polskie Sieci Elektroenergetyczne ("PSE"), in the first half of 2020 production of electricity in Poland totalled 74.09 TWh and was 6.35 TWh, or 7.9%, lower compared to the corresponding period of the previous year (80.44 TWh). Decreased generation was visible in lignite and hard coal-fired power plants which were being driven out of the National Power System ("KSE") predominantly by wind farms, which benefited from good weather conditions, as well as by generation from gas sources. The decline in generation was prompted by lower demand for electricity within KSE.

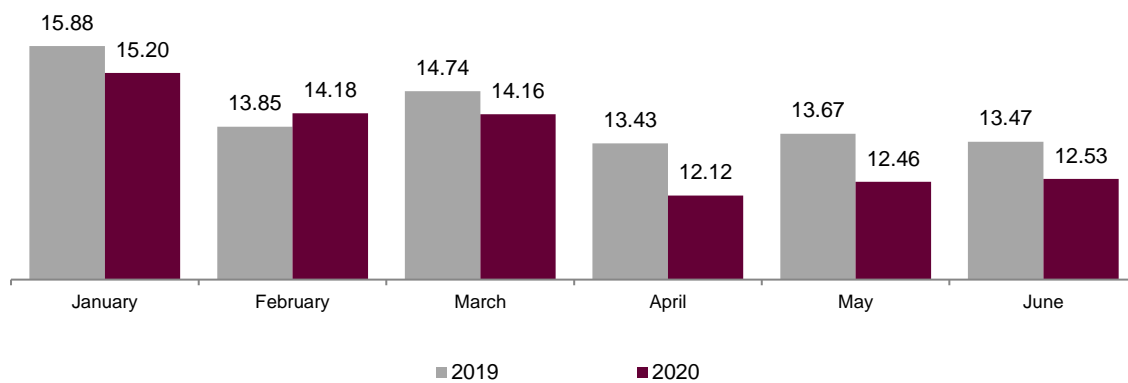
**Figure 4: Production of electricity in Poland in the first half of 2020 (TWh)**



Source: PSE

In the first half of 2020, domestic consumption of electricity in Poland was at 80.64 TWh and was lower by 4.39 TWh, i.e. 5.2%, than in the corresponding period of the previous year (85.03 TWh). The decline in production was attributed to lower demand triggered by the economic slowdown, increased imports and restrictions associated with COVID-19 pandemic.

**Figure 5: Consumption of electricity in Poland in the first half of 2020 (TWh)**



Source: PSE

### Poland's cross-border power exchange

In the first half of 2020, electricity exports were only by 0.28 TWh higher than in the same period last year. When comparing the two corresponding periods, a growth in electricity imports by 2.00 TWh can be observed, being the main reason for the 6.55 TWh surplus of net electricity imports in the period under review over net imports of 4.59 TWh in the corresponding period of the previous year. This is attributable to the increased consumption of electricity in parallel exchange.

Figure 6: Monthly volumes of intersystem exchange in Poland in the first half of 2020 (TWh)

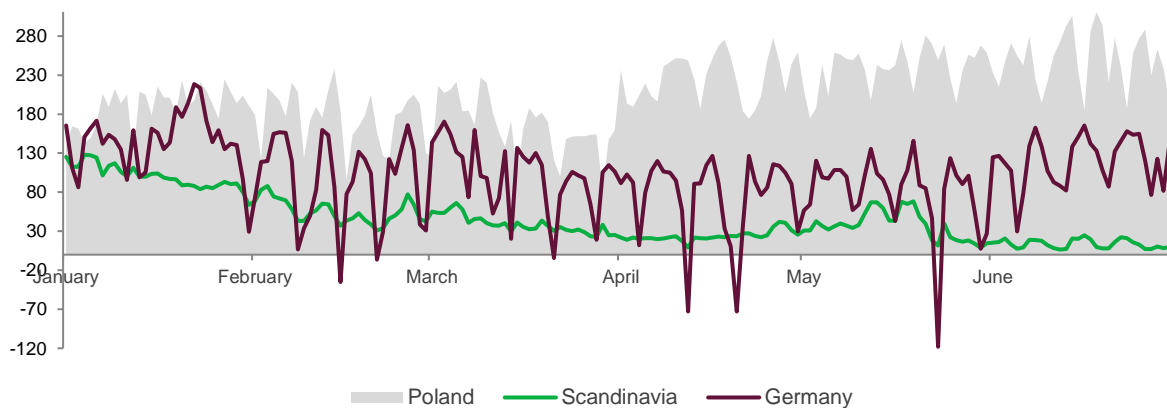


Source: PSE

### Energy prices in selected countries neighbouring with Poland

In order to compare prices of energy in Poland to prices in selected neighbouring countries, prices in the SPOT market were used as a reference product. The average prices in Poland in the first half of 2020 were higher than in the neighbouring countries. Following the economic shock triggered by the pandemic visible in Q1 and at the start of Q2, the demand for capacity began to resume and system losses and EUA prices increased, which led to electricity price growth in the Polish market. The highest price differences were found in comparison to the Scandinavian market (+360.4%, or 162.78 PLN/MWh), and the lowest differences were identified in comparison to the German market (+102.4%, or 105.22 PLN/MWh).

Figure 7: Prices of energy in the SPOT market in Poland and in neighboring countries in the first half of 2020 (PLN/MWh)

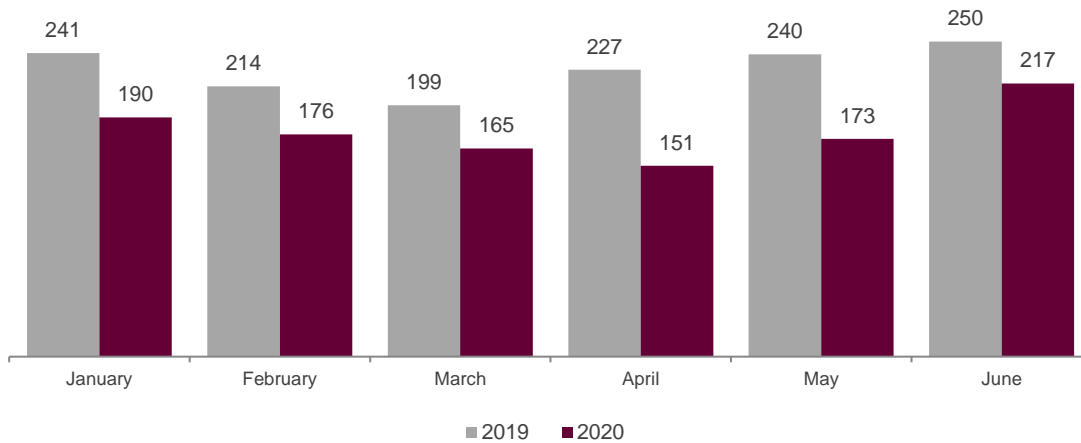


Source: Bloomberg, Reuters

### Day-Ahead Market of electricity in Poland

In the first half of 2020, the TGeBase index averaged PLN 178.53/MWh, and was lower by PLN 50.09/MWh than in the corresponding period of the previous year (PLN 228.62/MWh). When comparing Q2 2020 to Q2 2019, a drop in the price by PLN 34.66/MWh can be seen. A decline in domestic demand for power, due to the exacerbating economic slowdown caused by COVID-19 pandemic which virtually brought the industry to a standstill, was coupled with high wind power generation and rising energy imports, which consequently resulted in a year-on-year decrease in prices.

Figure 8 TGeBase index in the first half of 2020 (PLN/MWh)



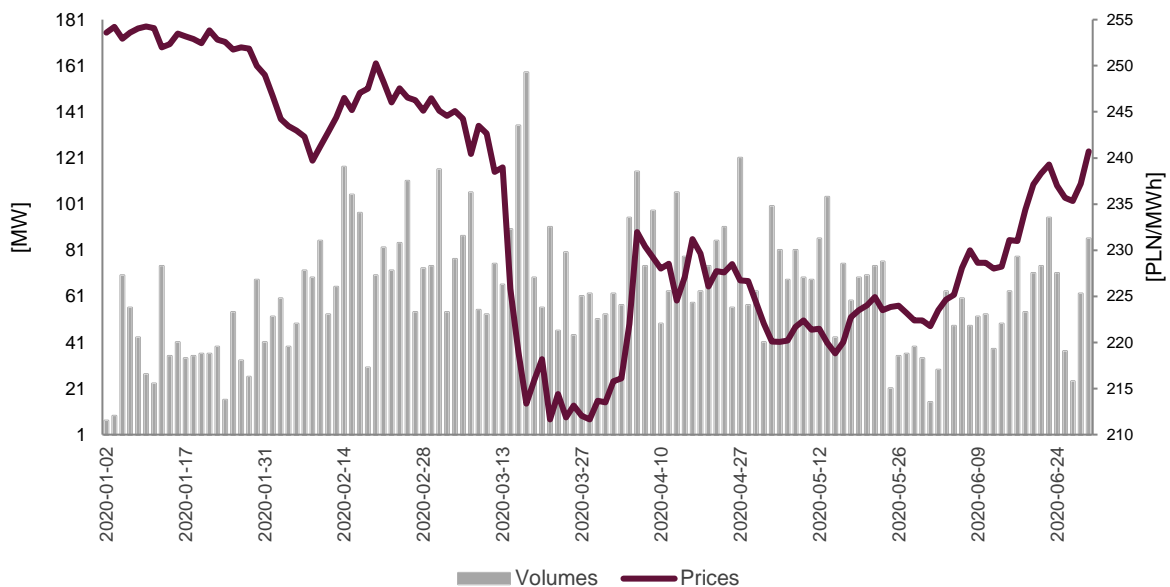
Source: TGE

### Electricity futures market in Poland

In Q1 2020, the electricity futures market was in a downward trend. Since then, increases could be observed in the BASE 2020 market pushing the price above PLN 240 /MWh. The main drivers of energy rate increases in Q2 2020 in the futures market were:

- growth in CO<sub>2</sub> emission allowance prices;
- declining windiness;
- an increase in SPOT market prices; and
- the demand for electricity in the National Power System resuming after the restrictions imposed in connection with COVID-19 pandemic.

Figure 9: Forward contract price, base with delivery for 2021 in the first half of 2020

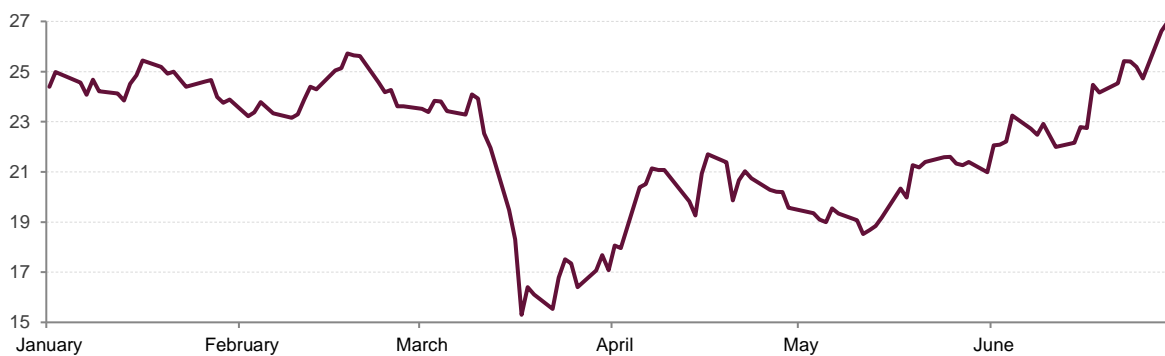


Source: TGE

## Emission allowance market

On 8 May 2020, the European Commission informed that the number of allowances in circulation as at the end of 2019 exceeded 1.385 billion, which is the basis for defining the Market Stability Reserve (MSR) of the EU Emissions Trading System (EU ETS), a mechanism launched in January 2019. Therefore, the volume of auctions between September 2020 and August 2020 will be reduced by over 332 million allowances. Over the initial 5 years of the functioning of the MSR, the number of allowances is to be reduced annually by 24% of the total number of allowances in the auction pool. However, the price of EUAs in the first half of 2020 was mainly driven by demand. In Q1 2020, increased temperatures, very high wind power generation in Europe and restrictions imposed in connection with the COVID-19 pandemic contributed to a decrease in the consumption of fossil fuels, which translated into a lower demand for emission allowances. The second quarter of 2020 saw the defrosting of the economies, which contributed to the rekindling of the demand for electricity and increased consumption of fossil fuels. As a result, at the end of the first half of 2020, the price of EUAs was EUR 26.97 per tonne, up 8% since the end of 2019 and up 3% compared to the end of Q2 2019.

Figure 10: Prices for emission allowances in the first half of 2020 (Euro/ton)



Source: Bloomberg

## Market for property rights

The table below presents the prices of green property rights listed on the Polish Power Exchange.

Table 2: Prices of property right indices listed on the Polish Power Exchange

Index (type of certificate)	Index value		Percentage of obligation (%)	Substitution fee (PLN)
	H1 2019 (PLN/MWh)	H1 2020 (PLN/MWh)		
OZEX_A (green)	125.16	136.52	19.5*	300.03*

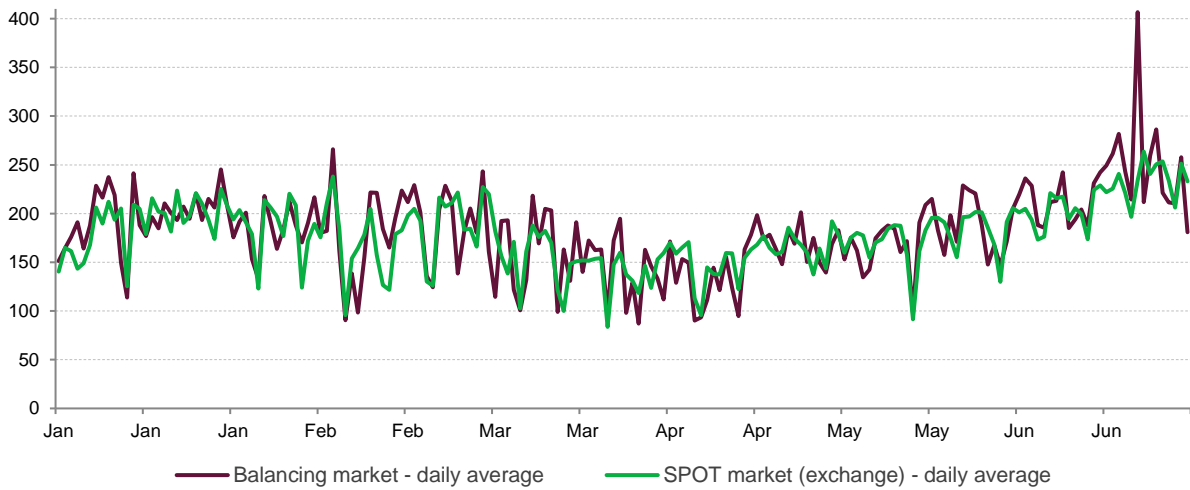
\* value of the substitution fee and redemption obligation for 2020.

From the perspective of the Energa Group's generation structure (high share of renewable production), the prices of green property rights are of key importance. Prices of RES property prices in session transactions ranged from PLN 120.00 to PLN 137.00/MWh in the first half of 2020. At the end of H1 2020, PM RES were quoted at 125.34 PLN/MWh.

## Balancing market

Since 1 January 2019, the limits for electricity clearing prices on the balancing market changed and currently range from PLN -50,000.00/MWh to PLN +50,000.00/MWh. For most of the first half of 2020, the prices in the balancing market were similar to the day-ahead market prices. The situation on 22 June 2020 marked a clear departure from that rule, when the average daily price on the balancing market was PLN 406.66/MWh, and the peak hour price reached PLN 1,290.00/MWh due to the unscheduled rise in system losses. The average price on the balancing market in the period under review was PLN 181.82/MWh, compared to PLN 234.47/MWh in the corresponding period of the previous year.

Figure 11: Comparison of prices on the balancing market and SPOT market (exchange) in the first half of 2020 (PLN/MWh)

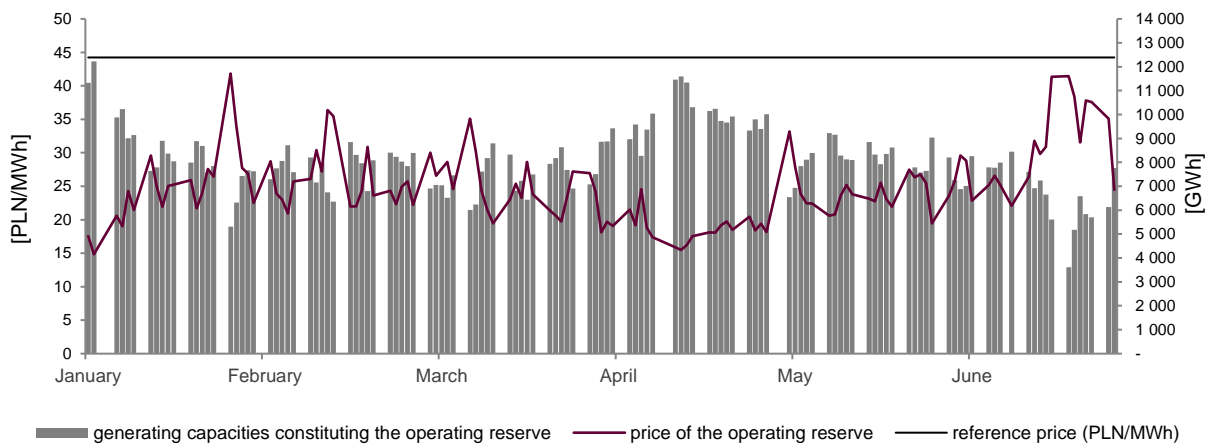


Source: PSE

### Operating reserve

The operating power reserve service continues to be provided in 2020. The reference price was raised to PLN 44.24/MWh. In the first half of 2020, the average operating power reserve fee was PLN 24.91/MWh and was lower by PLN 10.00/MWh compared to the same period of the previous year (PLN 34.91/MWh) due to the shrinking demand for electricity.

Figure 12: Prices and generating capacities constituting the operating reserve in the first half of 2020



Source: PSE



### 3.3. Regulatory environment

#### Legislative processes completed in H1 2020

Act of 2 March 2020 on special arrangements associated with preventing, counteracting and combating CoVID-19, other contagious diseases and the crisis situations they cause (Journal of Laws of 2020 items 374, 567, 568, 695 and 875), the so-called Shield 1.0, as subsequently amended.

The amendments introduced in the aforesaid acts relate, among other things, to:

- ✓ Postponement of technical tests by 6 months that may take place provided that no changes were made to the device and that, in the operator's opinion, such postponement does not pose risk to human health, life, property or the environment.
- ✓ Postponement of verification of meters by 6 months that may take place provided that no changes were made to the device and that, in the operator's opinion, the device complies with the requirements, specifically with respect to metrological characteristics, and such postponement does not compromise accuracy of measurements or pose risk to human health, life, property or the environment.
- ✓ The ERO President may, on a one-time basis, on the investor's motion, extend the deadline for commencing supply of electricity from RES installation that won the auction by a maximum of 12 months.
- ✓ The deadline was extended for local government units to agree with DSOs plans of development of electric car charging networks. The deadline for consultations was extended up to 45 days. However, consultations cannot last beyond 31 May 2020.

#### Legislative processes conducted in H1 2020

Table 3: List of legal acts materially affecting the Group

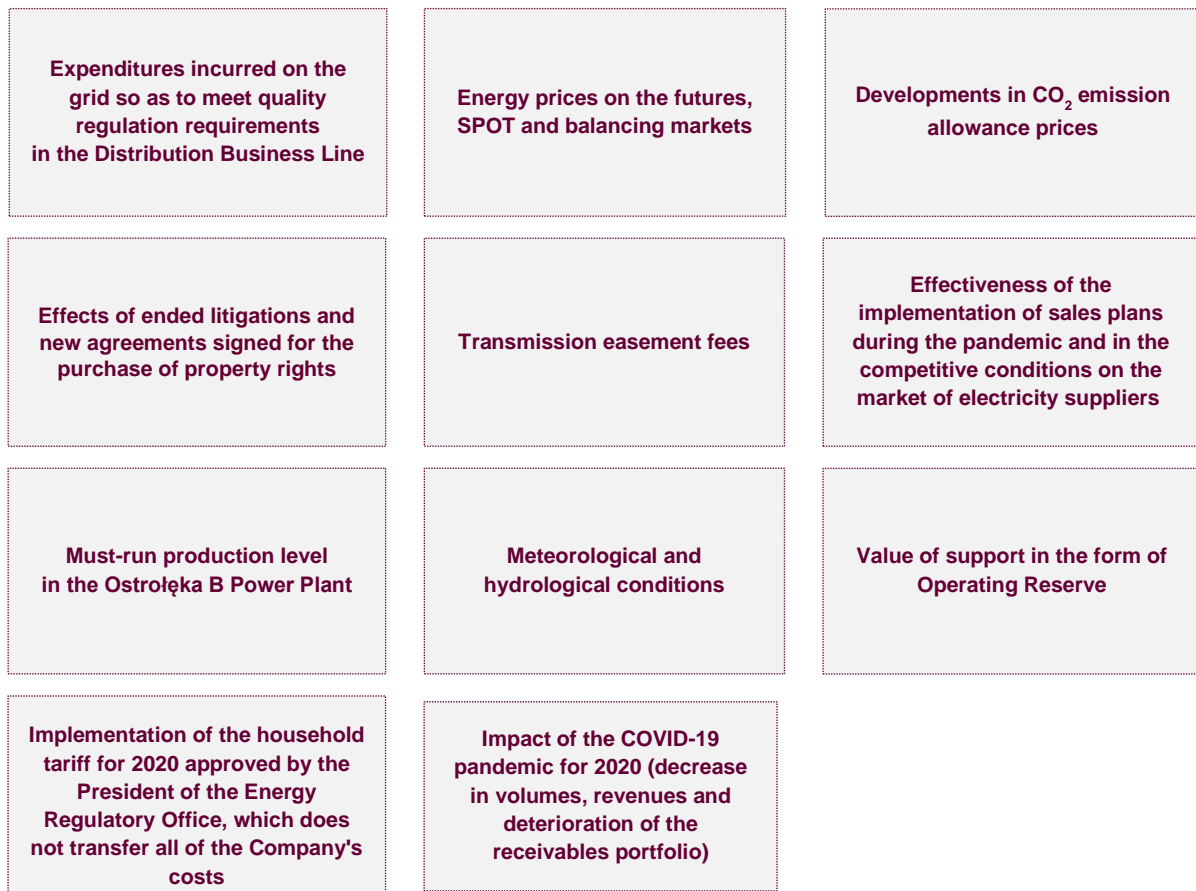
Legal act	Purpose of legal changes	Opportunities	Threats/Issues
<b>The draft act on compensations on account of electricity price growth in 2020 (UD64).</b>	The draft act aims to establish the legal framework enabling the granting, payment and financing of compensations to some end users of electricity consuming electricity within their households, which signifies a reduction of electricity costs for those households in 2020.	<ol style="list-style-type: none"> <li>(1) The system is scheduled for launch in 2021, which will enable proper preparation for the application of the provisions of the act.</li> <li>(2) Launch of a system dedicated to households.</li> <li>(3) Mitigation of risk of prohibited state aid.</li> <li>(4) A system of price reductions based on tax administration data.</li> <li>(5) Introduction of fixed amounts of subsidies on account of electricity price growth in 2020 dependent upon energy consumption levels.</li> </ol>	<ol style="list-style-type: none"> <li>(1) No funding for the operation of the compensation system.</li> <li>(2) Substantial amount of time needed for processing applications filed by eligible entities.</li> </ol>
<b>Implementation and principles of operation of Just Transition Fund (JTF).</b>	The European Commission approved the proposal concerning the just transition mechanism. The mechanism is to comprise a number of elements, including but not limited to, low-interest loans from Invest EU scheme and the European Investment Bank (EIB). Just Transition Fund (JTF) is completely new funding made available under the mechanism.	Potential opportunity for additional funding for the energy sector.	None.
<b>Draft of 4 March 2020 of Regulation of the European Parliament and of the Council establishing the framework for</b>	The draft Regulation is part of the road plan for implementation of the European Green Deal. The draft aims to complement the existing political framework by establishing long-term directions	Opportunities for implementing RES installations, innovative measures and energy efficiency on a broader basis.	Risk of introduction of further restrictions on energy based on fossil fuels.

<p>achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law) (COM (2020) 80 final 2020/0036 (COD)).</p>	<p>for action and incorporating the target of climate neutrality by 2050 in the EU law. The assumption that EU is to become "the first climate neutral continent" by 2050 will require achieving zero net greenhouse gas emissions.</p>
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### 3.4. Factors affecting the Energa Group's performance within at least one quarter

In the opinion of the Management Board of Energa SA, the factors described below will affect the performance and operations of the Company and the Energa Group within at least one quarter.

Figure 13: Factors affecting the Energa Group's performance within at least one quarter





Photovoltaic farm in Bystra

## Financial and assets situation of the Group

## 4. FINANCIAL AND ASSETS SITUATION OF THE GROUP

### 4.1. Rules of preparing the annual consolidated financial statements

The Condensed Interim Consolidated Financial Statements of the ENERGA SA Group as at and for the six-month period ended 30 June 2020 have been prepared:

- in accordance with the International Accounting Standard 34 "Interim financial reporting" as adopted by the European Union,
- on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives,
- in PLN million ("PLN m"),
- based on the assumption that the Group would continue as a going concern in the foreseeable future. As at the date of the financial statements, there is no evidence indicating that the continuation of the ENERGA Group's business activities as a going concern may be at risk.

The accounting principles (policy) used in the preparation of the Condensed Interim Consolidated Financial Statements have been presented in Note 7 to the Condensed Interim Consolidated Financial Statements of the Energa Group as at and for the six-month period ended 30 June 2020.

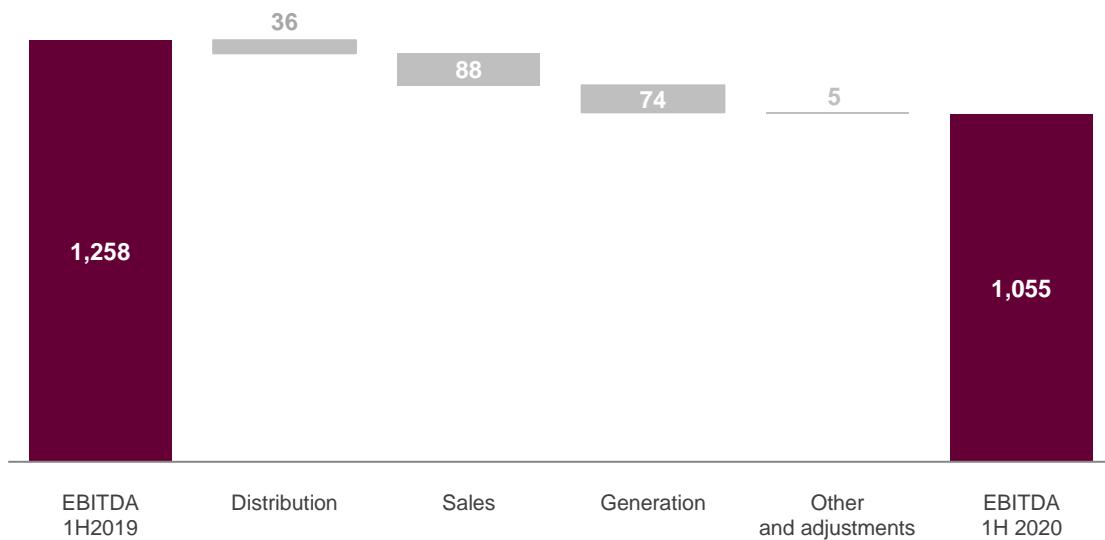
### 4.2. Explanation of the economic and financial data disclosed in the annual consolidated financial statements

Table 4: Consolidated statement of profit or loss (PLN m)

	H1 2019	H1 2020	Change	Change (%)
<b>Sales revenues</b>	<b>5,520</b>	<b>6,142</b>	<b>622</b>	<b>11%</b>
<b>Revenue from the Price Difference Payout Fund</b>	<b>510</b>	<b>3</b>	<b>(507)</b>	<b>-99%</b>
Cost of sales	(5,282)	(5,849)	(567)	11%
<b>Gross profit or loss on sales</b>	<b>748</b>	<b>296</b>	<b>(452)</b>	<b>-60%</b>
Other operating income	148	197	49	33%
Selling and distribution expenses	(188)	(192)	(4)	2%
General and administrative expenses	(180)	(189)	(9)	5%
Other operating expenses	(74)	(49)	25	-34%
<b>Operating profit or loss</b>	<b>454</b>	<b>63</b>	<b>(391)</b>	<b>-86%</b>
Result on financial activity	(157)	(458)	(301)	> 100%
Share in profit/(loss) of the entities measured by the equity method	16	(271)	(287)	< -100%
<b>Profit or loss before tax</b>	<b>313</b>	<b>(666)</b>	<b>(979)</b>	<b>&lt; -100%</b>
Income tax	(61)	(101)	(40)	66%
<b>Net profit or loss for the period</b>	<b>252</b>	<b>(767)</b>	<b>(1,019)</b>	<b>&lt; -100%</b>
<b>EBITDA</b>	<b>1,258</b>	<b>1,055</b>	<b>(203)</b>	<b>-16%</b>

	Q2 2019	Q2 2020	Change	Change (%)
<b>Sales revenues</b>	<b>2,549</b>	<b>2,856</b>	<b>307</b>	<b>12%</b>
<b>Revenue from the Price Difference Payout Fund</b>	<b>510</b>	<b>-</b>	<b>(510)</b>	<b>-100%</b>
Cost of sales	(2,754)	(3,043)	(289)	10%
<b>Gross profit or loss on sales</b>	<b>305</b>	<b>(187)</b>	<b>(492)</b>	<b>&lt; -100%</b>
Other operating income	87	137	50	57%
Selling and distribution expenses	(87)	(90)	(3)	3%
General and administrative expenses	(87)	(89)	(2)	2%
Other operating expenses	(55)	(15)	40	-73%
<b>Operating profit or loss</b>	<b>163</b>	<b>(244)</b>	<b>(407)</b>	<b>&lt; -100%</b>
Result on financial activity	(78)	(359)	(281)	> 100%
Share in profit/(loss) of the entities measured by the equity method	7	(252)	(259)	< -100%
<b>Profit or loss before tax</b>	<b>92</b>	<b>(855)</b>	<b>(947)</b>	<b>&lt; -100%</b>
Income tax	(26)	(23)	3	-12%
<b>Net profit or loss for the period</b>	<b>66</b>	<b>(878)</b>	<b>(944)</b>	<b>&lt; -100%</b>
<b>EBITDA</b>	<b>704</b>	<b>487</b>	<b>(217)</b>	<b>-31%</b>

Figure 14: EBITDA bridge by Business Lines (PLN m) (PLN m)



In H1 2020, the Group's EBITDA was PLN 1,055 m, down by 16% in comparison with the corresponding period of the preceding year.

The Sales Business Line had a negative impact on EBITDA (a decline by PLN 88 m yoy) attributable, first and foremost, to the shrinking margin on electricity sales, which, in turn, was due to the negative influence of two factors on the current year's results, namely the effect of the COVID-19 pandemic and the disadvantageous 2020 tariff for energy sales to households approved by the URE President.

The Generation Business Line also saw its EBITDA drop, owing primarily to lower production levels at the Ostrołęka power plant, hydro power plants and co-generation sources.

Meanwhile, lower EBITDA on the Distribution Business Line (by PLN 36 m yoy) was the effect of the lower distribution margin in connection with the disadvantageous valuation of estimated non-billed grid losses. Furthermore, OPEX costs increased mainly in the area of employee benefits, to a large extent as the effect of the rise in actuarial provisions prompted by a drop in the discount rate. A decline in revenue from grid connections, the increased cost of real property tax and the unfavorable balance of provisions also had a negative impact on the results. On the other hand, change in recognition of the infrastructure received free of charge (previously accounted for through deferred income) in connection with adoption of an accounting policy consistent with that of Orlen Group.

In H1 2020, the Distribution Business Line had the greatest share in the Group's EBITDA (89%). The Generation Business Line and Sales Business Line had a share of 9% and 5%, respectively.

Profit on operating activities in H1 2020 amounted to PLN 63 m compared to PLN 454 m in the corresponding period of 2019. The operating factors described above and impairment charges on the assets of Ostrołęka B Power Plant, totaling PLN 270 m in Q2 2019 and PLN 473 m in Q2 2020, had the greatest impact on EBIT yoy.

In H1 2020, the Group recognised a share in profits of associates and joint ventures at PLN 271 m, which represents a change by PLN 287 m yoy. That change was largely the result of establishment of a provision on account of the settlement with Elektrownia Ostrołęka sp. z o.o. following the proposal of settlement of the investment project relating to Ostrołęka C Power Plant presented by the General Contractor on 23 June 2020 as well as a change in the share in the financial result of Polska Grupa Górnicza S.A.

In H1 2020, the Group's net profit was PLN 767 m, compared to PLN 252 m in H1 2019. Higher financial costs (primarily the effect of recognition of the write-off of the loan granted to Elektrownia Ostrołęka Sp. z o.o. in connection with the decision to discontinue the construction of Ostrołęka C Power Plant in the existing format and the impairment charge on the value of investment in the joint venture at PGG) further contributed to the decline in profit yoy.

In H1 2020, the Group generated PLN 6,145 m in sales revenues, or PLN 115 m (or 2%) more than in the corresponding period of 2019. The biggest improvement was reported in the Other and Adjustments Business Line, which was the result of lower elimination of transactions between the Lines in connection with the absence in 2020 of the purchase of energy to cover grid losses within the Group. Meanwhile, the revenues of the Distribution Business Line increased by PLN 78 m, owing primarily to the effect of the increased average cost of the distribution service yoy. The Generation Business Line reported lower revenues in connection with the decline in the production volume, mainly at the Ostrołęka Power Plant and at hydro power plants and CHP.

In the second quarter of 2020, the Group's EBITDA was PLN 487 m compared to PLN 704 m in the second quarter of 2019. The lower result of the Sales Business Line was, first and foremost, the effect of the shrinking margin on electricity sales. That was largely due to the high base effect. The Q2 2019 results were high due to first-time recognition during that period of the compensations arising from the application of the Act on Energy Prices in 2019. Those compensations, although recognized in the second quarter, related also to the first quarter of the preceding year (when they were not recognized due to the absence of the implementing regulations), which contributed to the buildup of revenues for the entire half of the year, thus substantially overstating the financial results in the second quarter itself. Furthermore, that Line's EBITDA in the current quarter was under the pressure of two factors, i.e. the impact of the COVID-19 pandemic and the disadvantageous 2020 tariff.

In the Distribution Business Line, the primary positive change driver was the aforementioned adoption of an accounting policy consistent with that of Orlen Group as regards the infrastructure provided free of charge. On the other hand, that Line's OPEX was higher by PLN 22 m. Employee benefit costs increased as a result of pressure on wages resulting, among other things, from an increase in the minimum wage with the simultaneous need to take actions bridging the competence and generation gap, as well as growth in actuarial provisions.

Meanwhile, lower revenue from electricity sales was reflected in a drop of the profit in the Generation Business Line yoy.

The following table shows the effect of extraordinary events on EBITDA.

Table 5: EBITDA after material one-off events\* (PLN m)

<b>H1 2020</b>	
<b>EBITDA</b>	<b>1,055</b>
<b>Adjusted EBITDA</b>	<b>1,116</b>
<i>including:</i>	
<i>Provision for contracts resulting in charges</i>	<i>(67)</i>
<i>Revenue loss due to G Tariff</i>	<i>96</i>
<i>Estimated impact of COVID-19</i>	<i>95</i>
<i>Change in recognition of infrastructure received free of charge in connection with adoption of an accounting policy consistent with that of Orlen Group.</i>	<i>(85)</i>
<b>H1 2019</b>	
<b>EBITDA</b>	<b>1,258</b>
<b>Adjusted EBITDA</b>	<b>1,233</b>
<i>including:</i>	
<i>Provision for onerous contracts (reversal)</i>	<i>(87)</i>
<i>Effect of the Act on Energy Prices in 2019 (for H1 2019)</i>	<i>20</i>
<i>CPA – provision for disputes</i>	<i>31</i>
<b>Q2 2020</b>	
<b>EBITDA</b>	<b>487</b>
<b>Adjusted EBITDA</b>	<b>517</b>
<i>including:</i>	
<i>Provision for contracts resulting in charges</i>	<i>(29)</i>
<i>Revenue loss due to G Tariff</i>	<i>47</i>
<i>Estimated impact of COVID-19</i>	<i>84</i>
<i>Change in recognition of infrastructure received free of charge in connection with adoption of an accounting policy consistent with that of Orlen Group.</i>	<i>(85)</i>
<b>Q2 2019</b>	
<b>EBITDA</b>	<b>704</b>
<b>Adjusted EBITDA</b>	<b>526</b>
<i>including:</i>	
<i>Provision for onerous contracts (reversal)</i>	<i>(50)</i>
<i>Loss of revenue – effect of the Act on Energy Prices in 2019 (reversal of amount for Q1 2019)</i>	<i>(209)</i>

Effect of the Act on Energy Prices in 2019  
(in Q2 2019) (50)

CPA – provision for disputes 31

\*The table presents one-off events determined based on the materiality criterion, for which PLN 25 m was assumed; in the case of the Reserve for contracts giving rise to encumbrances in 2019, due to the weight of individual elements constituting the presented value, the criterion of materiality was not applied.

**Table 6: Consolidated statement of financial position (PLN m)**

	As at 31 December 2019	As at 30 June 2020	Change	Change (%)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	14,262	14,134	(128)	-1%
Intangible assets	223	225	2	1%
Right-of-use assets	847	828	(19)	-2%
Goodwill	11	11	-	-
Investments in associates and joint ventures measured by the equity method	336	138	(198)	-59%
Deferred tax assets	262	317	55	21%
Other non-current financial assets	190	6	(184)	-97%
Other non-current assets	144	138	(6)	-4%
	<b>16,275</b>	<b>15,797</b>	<b>(478)</b>	<b>-3%</b>
<b>Current assets</b>				
Inventories	756	830	74	10%
Income tax receivables	61	38	(23)	-38%
Trade receivables	1,489	1,860	371	25%
Investments in the portfolio of financial assets	-	-	-	-
Contract assets	313	-	(313)	-100%
Other current financial assets	203	313	110	54%
Cash and cash equivalents	1,461	305	(1,156)	-79%
Other current assets	409	132	(277)	-68%
	<b>4,692</b>	<b>3,478</b>	<b>(1,214)</b>	<b>-26%</b>
<b>TOTAL ASSETS</b>	<b>20,967</b>	<b>19,275</b>	<b>(1,692)</b>	<b>-8%</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	4,522	4,522	-	-



**Management Board Report on performance of the Energa Capital Group  
in the first half of 2020**

Foreign exchange differences from translation of a foreign entity	-	3	3	-
Reserve capital	1,018	1,018	-	-
Supplementary capital	2,035	1,661	(374)	-18%
Cash flow hedge reserve	(52)	(136)	(84)	< -100%
Retained earnings	1,730	1,374	(356)	-21%
<b>Equity attributable to equity holders of the Parent Company</b>	<b>9,253</b>	<b>8,442</b>	<b>(811)</b>	<b>-9%</b>
<b>Non-controlling interest</b>	<b>11</b>	<b>(36)</b>	<b>(47)</b>	<b>&lt; -100%</b>
	<b>9,264</b>	<b>8,406</b>	<b>(858)</b>	<b>-9%</b>
<b>Non-current liabilities</b>				
Loans and borrowings	2,047	1,869	(178)	-9%
Liabilities on account of the issue of debt securities	2,326	2,439	113	5%
Non-current provisions	786	926	140	18%
Deferred income tax liability	738	771	33	4%
Deferred income and non-current grants	296	224	(72)	-24%
Liabilities under lease	637	629	(8)	-1%
Other non-current financial liabilities	82	68	(14)	-17%
	<b>6,912</b>	<b>6,926</b>	<b>14</b>	<b>0%</b>
<b>Current liabilities</b>				
Trade liabilities	802	622	(180)	-22%
Contract liabilities	139	124	(15)	-11%
Current part of loans and borrowings	393	1,922	1,529	> 100%
Liabilities on account of the issue of debt securities	2,219	46	(2,173)	-98%
Current income tax liability	-	-	-	-
Deferred income and grants	188	151	(37)	-20%
Short-term provisions	583	730	147	25%
Other financial liabilities	235	203	(32)	-14%
Other current liabilities	232	145	(87)	-38%
	<b>4,791</b>	<b>3,943</b>	<b>(848)</b>	<b>-18%</b>
<b>Total liabilities</b>	<b>11,703</b>	<b>10,869</b>	<b>(834)</b>	<b>-7%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>20,967</b>	<b>19,275</b>	<b>(1,692)</b>	<b>-8%</b>

As at 30 June 2020, the balance sheet total of Energa Group was PLN 19,275 m, down by PLN 1,692 m compared to the year-end figure for 2019.

As regards non-current assets, the greatest change affected the Investments in associated entities and joint ventures valued with the equity method and was largely due to the revaluation of investments in PGG joint venture in the amount of PLN 145 m. In the meantime, on the current assets side, changes were mainly observed in cash (the reasons for the change in cash were described later on in the section on cash flows) and in other assets short-term, which decreased by PLN 277 m, primarily in connection

with the settlement of the sale of the Przykona Wind Farm (accounting for the advance payments), a drop in VAT receivables and settlement of the compensation due from the Price Difference Refund Fund.

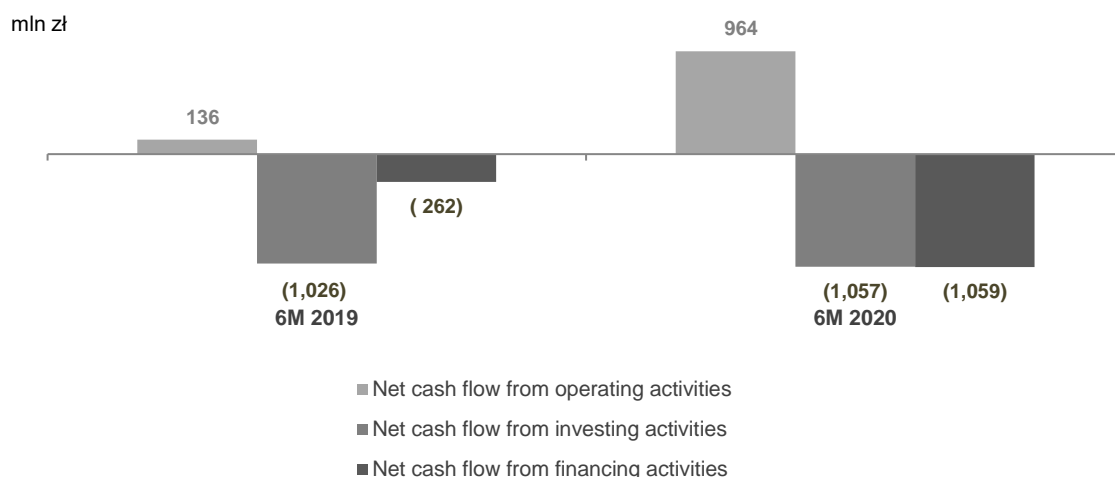
As at 30 June 2020, ENERGA Group's equity was PLN 8,406 m and financed the Group's assets in 44%.

The key change in liabilities was related to the change in the current part of loans and borrowings, and concerned loan drawdowns totaling PLN 1,500 m. A significant change, opposite to the change specified above, was noted in current liabilities on account of the issue of debt securities, and was mainly related to the redemption of Eurobonds maturing in March 2020, issued in March 2013 by Energa Finance AB (publ) under the EMTN programme.

**Table 7: Consolidated statement of cash flows (PLN m)**

	6 months of 2019	6 months of 2020	Change	Change (%)
Net cash flow from operating activities	136	964	828	> 100%
Net cash flows from investment activities	(1,026)	(1,057)	(31)	-3%
Net cash flows from financial activities	(262)	(1,059)	(797)	< -100%
Net increase / (decrease) in cash	(1,152)	(1,152)	-	0%
Cash and cash equivalents at the end of the reporting period	1,574	305	(1,269)	-81%

**Figure 15: Cash flows of the Group (PLN m)**



As at 30 June 2020, the Group's cash position adjusted for the effect of foreign exchange differences was PLN 305 m, down by PLN 1,269 m yoy.

Total net cash flows from operating, investment and financing activities of the Group in 2020 were negative at PLN 1,152 m, compared to negative flows of PLN 1,152 m in 2019.

Cash flows from operating activities increased by PLN 828 m compared to the corresponding period of the previous year. The increase in cash flows from operating activities was mainly caused by a decrease in trade receivables and contract receivables and an increase in actuarial provisions, provisions established on account of the obligation to present certificates for redemption and other provisions.

Net cash used in investing activities increased by PLN 31 m in 2020, mainly on the back of higher expenditure on acquisitions of new tangible fixed assets and intangible assets, and granted loans, accompanied by lower investments in associates and joint ventures measured by the equity method.

In 2020, cash flows from financing activities were negative at PLN 1,059 m compared to negative flows of PLN 262 m in 2019. 2020 saw significant inflows and outflows from loans taken, and outflows from redemption of debt securities.

### 4.3. Structure of assets and liabilities in the consolidated statement of financial position

Figure 16: Structure of assets and liabilities

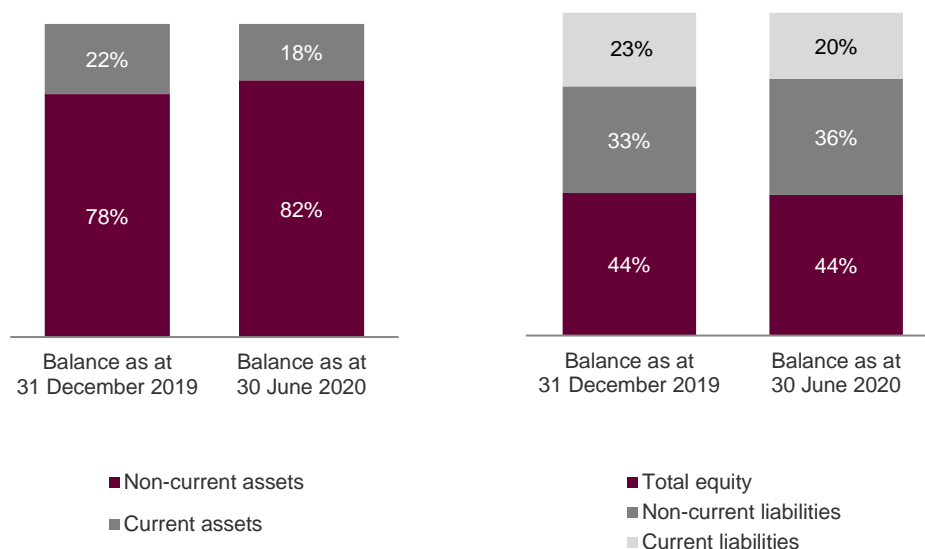


Table 8: Financial ratios of the Energa Group

Ratio	Definition	H1 2019	H1 2020
<b>Profitability</b>			
EBITDA margin	operating profit/loss + depreciation and amortisation + impairment losses on non-financial non-current assets / sales revenue (including revenue from the Price Difference Refund Fund)	20.9%	17.2%
return on equity (ROE)	net profit for the period*/ equity at the end of the period	4.1%	-24.0%
return on sales (ROS)	net profit for the period / sales revenues (taking into account the revenue from the Price Difference Payout Fund)	4.2%	-12.5%
return on assets (ROA)	net profit for the period*/ total assets at the end of the period	2.0%	-10.5%
* net profit for the last 12 months			
Ratio	Definition	As at 31 December 2019	As at 30 June 2020
<b>Liquidity</b>			
current liquidity ratio	current assets/current liabilities	1.0	0.9

## Debt

financial liabilities (PLN m)	total liabilities due to loans and borrowings, debt securities and leases (both long- and short-term)	7,661	6,947
net financial liabilities (PLN m)	financial liabilities - cash and cash equivalents	6,200	6,642
net debt**/EBITDA* ratio	net financial liabilities/EBITDA	2.2	2.7

\* EBITDA for the last 12 months

\*\* net financial liabilities included in the calculation of the net debt/ EBITDA ratio include the key elements defined in the financing agreements

EBITDA decreased in H1 2020 as compared to the corresponding period of the preceding year, whereas sales revenue (including the Price Difference Refund Fund) slightly increased. The key drivers of the change are presented in the section describing financial figures. However, due to the higher EBITDA growth compared to the growth in sales revenues, the EBITDA margin decreased. Meanwhile, the unfavorable net profit change yoy (occurrence of the negative result in H1 2020) contributed to a decline in profitability ratios.

The net debt/EBITDA ratio increased mainly as a result of a lower balance of cash in spite of a certain drop in financial liabilities as at 30 June 2020 compared to 31 December 2019. Also, EBITDA for the last 12 months was at a lower level.

### 4.4. Description of significant off-balance sheet items

For details please see section 9.1. *Information on material contracts, agreements and transactions* of this Report and Note 19: *Contingent assets and liabilities* to the consolidated financial statements.

### 4.5. Projected financial results

The Management Board of Energa SA has not yet published projections for separate and consolidated financial results for FY 2020.



## Activities of Business Lines

## 5. ACTIVITIES OF BUSINESS LINES

Energa Group's financial performance by Business Line was as follows:

**Table 9: EBITDA of the Energa Group, by Business Line (PLN m)**

	H1 2019	H1 2020	Change	Change (%)
DISTRIBUTION	976	940	(36)	-4%
GENERATION	172	98	(74)	-43%
SALES	140	52	(88)	-63%
OTHER and consolidation eliminations and adjustments	(30)	(35)	(5)	-17%
<b>Total EBITDA</b>	<b>1,258</b>	<b>1,055</b>	<b>(203)</b>	<b>-16%</b>

	Q2 2019	Q2 2020	Change	Change (%)
DISTRIBUTION	428	447	19	4%
GENERATION	54	29	(25)	-46%
SALES	235	18	(217)	-92%
OTHER and consolidation eliminations and adjustments	(13)	(7)	6	46%
<b>Total EBITDA</b>	<b>704</b>	<b>487</b>	<b>(217)</b>	<b>-31%</b>

### 5.1. Distribution Business Line

#### 5.1.1. Business and operating activities

**Table 10: Electricity distribution by tariff group (GWh)**

	Q2 2019	Q2 2020	Change	Change (%)	H1 2019	H1 2020	Change	Change (%)
Tariff group A (HV)	844	710	(134)	-16%	1,673	1,516	(157)	-9%
Tariff group B (MV)	2,111	1,891	(220)	-10%	4,363	4,092	(271)	-6%
Tariff group C (LV)	1,052	943	(109)	-10%	2,209	2,059	(150)	-7%
Tariff group G (LV)	1,343	1,430	87	6%	2,916	3,001	84	3%
<b>Total distribution of electricity</b>	<b>5,351</b>	<b>4,974</b>	<b>(376)</b>	<b>-7%</b>	<b>11,162</b>	<b>10,668</b>	<b>(494)</b>	<b>-4%</b>

In H1 2020, the volume of supplied electricity amounted to 10,668 GWh and was lower by 4% than in the corresponding period of the previous year. A similar trend was observed in Q2 2020 where the volume of distributed electricity was 4,974 GWh, down by 7% yoy. Volume decreases were reported in groups A, B and C due primarily to the impact of the COVID-19 pandemic and price growth (with customers seeking savings and reducing energy consumption). An increase in volume was noted in G tariff (greater consumption by households owed to home working and remote schooling).

Table 11: SAIDI and SAIFI indicators

	SAIDI			SAIFI		
	Unplanned incl. catastrophic	Planned	Total	Unplanned incl. catastrophic	Planned	Total
	Minutes per customer in the period			Disruptions per customer in the period		
Q2 2019	32.8	6.9	39.7	0.6	0.0	0.6
<b>Q2 2020</b>	<b>17.1</b>	<b>4.6</b>	<b>21.8</b>	<b>0.4</b>	<b>0.0</b>	<b>0.4</b>
Change	(15.7)	(2.3)	(18.0)	(0.2)	(0.0)	(0.2)
Change (%)	-48%	-33%	-45%	-35%	-39%	-35%
H1 2019	60.7	13.2	73.9	1.1	0.1	1.2
<b>H1 2020</b>	<b>51.1</b>	<b>9.4</b>	<b>60.5</b>	<b>0.9</b>	<b>0.1</b>	<b>0.9</b>
Change 2020/2019	(9.6)	(3.8)	(13.4)	(0.2)	(0.0)	(0.3)
Change 2020/2019 (%)	-16%	-29%	-18%	-22%	-32%	-23%

In H1 2020, Energa Operator achieved SAIDI and SAIFI indicators of 60.5 min./cust. and 0.9 disr./cust., respectively, i.e. at a lower level than in the corresponding period of the previous year. A similar trend was observed in Q2 2020. The largest improvement of the SAIDI and SAIFI indicators related to unscheduled disruptions, which was due to operational initiatives aimed to improve power recovery after power grid failures as well as grid modernization investments.

### 5.1.2. Financial performance

Figure 17: Results of the Distribution Business Line of the Energa Group (PLN m)

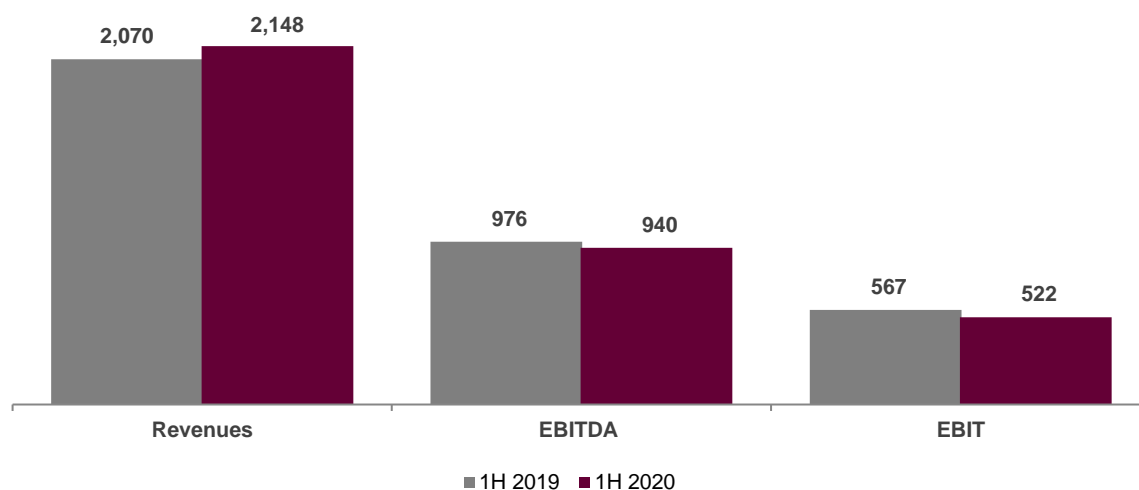


Table 12: Results of the Distribution Business Line (PLN m)

	H1 2019	H1 2020	Change	Change (%)
Revenues	2,070	2,148	78	4%
<b>EBITDA</b>	<b>976</b>	<b>940</b>	<b>(36)</b>	<b>-4%</b>
amortization and depreciation	409	418	9	2%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	567	522	(45)	-8%
Net profit (loss)	400	344	(56)	-14%
CAPEX	648	579	(69)	-11%

	Q2 2019	Q2 2020	Change	Change (%)
Revenues	996	1,002	6	1%
<b>EBITDA</b>	<b>428</b>	<b>447</b>	<b>19</b>	<b>4%</b>
amortization and depreciation	207	208	1	0%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	221	239	18	8%
Net profit (loss)	148	156	8	5%
CAPEX	314	313	(1)	0%

Figure 18: EBITDA bridge of the Distribution Business Line (PLN m)



In H1 2020, the Distribution Business Line generated 89% of EBITDA for the ENERGA Group (78% in the corresponding period of last year).

EBITDA for H1 2020 was PLN 940 m compared to PLN 976 m for the corresponding period of the preceding year. The distribution margin lower by PLN 32 m (taking into account grid losses) had a considerable impact on EBITDA. First and foremost, it was attributable to the unfavorable valuation of the estimated unbilled grid losses. On the other hand, the distribution margin before grid losses improved yoy in spite of the negative impact of the COVID-19 pandemic (lower distribution volumes).

Over the analyzed period, OPEX costs increased yoy by PLN 42 m, mainly in the area of employee benefits, to a large extent, as the effect of the rise in actuarial provisions prompted by a drop in the discount rate (the impact on EBITDA amounted to approx. PLN 12 m). Also, increased OSH costs were



reported in connection with the COVID-19 pandemic. The first half of 2020 also saw increased costs of third party services in the area of maintenance, overhaul, fee collection and technical customer service costs.

A decline in revenue from grid connections, the increased cost of real property tax and the unfavorable balance of provisions (mainly provisions for location of the power supply infrastructure on third party land) also had a negative impact on the results.

A one-off event that improved the Line's result by PLN 73 m, namely change in recognition of the infrastructure received free of charge (previously accounted for through deferred income) in connection with adoption of an accounting policy consistent with that of Orlen Group, also took place in Q2 2020.

In H1 2020, the net profit in the Distribution Business Line totaled PLN 344 m versus PLN 400 m in H1 2019 and the reasons for its decrease were the same as in the case of the operating profit.

In H1 2020 the Group generated PLN 2,148 m in sales revenues, or 4% more than in the corresponding period of 2019. That was attributable to an increase in the average cost of the distribution service by approx. 9%. Such large price growth yoy was due, among other things, to the change in the structure of sales within tariff groups where an increase was reported in the high-margin G tariff and falls were observed in the remaining tariff groups, and to the increase of the tariff for the distribution service yoy.

In Q2 2020 the Business Line's EBITDA amounted to PLN 447 m versus PLN 428 m in the corresponding period of the preceding year, while EBIT totaled PLN 239 m (i.e. PLN 18 m more year on year). A PLN 22 m increase in the Business Line's OPEX had a considerable impact on the operating profit. Employee benefit costs increased as a result of pressure on wages resulting, among other things, from an increase in the minimum wage with the simultaneous need to take actions bridging the competence and generation gap, as well as growth in actuarial provisions.

The other operating activities balance was lower by PLN 160 m yoy, which was primarily due to the aforementioned one-off event. At the same time, the less favorable balance of provisions (mainly provisions for location of the power supply infrastructure on third party land) has occurred. Revenue from grid connections also shrank while the costs of real property tax increased.

Distribution margin (incl. grid losses) remained at a similar level yoy.

## 5.2. Generation Business Line

### 5.2.1. Business and operating activities

Table 13: Gross electricity production (GWh)

	Q2 2019	Q2 2020	Change	Change (%)	H1 2019	H1 2020	Change	Change (%)
Power plants – coal-fired	553	296	(257)	-46%	1,067	585	(482)	-45%
Power plants – biomass co-fired	-	41	41	-	-	94	94	-
CHP plants – coal-fired	22	26	4	16%	64	62	(2)	-3%
CHP plants - biomass-fired	37	2	(35)	-95%	76	19	(58)	-76%
Power plants – hydro	219	157	(62)	-28%	475	366	(109)	-23%
Pumped storage plant	12	7	(5)	-41%	26	28	2	6%
Power plants – wind	80	93	13	17%	238	268	30	13%
Power plants - photovoltaics	2	2	(0)	-14%	3	3	(0)	-10%
<b>Total production of electricity</b>	<b>925</b>	<b>624</b>	<b>(301)</b>	<b>-33%</b>	<b>1,950</b>	<b>1,425</b>	<b>(525)</b>	<b>-27%</b>
including from RES	337	295	(42)	-13%	792	750	(43)	-5%

In H1 2020, the generating assets in the Energa Group produced 1.4 TWh of electricity vs. 1.9 TWh in the same period last year (down by 27%). This trend concerned mainly the Ostrołęka Power Plant, hydro power plants and CHP plants (Elbląg).

The level of production at the Ostrołęka power plant resulted from the must-run production for the Transmission System Operator in Poland and the availability of these units. Energy production in hydro sources is the effect of hydrological conditions, while the level of production in wind sources was caused by the prevailing weather conditions. Energy production in the Group's CHP plants was related to the heat production, which was mainly dependent on the heat demand from the Group's local consumers. Another factor which contributed to the increase of the 2019 base was the need for cogeneration sources to achieve a stated production volume under the grant agreement (this effect was not observed in 2020).

The Business Line's results shown on a quarterly basis followed a trend similar to that observed on a cumulative basis.

**Table 14: Gross heat production (TJ)**

	Q2 2019	Q2 2020	Change	Change (%)	H1 2019	H1 2020	Change	Change (%)
ENERGA Kogeneracja Sp. z o.o.	400	450	50	13%	1,288	1,262	(27)	-2%
ENERGA Elektrownie Ostrołęka S.A.	231	231	(1)	-0%	697	659	(37)	-5%
Ciepło Kaliskie Sp. z o.o.	35	34	(1)	-4%	165	157	(8)	-5%
<b>Total gross heat production</b>	<b>667</b>	<b>715</b>	<b>48</b>	<b>7%</b>	<b>2,150</b>	<b>2,079</b>	<b>(71)</b>	<b>-3%</b>

In H1 2020, the Group produced heat energy of 2,079 TJ (down by 3%), which was prompted, among other things, by the ambient temperature shaping the demand for heat from the Group's local consumers in the cities of Ostrołęka, Elbląg and Kalisz.

An opposite trend was reported on a quarterly basis where the Group generated 48 TJ more heat compared to the corresponding period of the previous year (i.e. up 7%). The above correlation was determined by weather conditions.

**Table 15: Volume and cost\* of consumption of key fuels\***

	Q2 2019	Q2 2020	Change	Change (%)	H1 2019	H1 2020	Change	Change (%)
<b>Coal</b>								
Quantity (thous. of tons)	273	161	(112)	-41%	553	342	(211)	-38%
Cost (PLN m)	82	50	(32)	-39%	163	107	(56)	-34%
<b>Biomass</b>								
Quantity (thous. of tons)	28	24	(4)	-13%	60	72	13	21%
Cost (PLN m)	17	11	(5)	-33%	35	36	1	2%
<b>Total fuel consumption (PLN m)</b>	<b>99</b>	<b>61</b>	<b>(37)</b>	<b>-38%</b>	<b>198</b>	<b>143</b>	<b>(55)</b>	<b>-28%</b>

\* including the cost of transport

In H1 2020, the Group's generators consumed less hard coal (down by 211 thousand tons) and more biomass (up by 13 thousand tons) compared to the same period of the previous year. The increase in the production from biomass resulted from the start of biomass co-firing at the Ostrołęka Power Plant in spite of lower production from the biomass source in Elbląg. The lower coal consumption is an effect of

lower electricity production, mainly by the Ostrołęka Power Plant. At the same time, higher unit costs of coal purchase and lower unit costs of biomass consumption were reported.

When analyzing Q2 yoy, maintenance of the above trends for coal and biomass unit costs should be highlighted. At the same time, reduction of biomass consumption during that period in opposition to the observed cumulative trend should be stressed.

## 5.2.2. Financial results

Figure 19: Results of the Generation Business Line of the Energa Group (PLN m)

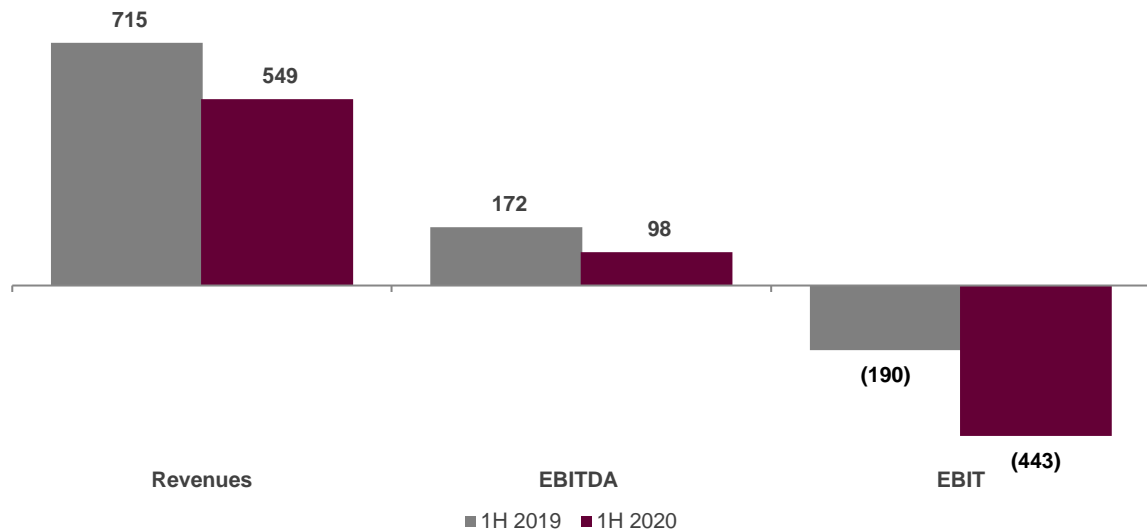


Table 16: Results of the Generation Business Line (PLN m)

	H1 2019	H1 2020	Change	Change (%)
Revenues	715	549	(166)	-23%
<b>EBITDA</b>	<b>172</b>	<b>98</b>	<b>(74)</b>	<b>-43%</b>
amortization and depreciation	92	71	(21)	-23%
impairment losses on non-financial non-current assets	270	470	200	74%
EBIT	(190)	(443)	(253)	< -100%
Net profit (loss)	(177)	(476)	(299)	< -100%
CAPEX	101	197	96	95%

	Q2 2019	Q2 2020	Change	Change (%)
Revenues	337	252	(85)	-25%
<b>EBITDA</b>	<b>54</b>	<b>29</b>	<b>(25)</b>	<b>-46%</b>
amortization and depreciation	46	33	(13)	-28%
impairment losses on non-financial non-current assets	270	473	203	75%
EBIT	(262)	(477)	(215)	-82%
Net profit (loss)	(224)	(486)	(262)	< -100%
CAPEX	79	145	66	84%

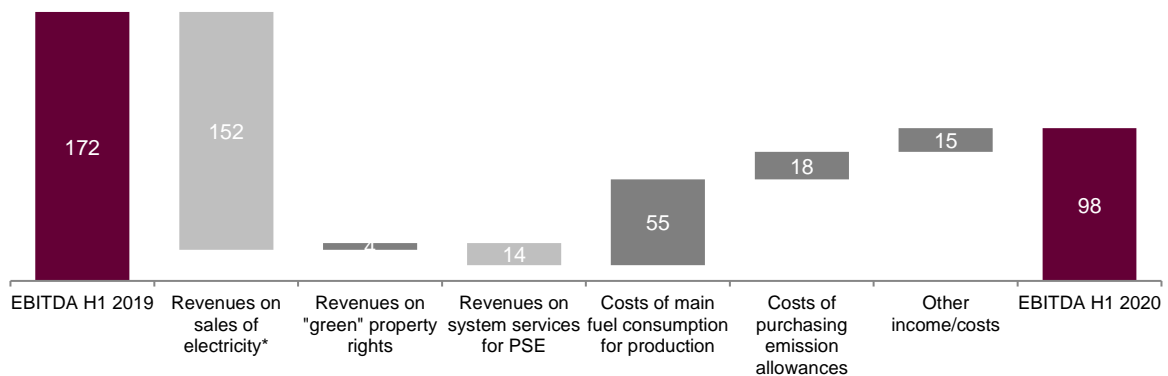
The following table presents EBITDA breakdown of the Generation Business Line into individual Generation Segments. The statement presents unit data with the surcharge of Line management costs, elimination of mutual transactions among business segments and consolidation adjustments.

Table 17: EBITDA of the Generation Business Line by Division (PLN m)

	H1 2019	H1 2020	Change	Change (%)
Water	90	60	(30)	-33%
Wind	59	57	(2)	-4%
Ostrołęka power plant	26	(19)	(45)	< -100%
Other and adjustments	(4)	(1)	3	81%
<b>Generation total</b>	<b>172</b>	<b>98</b>	<b>(74)</b>	<b>-43%</b>

	Q2 2019	Q2 2020	Change	Change (%)
Water	42	23	(19)	-45%
Wind	19	16	(3)	-16%
Ostrołęka power plant	2	(7)	(10)	< -100%
Other and adjustments	(8)	(3)	6	70%
<b>Generation total</b>	<b>54</b>	<b>29</b>	<b>(25)</b>	<b>-46%</b>

Figure 20: EBITDA bridge of the Generation Business Line (PLN m)



\* includes net electricity trading (revenue less cost).

The share of the Generation Business Line in the Group's total EBITDA was 9% in H1 2020 (14% in the corresponding period of the preceding year).

The Business Line's EBITDA for H1 2020 dropped by PLN 74 m yoy. During that period, both a fall in revenue from electricity sales by PLN 152 m (the primary reason being lower production at the Ostrołęka Power Plant, hydro power plants and co-generation sources as well as the Business Line's lower electricity selling price) and a PLN 14 m decline in revenue from system services provided to the Transmission System Operator (among other things, lower revenue from provision of the Operating Reserve Service) were reported.

The above falls were partially offset by:

- lower cost of consumption of fuels for production purposes (owing primarily to lower generation volumes and higher unit cost of purchase of coal) – by PLN 55 m;

- lower cost of purchasing CO<sub>2</sub> emission allowances due primarily to the lower volume of energy generation (by PLN 18 m) in spite of the fact that the current year is the first year in which the Group did not obtain a free pool of emission allowances from electricity production;
- lower fixed cost of the overhaul of the medium unit no. 2 at the Ostrołęka Power Plant in 2019 (the higher base effect) – by PLN 19 m;

and

- a rise in revenue from sales of green certificates (mainly due to higher market prices and the launch of the biomass co-fired production at the Ostrołęka Power Plant) – by PLN 4 m.

Apart from the above presented factors which determined EBITDA, one should also take into account the major factors which influenced both EBIT and the gross profit of the Business Line, i.e.:

- recognition of an impairment charge on the assets of Ostrołęka B Power Plant totaling PLN 270 m in Q2 2019; This impairment charge was dictated by developments in the legislative environment
- recognition of an impairment charge on the assets of Ostrołęka B Power Plant totaling PLN 473 m in Q2 2020. The reason for impairment was the change of the end date of useful life of core plant and equipment to 2036. Thus, the residual value and the assumption that the power plant would operate indefinitely were eliminated from the test.

In H1 2020, the Line's capital expenditures increased by PLN 96 m yoy, and were mainly related to the construction of the new Przykona Wind Farm and environmental investments at the Ostrołęka Power Plant.

On a quarterly basis year on year, lower EBITDA of the Business Line (down by PLN 25 m yoy) was mainly due to lower revenues from the sale of electricity, lower revenues from the sale of green property rights and lower revenues from system services provided to PSE. The negative impact of these factors was only partially offset by a lower cost of consumption of key production fuels, a lower cost of purchasing CO<sub>2</sub> emission allowances and a lower fixed cost of the overhaul of the medium unit no. 2 at the Ostrołęka Power Plant in 2019 (the higher base effect).

**Table 18: Results of the Hydro Power Division (PLN m)**

	Q2 2019	Q2 2020	Change	Change (%)	H1 2019	H1 2020	Change	Change (%)
Revenues	68	47	(21)	-30%	141	111	(30)	-21%
<b>EBITDA</b>	<b>42</b>	<b>23</b>	<b>(19)</b>	<b>-45%</b>	<b>90</b>	<b>60</b>	<b>(30)</b>	<b>-33%</b>
EBIT	34	14	(20)	-58%	74	43	(31)	-42%
CAPEX	2	2	(1)	-23%	4	3	(1)	-15%

**Table 19: Results of the Wind Power Division (PLN m)**

	Q2 2019	Q2 2020	Change	Change (%)	H1 2019	H1 2020	Change	Change (%)
Revenues	28	24	(4)	-14%	79	75	(4)	-5%
<b>EBITDA</b>	<b>19</b>	<b>16</b>	<b>(3)</b>	<b>-16%</b>	<b>59</b>	<b>57</b>	<b>(2)</b>	<b>-4%</b>
EBIT	5	2	(3)	-60%	33	29	(3)	-10%
CAPEX	9	128	120	> 100%	9	131	122	> 100%

Table 20: Results of the Ostrołęka Power Plant Division (PLN m)

	Q2 2019	Q2 2020	Change	Change (%)	H1 2019	H1 2020	Change	Change (%)
Revenues	194	146	(47)	-24%	382	271	(111)	-29%
<b>EBITDA</b>	<b>2</b>	<b>(7)</b>	<b>(10)</b>	<b>&lt; -100%</b>	<b>26</b>	<b>(19)</b>	<b>(45)</b>	<b>&lt; -100%</b>
EBIT	(284)	(485)	(201)	-71%	(276)	(503)	(227)	-82%
CAPEX	61	4	(57)	-94%	76	48	(28)	-37%

Table 21: Results of Other and Adjustments (PLN m)

	Q2 2019	Q2 2020	Change	Change (%)	H1 2019	H1 2020	Change	Change (%)
Revenues	47	34	(13)	-27%	113	92	(21)	-19%
<b>EBITDA</b>	<b>(8)</b>	<b>(3)</b>	<b>6</b>	<b>70%</b>	<b>(4)</b>	<b>(1)</b>	<b>3</b>	<b>81%</b>
EBIT	(17)	(9)	8	48%	(21)	(12)	8	41%
CAPEX	6	12	5	81%	12	14	2	21%

## 5.3. Sales Business Line

### 5.3.1. Business and operating activities

Table 22: Sales of electricity (GWh)

	Q2 2019	Q2 2020	Change	Change (%)	H1 2019	H1 2020	Change	Change (%)
<b>Retail sales of electricity</b>	<b>4,837</b>	<b>4,354</b>	<b>(483)</b>	<b>-10%</b>	<b>9,804</b>	<b>9,275</b>	<b>(529)</b>	<b>-5%</b>
<b>Sales of electricity in the wholesale market, including:</b>	<b>805</b>	<b>1,183</b>	<b>378</b>	<b>47%</b>	<b>2,428</b>	<b>2,614</b>	<b>186</b>	<b>8%</b>
<i>Sales of energy to the balancing market</i>	116	299	183	> 100%	433	705	272	63%
<i>Sales of energy to Energa Operator to cover grid losses</i>	180	-	(180)	100%	559	-	(559)	-
<i>Other wholesale</i>	509	884	375	74%	1,436	1,909	473	33%
<b>Total sales of electricity</b>	<b>5,642</b>	<b>5,537</b>	<b>(105)</b>	<b>-2%</b>	<b>12,232</b>	<b>11,889</b>	<b>(343)</b>	<b>-3%</b>

In H1 2020, total volume of electricity sold by the Sales Business Line decreased by 3% (i.e. by 0.3 TWh) as compared to H1 2019. This is the consequence of lower sales in the retail market.

In H1 2020, the volume of electricity sold in the retail market decreased by 5% (i.e. by 0.5 TWh) yoy. As part of retail sales in the Polish market, a decrease was noted in the volume of sales to business customers (by approx. 9%) coupled with an increase in sales to households (by 3% yoy). The level and structure of energy consumption in the reporting period were affected by the COVID-19 pandemic, namely reduced economic activity causing lower energy consumption by business customers accompanied by increased energy consumption by households. That consequence was of major importance in Q2 2020 throughout which the restrictions resulting from the introduction of the epidemiological state in Poland applied. That contributed to a decline in retail sales in Q2 2020 by as much as 10% in relation to Q2 2019.

As at the end of H1 2020, the number of end consumers of electricity amounted to 3.1 m, an increase of approx. 47,000 customers yoy. Tariff group G (households) largely accounted for the increase in

customer base. Retail sales in Slovakia were reduced to a negligible value due to the end of the process of terminating operations in the Slovak retail market.

Meanwhile, electricity sales on the wholesale market rose in H1 2020 by 0.2 TWh (i.e. by 8%) in relation to the preceding year. The rise occurred in spite of absence in 2020 of the sale of energy to Energa Operator SA to cover grid losses. Another seller was appointed for that period. The increase in energy sales in the balancing market and as part of other sales resulted from the need to resell excess electricity, which was attributable to lower energy consumption by end consumers (business clients) as a consequence of the COVID-19 pandemic. That trend was particularly visible in Q2 2020 when sales in the wholesale market increased by as much as 47% yoy. Such transactions are necessary to balance the position of Energa Obrót SA.

### 5.3.2. Financial performance

Figure 21: Results of the Sales Business Line of the Energa Group (PLN m)

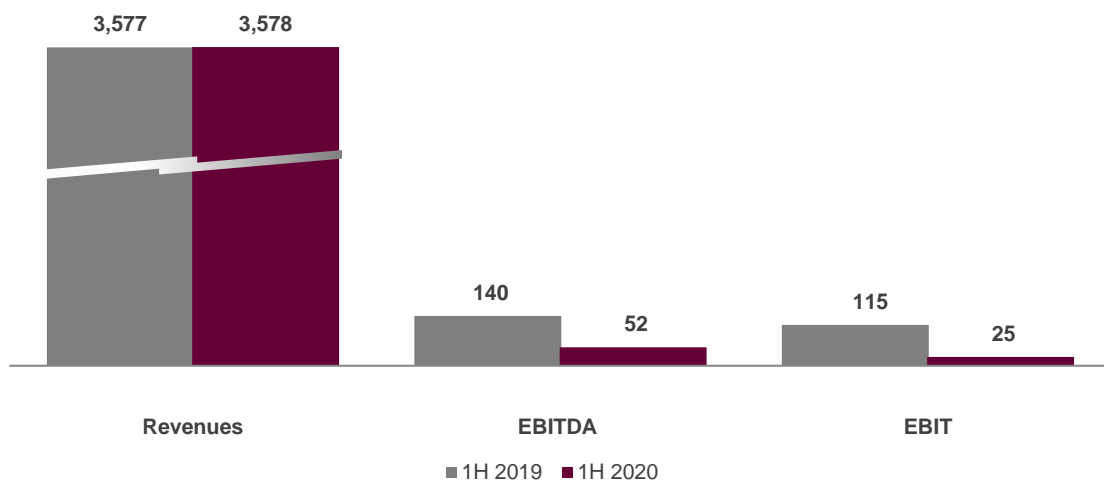


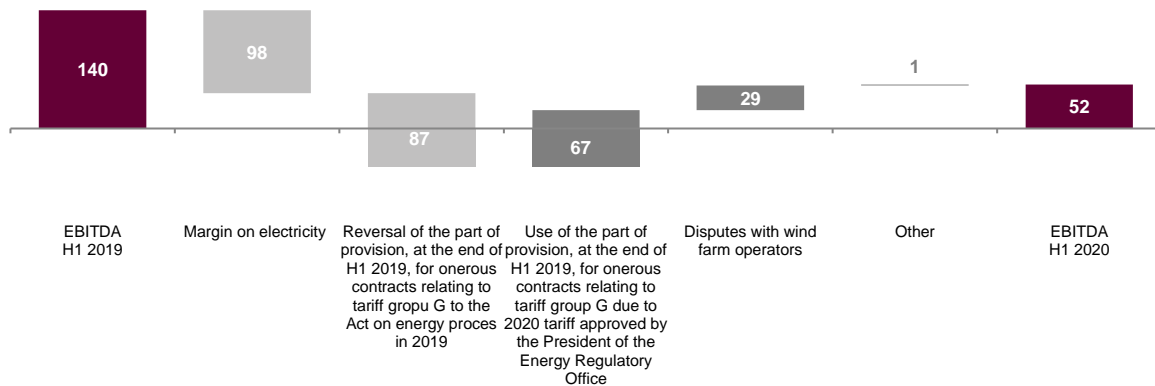
Table 23: Results of the Sales Business Line (PLN m)

	H1 2019	H1 2020	Change	Change (%)
Revenues	3,577	3,578	1	0%
<b>EBITDA</b>	<b>140</b>	<b>52</b>	<b>(88)</b>	<b>-63%</b>
amortization and depreciation	26	27	1	4%
impairment losses on non-financial non-current assets	(1)	-	1	100%
EBIT	115	25	(90)	-78%
Net profit (loss)	83	12	(71)	-86%
CAPEX	17	23	6	35%

	Q2 2019	Q2 2020	Change	Change (%)
Revenues	1,845	1,655	(190)	-10%
<b>EBITDA</b>	<b>235</b>	<b>18</b>	<b>(217)</b>	<b>-92%</b>
amortization and depreciation	13	14	1	8%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	222	4	(218)	-98%

Net profit (loss)	171	-	(171)	-100%
CAPEX	8	17	9	> 100%

Figure 22: EBITDA bridge of the Sales Business Line (PLN m)



In H1 2020, EBITDA of the Sales Business Line was PLN 52 m, which is 5% of the Group's EBITDA. In the corresponding period of the previous year, the Business Line's EBITDA accounted for 11% of the Group's profit.

In H1 2020, the revenues of the Sales Business Line were PLN 3,578 m, remaining at the virtually same level compared to H1 2019. The decline in revenues resulting from lower sales volume was offset by higher average selling prices (in the retail market).

The margin on sales of electricity shrinking by PLN 98 m was the key element behind the drop in the Sales Business Line's EBITDA yoy. Two factors contributed to the shrinking margin, namely the COVID-19 pandemic and the need to sell electricity to some households at disadvantageous pricing terms as a result of introduction of the 2020 tariff for G tariff group customers approved by the URE President. The impact of the pandemic consisting in reduction of energy consumption by retail customers (a 5% drop in volume) forced the Group to sell out the energy surplus previously contracted to meet the customers' demand at a financial loss. The energy was sold out at low prices (especially present in the market in Q2 2020), significantly lower than the prices of purchase of that energy prior to the pandemic. The margin on electricity sales in H1 2020 also shrank as a result of the sale of energy to some household at the prices resulting from the 2020 tariff approved by the URE President. The rates approved in the tariff do not fully cover the costs arising from implementation of the contracts. In H1 2020, a portion of the specific provision of PLN 67 m (raised at the end of 2019) was used, which significantly cushioned the negative impact of the new tariff on the Business Line's financial results in the reporting period.

The yoy change in EBITDA was adversely affected also by other one-off and non-cash events that occurred in H1 2019 and did not recur in the current year. In H1 2019, the Group released a part of the provision of PLN 87 m raised in 2018 for onerous contracts in relation to the G tariff arising from the Act on energy prices in 2019 (negative impact on EBITDA dynamic year on year). Additionally, in connection with pending legal disputes relating to the validity of long-term contracts for purchase of RES property rights (CPAs), a provision was raised for potential contractual penalties in the amount of PLN 31 m at the end of H1 2019, which had a positive impact on EBITDA dynamic year on year (the effect was recognized within the scope of disputes with wind farm operators under the aforesaid bridge EBITDA).

The EBITDA of the Sales Business Line in Q2 2020 totaled PLN 18 m, down by as much as PLN 217 m (or 92%) compared to the corresponding period of 2019. The margin on sales of electricity shrinking by PLN 231 m was also the key element behind the substantial drop in the Business Line's EBITDA year on year. That was due to the high base effect in the first place. The Q2 2019 results (EBITDA at PLN 235 m) were high due to first-time recognition during that period of the compensations arising from the application of the Act on Energy Prices in 2019. Those compensations, although recognized in the second quarter, related both to the second and first quarter of the preceding year (their recognition in Q1 was not reasonable due to the absence of the implementing regulations), which contributed to the



buildup of revenues for the entire half of the year in Q2 alone, thus substantially overstating the financial results (the compensations were not disclosed in the first quarter and the Business Line posted a significant loss). Furthermore, similarly to the entire half of the year, two negative factors, namely the COVID-19 pandemic and the need to sell electricity to some households at disadvantageous pricing terms arising from the approved tariff, as described in the earlier section of the chapter, impacted the margins on electricity sales in Q2 2020.



Hydro plant in Pierzchały

## Risk management

## 6. RISK MANAGEMENT

### 6.1. Integrated Risk Management System of the Energa Group

The Integrated Risk Management System (IRMS) has been in place at the Energa Group since 2011 and it is supervised centrally by Energa SA.

The IRMS has been implemented on the basis of a risk management process which is harmonised across the whole Group. It is based on international standards (ISO, COSO, FERMA) and spans all organisational levels and business lines. The risk management process consists of various interrelated stages that form a continuous process. It starts at the level of organisational units and moves on to top executives and from the level of Group companies to Energa SA as the Parent Company.

Figure 23: The Energa Group risk management process



The key document underlying the risk management process at the Energa Group is the *Risk Management Policy*, which defines, among other things, the harmonised approach, risk management principles and roles in the risk management process.



**Management Board:** defines the risk management focus, approves risk reporting outcomes and accepts risk appetite.



**Risk Unit:** coordinates the risk management process, conducts risk reviews and risk management strategy reviews, develops reports summarising the outcomes of risk reviews.



**Risk Owner:** manages risk, develops and implements the risk management strategy, monitors risk and reports its current level to the Risk Unit.



**Employees:** report risks and incidents.



**Audit Committee:** monitors the effectiveness of the risk management system



**Audit and Control Unit:** performs an independent and objective assessment of the risk management system and incorporates the outcomes of risk reviews as part of performance of its tasks.

As part of the Integrated Risk Management System, the Energa Group conducts the following activities:



**risk review** – involving identification and assessment of risks and defining the risk management strategy (in semi-annual cycles);



**review of the risk management strategy** – update of the risk management strategy and verification of risk mitigation measures taken by Risk Owners (in quarterly cycles);



**ongoing risk management** – involving identification and assessment of risks and definition of the risk management strategy, in the context of current events relevant to the Energa Group (on an ongoing basis).

Based on the semi-annual risk reviews, information on the risk exposure of the Energa Group is prepared. Relying on that information, the Management Board of Energa decides on the risk appetite level and approves the risk management strategy. The results of risk reviews are transmitted to the Risk Owners and reported to the Audit Committee.

## 6.2. Description of major factors and risks

Key risks identified at the level of Energa SA and Group companies for each of the four Energa Group Risk Model areas are presented below, together with a description of key risk mitigation measures.

### Strategic area

Table 24: Key strategic risks identified at the level of Energa SA and Group companies

Description of the risk and its potential effects	Control mechanisms used
<b>Risks of strategic programmes</b>	
The risks related to the implementation of the Group Strategy for 2016–2025, including, among other things, expansion of distribution grid, development of generation assets in the CHP and RES areas, ensuring heat supplies, implementing a new customer-focused business model. The risks may lead to lower EBITDA, loss of part of the market / competitive advantage, lack of return on investments, deterioration of image or social impacts.	<ul style="list-style-type: none"> <li>• Running programmes in project-based structures</li> <li>• Ongoing monitoring of progress in the implementation of individual programmes</li> <li>• Ongoing project risk reporting</li> <li>• Carrying out investment plans and plans to sell selected district heating assets</li> </ul>
<b>Project / investment risks</b>	
The risks involved in investments carried out within the Energa Group, including, without limitation, those relating to the new unit in Ostrołęka, the flue gas desulphurisation installation in Ostrołęka, the combined cycle gas and steam unit in Grudziądz, the investment programme in Elbląg and Kalisz, and the RES product portfolio. The risks relate also to Energa Group's capital exposure to other undertakings. The risks may lead to non-achievement of the return on investments, loss of revenue, the need to repay obtained subsidies or deterioration of image.	<ul style="list-style-type: none"> <li>• Contracts with experienced and reputable contractors</li> <li>• Ongoing monitoring and control of investments at the operating and strategic levels (Committees and Top Executives)</li> <li>• Ongoing cooperation with law firms</li> <li>• Carrying out investments on project basis</li> <li>• Periodic and ongoing risk identification</li> </ul>

### Market risk

The risk involved in trading in electricity, fuels and property rights, including in the context of price volatility, forward market and SPOT market fluctuations, meeting customer demand or regulatory and legal requirements. The risks involve also PSE's systematically declining demand for the energy forcefully produced by the assets in Ostrołęka. The risks may lead to difficulties in the achievement of strategic objectives, financial losses, customer attrition and increased costs of operation.

- Risk management in core selling activities
- Processes and principles relating to contracting, trading and purchasing areas
- A coupled model
- Use of advisory and legal services
- Change of the contracting model while taking into consideration lower demand for forced operation

### Image risk

The risk related to activities conducted by the Energa Group affecting its image, particularly as an electricity vendor. The risk is related to, for instance, media opinions (including social media) on Energa, electricity prices or customer service.

- Creating the Group image, including marketing and sponsoring activities
- Educational and informational campaigns
- Social programmes increasing brand value

## Legal and regulatory area

Table 25: Key legal and regulatory risks identified at the level of Energa SA and Group companies

Description of the risk and its potential effects	Control mechanisms used
<b>Regulatory risk</b>	
The risk concerns legislative changes affecting the operation of the Energa Group, and may lead to the modification of investment plans, generation of lower revenues or rise in operating expenses. The risk additionally offers an opportunity to adopt new legal solutions which could enable raising of additional funds or guarantee a support system for the Group's assets.	<ul style="list-style-type: none"> <li>• Monitoring of changes in law</li> <li>• Participation in the legislative process</li> <li>• Participation of the Group's representatives in the activities of industry associations</li> </ul>
<b>Compliance risk</b>	
The risk of non-compliance with the requirements arising from external and internal policies and other standards and guidelines. The risk may result in adverse consequences for organisations as well as their management boards and employees. The consequences may be legal, financial and image-related.	<p>Compliance system including, without limitation:</p> <ul style="list-style-type: none"> <li>• Compliance management process</li> <li>• Monitoring methodology and tools</li> <li>• Compliance assessment and reporting</li> <li>• System's organisational structure</li> <li>• Monitoring of changes in law</li> </ul>
<b>Environmental risk</b>	
The risks related to operation in compliance with the environmental regulations and standards (EMAS, ISO 14001, ISO 50001). The risks may result in sanctions, increased costs and deterioration of image, and in extreme cases to the revoking of certificates and closing of generating installations.	<ul style="list-style-type: none"> <li>• Internal policies</li> <li>• Ongoing monitoring of legislative changes</li> <li>• Analysis and measurements of emissions</li> <li>• Inspections and audits</li> <li>• The EMAS system implemented by the Group.</li> </ul>
<b>Risk of fraud</b>	
The risk concerns situations and actions related to fraud, including potential conflicts of interest, corruption or misappropriation. The risk involves both the operational processes, as well as fraud in connection with implementation of projects subsidised from the EU funds. The risk may lead to financial losses or may entail procedures conducted by law enforcement authorities, deterioration of image, and loss of trust of the employees in their superiors and the organisation.	<ul style="list-style-type: none"> <li>• Internal anti-fraud policies</li> <li>• Training for employees (including, without limitation, anti-corruption), including e-learning</li> <li>• The organisation's three lines of defence (internal control system, risk management system and internal audit)</li> <li>• Investigations</li> </ul>
<b>Legal risk</b>	
The risk is associated with court and administrative proceedings carried out by or against the Group companies. This risk also involves potential mass claims from land owners. The risk may give rise to an obligation to pay	<ul style="list-style-type: none"> <li>• Cooperation with law firms</li> <li>• Case monitoring system</li> <li>• Internal policies</li> </ul>

damages and sanctions, or to grant customer discounts arising from the provisions of law.

#### Personal data protection (PDP) risk

The risk involves assuring privacy and security of data subjects' details. The risk may impair operating activities and give rise to penal sanctions, including financial and administrative ones, control of supervisory bodies, costs of proceedings at law and damages.

- Internal policies regarding PDP
- Handling of PDP breaches
- Carrying out disclosure obligations
- Execution of the rights of data subjects
- Training on PDP
- PDP risk management

## Operations area

Table 26: Key operational risks identified at the level of Energa SA and Group companies

Description of the risk and its potential effects	Control mechanisms used
<b>Coronavirus risk and its impact on the Energa Group</b>	
<p>The risk relates to the coronavirus pandemic, as well as its results affecting the operation of the Energa Group. The risk affects the Group's decreased revenues and EBITDA, and may affect the health and lives of the Group's employees and stakeholders, as well as the disruption of the continuity of critical processes.</p>	<ul style="list-style-type: none"> <li>• COVID-19 team</li> <li>• Crisis management teams, working groups</li> <li>• Disinfectants, contactless thermometers, etc.</li> <li>• E-learning materials</li> <li>• Possibility of working remotely</li> <li>• Limitation of business trips</li> <li>• Replacing traditional meetings with remote communication tools</li> <li>• Restriction of access for outsiders to the Energa Group facilities</li> <li>• Designation of pickup zones</li> </ul>
<b>Risk to the security of persons and property</b>	
<p>The risk associated with unauthorised access to facilities, including power equipment. The risk additionally involves the safety and security of employees and third parties present on the premises of the Group's companies, as well as incidents related to terrorism and sabotage. The risk may involve a threat to security of grid operation, loss/destruction of property or disruption of operational continuity.</p>	<ul style="list-style-type: none"> <li>• Energa Ochrona – a specialist security company in the Energa Group</li> <li>• Security Plans, including Critical Infrastructure Security Plans</li> <li>• Internal safety and security policies</li> <li>• Business Continuity Plans</li> <li>• Property insurance, third party liability insurance and insurance for lost revenues</li> <li>• Physical and technical security systems</li> <li>• Monitoring of incidents</li> <li>• Employee training</li> </ul>
<b>Risk of disruption of business continuity</b>	
<p>The risk associated with the disruption of critical distribution activities, i.e. continuity of the distribution service meeting the required performance security criteria of the distribution system. The risk may put human life and property in danger and lead to unavailability of critical process resources (sites, systems, employees).</p>	<ul style="list-style-type: none"> <li>• Business Continuity Strategy</li> <li>• Emergency Procedures</li> <li>• Critical Infrastructure Security Plan</li> <li>• Rules of proceeding in emergency</li> <li>• Backup sites</li> <li>• Tests on a cyclical basis</li> </ul>
<b>Customer settlements risk</b>	
<p>The risk associated, among other things, with incomplete or incorrect invoicing of customers due to incorrect recording of contracts, absence of metering data or lowering of the value of the Net Promoter Score (NPS). The risk may lead, for instance, to a drop in customer satisfaction (increased complaints), deterioration of image, customers' departures, and additional costs of elimination of errors/irregularities.</p>	<ul style="list-style-type: none"> <li>• Monitoring of supplied measurement data/issued invoices</li> <li>• Servicing agreement with vendors of billing systems enabling swift elimination of critical errors</li> <li>• Internal instructions governing, among other things, adjustments, interest, double invoicing control mechanism, prosumer sales and settlements or closing of a month</li> </ul>

## Finance area

Table 27: Key financial risks identified at the level of Energa SA and Group companies

Description of the risk and its potential effects	Control mechanisms used
<b>Interest rate risk</b>	
<p>The risk involves incurred debts and invested cash surplus. The floating interest rate resulting from existing debt liabilities applies to WIBOR-based rates only. In respect of liabilities in EUR, the Energa Group has contracted financial debt under issued fixed-coupon Eurobonds and hybrid bonds. The risk also concerns the interest rate related to CCIRS and IRS hedging transactions. Moreover, the level of interest rates has a direct effect on the WACC quoted by the President of the URE to calculate the return on RAB, which is included in the Energa Operator SA tariffs. Low interest rates result in a lower return on RAB and an increase in actuarial provisions.</p>	<p>Market risk management policy in the Energa Group, envisaging, among other things, that the risk of changing interest rates is mitigated by keeping a portion of debt at fixed interest rates (IRS floating interest rate hedging transactions are concluded)</p>
<b>Foreign exchange risk</b>	
<p>The risk associated mainly with incurring and servicing Energa Group's debt liabilities in foreign currencies under the Eurobond programme, as well as the issue of hybrid bonds. Additionally, selected Energa Group companies have a foreign currency surplus.</p>	<ul style="list-style-type: none"> <li>• Market Risk Management Policy at Energa Group</li> <li>• CCIRS hedging transactions</li> <li>• Hedge accounting</li> </ul>
<b>Commodity price risk</b>	
<p>The risk related to the fluctuations in prices of the commodities used in the operation, particularly in the context of changing purchase prices of electricity and certificates of origin on the wholesale market in contracts executed by Energa-Obrót SA.</p>	<ul style="list-style-type: none"> <li>• Model of risk management by means of Value at Risk (VaR), taking into account the open position volume, volatility of product prices and correlation between individual products in the portfolio</li> <li>• VaR monitoring and reporting (within established limits)</li> <li>• Minimising the open position in the electricity portfolio</li> <li>• Concluding contracts in specific proportions and for different products</li> <li>• Setting limits for the open position for participation in selected markets</li> </ul>
<b>Credit risk</b>	
<p>The risk associated with the counterparty's potential permanent or temporary insolvency with regard to financial assets such as cash and cash equivalents and available-for-sale financial assets. The risk arises due to the contractual counterparty's inability to make the payment and the maximum exposure to this risk equals the carrying amount of the instruments acquired.</p>	<ul style="list-style-type: none"> <li>• Regular monitoring of the ratings of financial institutions cooperating with the Energa Group</li> <li>• Monitoring the state of receivables</li> <li>• Assessing creditworthiness of wholesale and strategic customers</li> <li>• Trade limits</li> <li>• Obtaining security from customers with a low credit rating</li> </ul>
<b>Liquidity risk</b>	
<p>Liquidity risk involves the likelihood of becoming unable to pay current liabilities on time or losing the potential benefits of over-liquidity.</p>	<ul style="list-style-type: none"> <li>• Periodic liquidity planning, taking into account the payment due/maturity dates for investment liabilities and financial assets and liabilities as well as projected cash flows from operating activity</li> <li>• Maintaining a balance between continuity and flexibility of financing by using many different sources of financing (such as working capital and investment loans, local bonds and Eurobonds)</li> <li>• Monitoring the fulfilment of covenants on an ongoing basis and their long-term projections</li> </ul>

### Debt collection risks

The risk associated with the possibility of the counterparties' failure to fulfil the liabilities resulting from the concluded contracts (no payment or late payment) or customers' attempts at renegotiation of the predetermined conditions. The risk may lead to the loss of revenue, increased (debt collection) expenses, disruption of cash flows, increased level of overdue or disputed liabilities.

- Debt collection functionalities in billing systems
- Debt collection activity schedules and trails
- Cash flow monitoring
- Customer credibility assessment
- Ongoing analysis of debt collection cases
- Rules of applying and removing interlocks in billing systems

### Pricing policy risk

The risk associated with incorrect calculation of selling prices and approval by the President of the URE of tariff rates at a level which does not guarantee the viability of sales. The risk may affect the viability of sales (covering the expenses), lower revenue, loss of market share or the need to create reserves.

- Ongoing market investigation for developments in the market, legal and regulatory environment
  - Ongoing examination of the planned financial result and other ratios, and analysis of the impact of the adopted price calculation principles on those ratios
  - Ongoing examination of offering mechanisms and proper performance of commercial IT systems and databases
  - Audits and inspections
  - Offering monitoring system
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Hydro power plant in Owidz, on the Wierzyce river

## Shares and shareholding structure

## 7. SHARES AND SHAREHOLDING STRUCTURE

### 7.1. Energa's shareholding structure

Energa SA shares have been listed on the Warsaw Stock Exchange (WSE) since 2013. From the Company's inception, i.e. from the year 2006, until 29 April 2020, the State Treasury has been the Company's strategic shareholder holding a 51.5% share in the Company's share capital, or 64.1% of votes in the General Meeting.

Table 28: Energa shares by series and type as at 30 June 2020

Series	Type of shares	Shares	(%)	Votes	(%)
AA	ordinary bearer shares	269,139,114	65.00	269,139,114	48.15
BB	preferred registered*	144,928,000	35.00	289,856,000	51.85
<b>Total</b>		<b>414,067,114</b>	<b>100.00</b>	<b>558,995,114</b>	<b>100.00</b>

\* One preferred share entitles to two votes at the General Meeting. The owner of the shares was the State Treasury until 29 April 2020.

On 5 December 2019, PKN ORLEN announced a tender offer for all shares issued by Energa SA, entitling to the total of 100% votes in the General Meeting (detailed information is presented in the chapter 2.2. *Key events in H1 2020 and after the balance sheet date* of this document).

On 24 April 2020 PKN ORLEN, as a result of settlement of the purchase of shares covered by subscriptions made during the first 70 days of accepting subscriptions (i.e. until 9 April 2020 inclusive) as part of the tender offer, it increased its share in the Company's share capital and in the total number of votes in the Company to ca. 8.1% and ca. 6.0%, respectively.

On 30 April 2020 PKN ORLEN, as a result of settlement of the purchase of shares covered by subscriptions made from 10 April 2020 until 22 April 2020 inclusive as part of the tender offer, it increased its share in the Company's share capital and in the total number of votes in the Company to ca. 80.1% and ca. 85.2%, respectively.

Table 29: Shareholding structure of Energa as at the date of this Report

Shareholder name	Company shareholding structure			
	Shares	(%)	Votes	(%)
PKN ORLEN	331,313,082	80.01	476,241,082	85.20
Other	82,754,032	19.99	82,754,032	14.80
<b>Total</b>	<b>414,067,114</b>	<b>100.00</b>	<b>558,995,114</b>	<b>100.00</b>

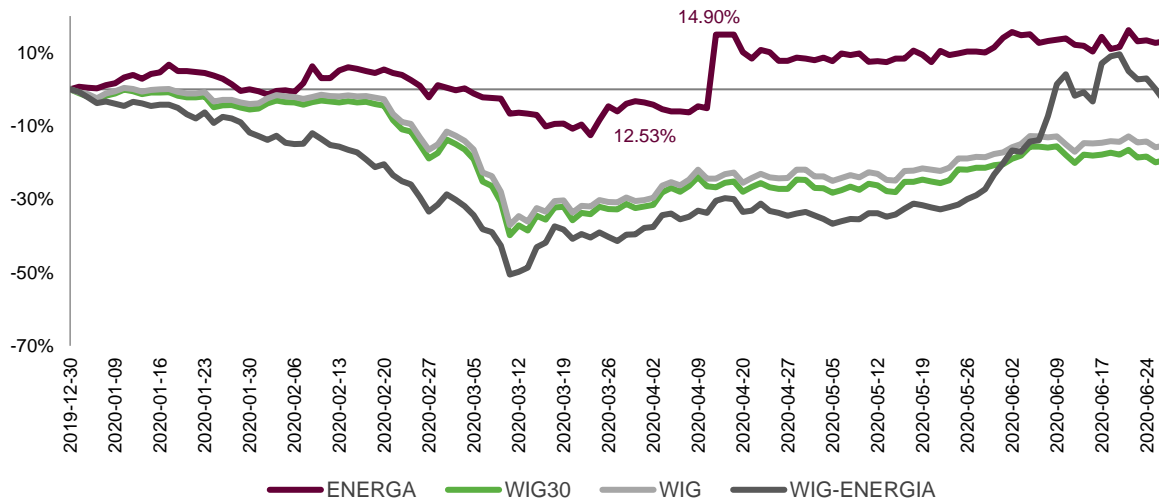
## 7.2. Prices of the Company's shares and recommendations

Table 30: Data on Energa stock as at 30 June 2020

Data	Value
Issue price	PLN 17.00
Number of shares	414,067,114
Stock price at the end of the period	PLN 8.14
Capitalisation at the end of the period	PLN 3.4 billion
6 months of the year minimum	PLN 5.90
6 months of the year maximum	PLN 8.40
6 months of the year average trading value	PLN 4.02 m
6 months of the year average trading volume	548.75 thou.
6 months of the year average number of trades	0.48 thou.

Source: Proprietary material based on data from [www.infostrefa.com](http://www.infostrefa.com)

Figure 24: Changes in Energa SA stock prices in comparison with changes in WIG, WIG30 and WIG-ENERGIA indices



Source: Proprietary material based on data from [www.infostrefa.com](http://www.infostrefa.com)

The closing price of Energa's shares on the last trading day (i.e. 30 June 2020) stood at PLN 8.14, which represents an increase by 15% compared with the last trading day in 2019 (i.e. 30 December 2019). The price of the Company's shares was subject to fluctuations, which was related to the Tender Offer for all shares issued by Energa SA, entitling to the total of 100% votes in the General Meeting (by PKN ORLEN) and the start of subscriptions on 31 January 2020. In April, the Company's share price increased in connection with PKN ORLEN's announcement about the price increase in the Tender Offer from PLN 7 per share to PLN 8.35 (on 15 April 2020). In H1 2020 WIG30 index dropped by approx. 18%, while WIG-Energia remained almost unchanged (i.e. -0.2%).

In H1 2020, 5 "Hold" and 3 "Buy" recommendations were awarded to the Company. A list of recommendations can be found on the Company's Investor Relations website at <https://ir.energa.pl/en/ir/investor-relations-web-site/Financial-results/Recommendations>.

### **7.3. Ratings**

On 29 May 2020 Fitch Ratings downgraded the Company's long-term foreign and local currency Issuer Default Ratings (IDRs) from 'BBB' to 'BBB-' with a Stable Outlook, rating for the bonds issued by the Company's subsidiary Energa Finance AB (publ) to 'BBB-', and rating for Energa SA's hybrid bonds to 'BB'. At the same time, the Company's rating was removed from the Rating Watch Negative list, about the placement on which the Company informed in Current Report No. 34/2019 of 10 December 2019.

The main reason for the downgrade as provided by the Agency is the acquisition of the Company - effective from 30 April 2020, PKN ORLEN acquired 80.01% of shares in the share capital of Energa SA and 85.20% of the total number of votes in the Company. Therefore, in Fitch's opinion, actions resulting in operational and strategic integration with PKN ORLEN will take place, which implies the need to bring the rating in line with the rating of PKN ORLEN ('BBB-'). The Agency emphasized the fact that Energa SA's standalone credit profile continues to be assessed at 'bbb', thanks to, among others, the stability of the Distribution Business Line, with low risks, a high share in the Group's EBITDA, and predictability of cash flows. Fitch also welcomes the proposal to halt the Ostrołęka C project in the coal formula and to consider a switch to the gas formula.

### **7.4. Changes to shares held by executive and supervisory personnel**

As at 30 June 2020 and as the date of publication of the interim report for the H1 2020, no member of Energa SA's Supervisory Board and no member of Energa SA's Management Board held any Company shares, Company share options or any shares in the Company's related parties.



Hydro power plant in Łyna

## Other information on the Group

## 8. OTHER INFORMATION ON THE GROUP

### 8.1. Information on material contracts, agreements and transactions

#### Agreements for loans and borrowings and the domestic bonds programme

Detailed information on agreements for loans and advances and the domestic bond issue programme is presented, among others, in Note 16 to the consolidated financial statements for the six-month period ended on 30 June 2020.

The following table presents the nominal value of bonds subscribed up by Energa SA and not redeemed, broken down by Energa Group issuer company as at 30 June 2020.

**Table 31: Nominal value of bonds subscribed by Energa SA and not redeemed, broken down by issuer, as at 30 June 2020 (PLN m)**

No.	Company name	Nominal value of subscribed bonds
1.	Energa Operator SA	1,066
2.	Energa OZE SA	647
3.	Energa Kogeneracja Sp. z o.o.	8
	<b>Total</b>	<b>1,721</b>

#### Guarantees and sureties granted

As at 30 June 2020, sureties extended by Energa SA to cover liabilities of Group companies totaled PLN 6,907 m and included:

- surety for liabilities of Energa Finance AB (publ) under Eurobond issue for PLN 5,583 m,
- sureties for liabilities of the Energa Group companies under bank guarantees granted by Bank PKO Bank Polski SA within guarantee limits dedicated to Energa Group companies for the total amount of PLN 57 m,
- sureties for liabilities of the Energa Group companies towards other creditors, including: the Commodity Clearing House S.A., the State Treasury, the National Fund for Environmental Protection and Water Management (NFOŚiGW) and the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW), for the total amount of PLN 1,267 m.

#### Information on material non-arm's length transactions with related parties

All transactions within the Energa Group are made based on the market prices of goods supplied and on the manufacturing costs of such goods or services.

Information on transactions with related parties is contained in Note 18 to the consolidated interim financial statements for the six-month period ended on 30 June 2020 and as at that date.

## 8.2. Proceedings pending before courts, arbitration or public administration bodies

As at 30 June 2020, the Energa Group was a party to 15,439 court proceedings. The Group was a plaintiff in 13,785 cases where the aggregate amount in dispute was approx. PLN 547 m. The Group acted as a defendant in 1,593 cases where the aggregate amount in dispute was approx. PLN 558.1 m.

As at 30 June 2020, the total amount of claims involving the location of power installations on third-party properties without a legal title, awarded by final judgments, was approx. PLN 37.3 m in approx. 683 cases. 969 court cases with amounts in dispute totalling PLN 99 m were pending.

Based on the available data pertaining to the value of pending proceedings, we assume that the actual amount to be paid after the above-mentioned disputes are resolved may reach PLN 84.8 m, which is subject to change if new court cases involving power installations located on third-party properties without a necessary legal title are brought against Energa Operator SA.

The above data do not include cases in which court and enforcement-based collection is conducted for and on behalf of Energa Obrót in order for the company to recover the amounts due from its customers and bankruptcy cases, with the exception of the case brought by Energa Obrót against Ergo Energy Sp. z o.o. for the amount of approx. PLN 13 m. As regards the aforesaid case, there were no changes in relation to the information contained in the previous periodical reports.

As at 30 June 2020, the aggregate value of the cases in which court and enforcement-based collection is conducted for and on behalf of Energa Obrót in order for the company to recover the amounts due from its customers and bankruptcy cases amounts to approx. PLN 197 m, of which:

Type of receivables	Balance at the end of the first half of 2020 (PLN million)
court and enforcement-based	124.2
bankruptcies	63.6
non-billed	7.1
non-billed – bankruptcies	2.6
<b>TOTAL</b>	<b>197.5</b>

Below are presented the proceedings with the highest value in dispute submitted to or continued before the court in 2020. The Company's previous periodic reports contain details of the legal steps taken during earlier years.

**Table 32: Proceedings pending before courts, arbitration or public administration bodies**

Parties	Object of dispute and details of the case
<b>Energa Operator SA (plaintiff), Arcus SA (defendants)</b>	<p><b>Claim for payment of contractual penalties under the a contract for the delivery and start-up of metering infrastructure (concerns stage I of AMI).</b></p> <p><i>Regional Court in Gdańsk, file No. IX GC 381/15</i></p> <p>The statement of claim for payment (the amount in dispute is PLN 23,152,481) was filed by Energa Operator SA on 7 April 2015. On 10 June 2015, the defendants filed a statement of defence, requesting that the claim be dismissed in its entirety, arguing that the defendants are not at fault for the delays and that some of the delays being caused by reasons attributable to Energa Operator. Also, the operation of force majeure, the fact that Energa Operator suffered no losses and grossly excessive amount of contractual penalties were invoked. In the letter of 18 December 2015, the defendants argued that the agreements were invalid due to their imprecise language and contractual inequality of the parties. The parties moved to the court to appoint experts for the purpose of drafting of opinions. The case files were provided to the experts so that they could prepare their opinions. As at 8 July 2020, Energa Operator</p>

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received two opinions, one in the area of metrology and one in the area of meteorology.

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**Arcus SA (plaintiff)  
Energa Operator SA  
(defendant)**

**Action for declaration of a contract for stage II of AMI invalid  
Counterclaim for payment of contractual penalties for stage II of AMI**

*Regional Court in Gdańsk, file No. IX GC 893/15*

On 8 February 2016, a copy of the statement of claim filed by T-Matic Systems SA and Arcus SA was served on Energa Operator SA. On 7 November 2016, a counterclaim was filed against Arcus and T-Matic for payment of PLN 157,063,142 on account of the payment of contractual penalties of PLN 156,060,200 and PLN 1,002,942 on account of a reduction in remuneration, as per the call for payment of 9 November 2015. On 30 January 2017, the court issued a decision to resume the proceedings which had been stayed upon the parties' motion. On 13 June 2017, the court decided to discontinue the interlocutory appeal proceedings to dismiss the Plaintiff's motion for injunctive relief prohibiting the use of the insurance guarantee, in connection with a motion to withdraw the interlocutory appeal. The files of the case were transferred to the Regional Court in Gdańsk. In this case, evidence proceedings have been initiated and further witnesses are being examined. As regards the counterclaim, it was served on the plaintiffs (counterclaim defendants) who filed a statement of defence. The court heard the witnesses and representatives of Arcus SA, T-Matic Systems SA and Energa Operator SA. The parties submitted motions to examine evidence from the experts' opinions and the court will decide on whether to admit and examine that evidence. Currently, the court is looking for experts capable of preparing an opinion.

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**Arcus SA (plaintiff)  
Energa Operator SA  
(defendant)**

**Claim for payment of compensation for unlawful acts/unfair competition practices**

On 29 January 2018, Energa Operator received a copy of the statement of claim from Arcus SA and T-Matic Systems SA for payment of the amount of PLN 174,111,458.96 to Arcus SA as compensation for unlawful acts allegedly committed by Energa Operator. The compensation concerns losses resulting from an unlawful act/unfair competition practice committed deliberately by Energa Operator and involving illegal actions or omissions in relation to the process of performing construction contracts for stages I and II of the AMI system. It appears from the reasons for the statement of claim that the loss incurred by Arcus SA and T-Matic SA is related to the unlawful calculation of contractual penalties by Energa Operator, as a result of which a dispute arose and escalated, leading to numerous court proceedings, thereby causing a loss "which was related to the occurrence of the circumstances [described in the statement of claim] concerning the business activity carried out." Energa Operator disputes legitimacy of that statement of claim and, in response to the statement of claim dated 30 April 2018, the Court stayed the proceedings in the case pursuant to Article 177 § 1 item 1) of the Code of Civil Procedure. Energa Operator appealed against this decision in a complaint, which was dismissed.

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**Arcus SA (plaintiff)  
Energa Operator SA  
(defendant)**

**Claim for payment for additional works at Stage 1 of AMI**

On 30 September 2019, the company received a copy of the statement of claim filed by Arcus SA and T-Matic Systems SA, in which the companies demanded that Energa Operator paid PLN 4,710,466 of remuneration or returns groundless enrichment, or damages for alleged additional works performed during Stage 1 of AMI. The company disputes legitimacy of that statement of claim and has moved for it to be dismissed. The company has recently filed an appeal against the decision to refuse dismissal of the statement of claim.

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**Energa Operator SA  
(plaintiff);  
PKN Orlen SA  
(defendant)**

**Claim for payment on account of the system fee for services provided to that entity as an autoproducer undertaking**

On 30 June 2004, Energa Operator (formerly Zakład Energetyczny Płock) filed in the Regional Court in Warsaw a claim against PKN Orlen SA for the payment of PLN 46 m as the system fee for the services provided to that entity as an autoproducer undertaking. On 25 June 2008, the judgment dismissing the statement of claim filed by Energa Operator was pronounced. On 2 September 2008, Energa Operator SA appealed against the judgment to the Court of Appeal in Warsaw. On 10 September 2009, the Court of Appeal in its judgment modified the appealed judgment so that the

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amount of PLN 46 m was awarded to Energa Operator SA together with statutory interest and the reimbursement of the costs of proceedings. On 30 September 2009, PKN Orlen SA paid the entire awarded amount including interest, i.e. PLN 75 m and reimbursed the costs of proceedings. However, PKN Orlen SA filed a cassation appeal against that judgment to the Supreme Court ("SC"). On 28 January 2011, the Supreme Court repealed the judgment of the Court of Appeal and returned the case to that court for re-examination. After re-examining the case, the Court of Appeal in the judgment of 4 August 2011 repealed the judgment of the Regional Court dismissing the statement of claim of Energa Operator SA and returned the case to that court for re-examination. As a result, the basis for the consideration paid by PKN ORLEN to Energa Operator ceased to exist. In view of the above, Energa Operator SA returned the previously received amount, together with the costs of the proceedings, to PKN Orlen SA. The Regional Court in Warsaw pronounced the judgment in the case on 27 October 2014. It awarded to Energa Operator SA from PKN Orlen SA the entirety of the sought claim, i.e. PLN 46 m with the interest accrued from 30 June 2004. The judgment was not final and non-appealable. Both parties moved to the court to prepare a written statement of grounds for the judgment and deliver it to each of them. Energa Operator SA received the judgment with the statement of grounds on 12 December 2014 and on 29 December 2014 PKN Orlen SA filed an appeal against that judgment to which Energa Operator SA responded. A hearing was held on 12 November 2015 before the Court of Appeal in Warsaw. Following the court's suggestions, the parties' legal representatives agreed to postpone the hearing and initiate discussions relating to a settlement. The parties did not reach an agreement following negotiations and, consequently, Energa Operator informed the court about the failed talks and moved to the court to set the date of the next hearing which was held on 6 April 2016. On 19 April 2016, the Court of Appeal in Warsaw pronounced its judgment in the case, file No. I ACa 257/15, brought by Energa Operator, Branch in Plock, against PKN Orlen SA. The court partially dismissed the defendant's appeal. Consequently, the judgment of the Regional Court in Warsaw of 27 October 2014 in the case, file No. XVI GC 782/11, awarding PLN 16.1 m plus interest accrued from 30 June 2004 to the plaintiff, became final and non-appealable. The judgment is final and non-appealable. Energa Operator moved to the court to have the judgment with the statement of grounds delivered to it.

On 29 September 2016, Energa Operator filed with the Supreme Court a cassation appeal against the judgment of 19 April 2016 handed down by the Court of Appeal in Warsaw.

On 24 October 2016, the representative of Energa Operator received PKN Orlen's cassation appeal filed against the aforesaid judgment of the Court of Appeal in Warsaw. The Supreme Court dismissed the appeal filed by the defendant PKN Orlen but granted the appeal filed by Energa Operator SA, reversing the appealed judgment of the Court of Appeal and remanding the case to the same for re-examination. Having re-examined the case, the Court of Appeal rendered a judgment of 15 November 2017 reversing those provisions of the appealed judgment of the Regional Court of 27 October 2014 which ordered PKN Orlen to pay PLN 30,093,882.82 and remanding the case for re-examination to the Regional Court in that respect.

On 26 November 2019, the Regional Court in Warsaw pronounced its judgment, awarding the amount of PLN 16,036,400 plus statutory interest accrued from 30 June 2004 until 31 December 2015 and penalty interest accrued from 1 January 2016 until the date of payment from PKN Orlen SA to Energa Operator. The court dismissed the statement of claim in the remaining part. The court ruled that the plaintiff won the case in 70% and the defendant successfully defended itself in 30%. Therefore, the court divided the costs of proceedings accordingly, with the defendant bearing 70% of them and the plaintiff covering the remaining 30%.

The judgment is not final and the parties announced that they would move to the court to prepare a written statement of grounds for the judgment. Energa Operator has filed such motion. On 30 March 2020, the court served a copy of the judgment together with the statement of grounds on Energa Operator. The period of time for filing an appeal has been running from that day. Under the Anti-Crisis Act, that period of time has been suspended from 31 March 2020 until the end of the epidemic. Nonetheless, the appeal was prepared and sent by registered letter to the Regional Court in

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Warsaw on 10 April 2020. Given the current status of the case, the Group showed a contingent asset in the amount of PLN 11.7 m.

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**Energa Operator SA  
(party);**

**PRESIDENT OF THE  
ENERGY REGULATORY  
OFFICE (authority)**

**Fine imposed by the authority**

Energa Operator received the decision of 21 December 2016 in which the President of the URE imposed a fine of PLN 11 m on Energa Operator SA for misleading the President of the URE. The company appealed against this decision and requested that it be reversed in its entirety or, alternatively, revised by waiving the fine or reducing it to PLN 50,000. On 24 May 2019, the Regional Court in Warsaw pronounced a judgment in the case file No. XVII AmE 224/17 reducing the fine to PLN 5.5 m. Both parties filed appeals in this case.

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**Energa Operator SA  
(party);**

**PRESIDENT OF THE  
ENERGY REGULATORY  
OFFICE (authority)**

**Fine imposed by the authority**

*Regional Court in Warsaw, file No. XVII AmE 68/18*

Energa Operator received the decision of 6 November 2017 imposing fines totalling PLN 13,600,000 for breaching the Traffic and Distribution Grid Operation Manual through: (1) communication with trading companies using other codes than provided for in the Traffic and Distribution Grid Operation Manual; (2) failure to meet the deadlines for providing metering data to trading companies; (3) failure to meet the deadlines for examining complaints from trading companies; (4) failure to meet the deadlines for verifying supplier switching reports; (5) failure to meet the deadlines for the final settlement of electricity sales agreements; and (6) failure to resume power supplies to one of the customers. The company appealed against this decision and requested that it be reversed or, alternatively, revised by waiving or reducing the fine. The first hearing was held on 3 March 2020 and no subsequent hearing has been scheduled.

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**Energa Kogeneracja Sp.  
z o.o. (plaintiff),  
Mostostal Warszawa SA  
(defendant)**

**Claim for payment on account of a contract price reduction**

*Regional Court in Gdańsk, file No. IX GC 494/17*

On 22 June 2017, Energa Kogeneracja Sp. z o.o. filed a statement of claim against Mostostal Warszawa SA requesting that the defendant be ordered to pay to the plaintiff PLN 106,417,065.12 plus statutory penalty interest accrued for the period from the date of filing the statement of claim until the payment date. The plaintiff seeks the reduction of the contract price owing to Energa Kogeneracja Sp. z o.o. for the performance of Contract No. EKO/86/2011 by PLN 90,286,722.15 (legal basis: Article 637(2) of the Civil Code in conjunction with Article 656(1) of the Civil Code). On 15 September 2017, the Regional Court in Gdańsk issued a decision to preserve evidence in the form of an opinion by an expert (institute) witness. Inquiries about the possibility of preparing a relevant opinion sent out by the Court were all refused by the institutes. On 22 December 2017, Energa Kogeneracja Sp. z o.o. received a statement of defence accompanied by a counterclaim for the amount of PLN 7,753,230. The State Treasury, represented by the Minister for Energy, joined the proceedings as a secondary intervenor alongside Energa Kogeneracja Sp. z o.o.

In a letter dated 27 April 2018, Mostostal Warszawa SA upheld its opposition and presented its further position. In the letter dated 13 June 2018, Mostostal Warszawa SA moved for a reversal of the evidence preservation decision and admission of evidence in the form of an opinion issued by a research and scientific institute in the normal course of proceedings, i.e. once the witnesses have been heard. Additionally, Mostostal Warszawa moved that the opinion be prepared by a foreign institute and indicated two institutes from the United Kingdom. Responding to the letter, Energa Kogeneracja Sp. z o.o. moved for a dismissal of the motion of Mostostal Warszawa SA to reverse the decision of 23 August 2017, amendment of the decision of 23 August 2017 to reflect further circumstances described in procedural writs, and should the motion of Mostostal Warszawa SA be granted and the decision of 23 August 2017 be reversed, Energa Kogeneracja Sp. z o.o. moved that the inquiry for an opinion be sent first to the Wrocław University of Technology, and only if it is refused, that an inquiry about the possibility of delivering an opinion be sent to foreign institutes, and to this end, Energa Kogeneracja listed 5 institutes, highlighting one from Denmark. With the letter of 7 September 2018, Energa Kogeneracja Sp. z o.o. expanded its statement of claim to include PLN 7,969,194.27 arising from contractual penalties for the failure to achieve the guaranteed availability of the Unit in the third year of operation.

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A hearing was held on 6 November 2018 where the Court granted the opposition of Mostostal Warszawa SA to the intervention of the State Treasury – the Minister for Energy. Energa Kogeneracja Sp. z o.o. filed an appeal against the decision. The State Treasury also filed an appeal against that decision. The appeals filed by Energa Kogeneracja Sp. z o.o. and the State Treasury were granted and, consequently, the opposition of Mostostal Warszawa SA was dismissed. The court summoned Energa Kogeneracja Sp. z o.o. to declare whether it withdrew its motion to preserve evidence from the examination of the expert/institute opinion due to completion of the Unit's renovation and absence of institutes in Poland willing to draft an opinion. With the letter of 8 July 2019, Energa Kogeneracja Sp. z o.o. upheld its motion to preserve evidence from examination of an expert/institute opinion and moved to the court to make enquiries with the designated foreign institutes relating to their willingness to draft opinions. The court decided to ask the Danish institute about the possibility of drafting an opinion in the case, the anticipated date of its drafting and the anticipated related costs.

The Danish institute failed to respond to the court's enquiry by 14 July 2020. The translations of the serving authority's letter and of the email messages accompanying the serving authority's letter have been submitted to the court.

The parties are currently engaged in negotiations to reach a settlement.

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**Mostostal Warszawa SA  
(plaintiff)  
Energa Kogeneracja Sp.  
z o.o. (defendant)**

**Claim for payment of remuneration**

*Regional Court in Gdańsk, file No. IX Gc 190/18*

Mostostal Warszawa SA moved to the court to award the amount of PLN 26,274,037.16 thereto from Energa Kogeneracja Sp. z o.o. as (partial) remuneration. On 2 February 2018, the Regional Court in Gdańsk issued a payment order under the writ of payment proceedings in the case, file No. IX GNc 125/18, in which the principal amount receivable awarded from Energa Kogeneracja to Mostostal Warszawa SA amounted to PLN 26,274,037.16.

In its objection to the payment order of 23 February 2018, Energa Kogeneracja Sp. z o.o. moved to dismiss the statement of claim in its entirety. In the letter of 22 June 2018, Mostostal Warszawa SA presented a settlement proposal (relating exclusively to interest payments). In the letter of 25 June 2018, Energa Kogeneracja Sp. z o.o. informed the court about lack of prospects for the settlement of the dispute.

At the hearing held on 22 July 2020, further witnesses were heard and the Court allowed the parties to submit an annex to the minutes of the hearing with a summary of the evidentiary hearings held to date until 31 August 2020.

The date of the next hearing shall be set by the Court.

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**Boryszewo Wind Invest  
Sp. z o.o. (plaintiff),  
Energa Obrót SA  
(defendant)**

**Claim for payment of damages for the failure by Energa Obrót SA to perform part of the agreement to purchase property rights in certificates of origin for renewable electricity.**

*Regional Court in Gdańsk, file No. IX GC 701/17*

On 25 August 2017, Boryszewo Wind Invest filed a statement of claim against Energa Obrót SA for payment of PLN 31,931,614.78 plus interest as damages for a failure to perform part of the Framework Agreement for the Sale of Property Rights under Certificates of Origin No. W/HH/210/2010/1, which consisted in making a representation about partial termination of the agreement and refusal to acquire property rights in the Certificates of Origin. The amount claimed comprises the "losses" incurred by the plaintiff due to the necessity to sell the property rights at the TGE exchange plus statutory interest (PLN 25,694,540.08) and incidental costs relating to debt service under a credit facility agreement (PLN 6,282,074.70). On 27 December 2017, a hearing was held at which Boryszewo Wind Invest withdrew the statement of claim with regard to the amount of PLN 150,000.00.

The first-instance judgment was passed on 28 November 2018. The court awarded PLN 17,796,755 plus statutory interest from 26 July 2017 from Energa Obrót to the Plaintiff and dismissed the remaining part of the statement of claim, i.e. concerning the amount of PLN 13,984,860, awarding the costs of proceedings amounting to PLN 58,596 from Energa Obrót to the Plaintiff.

On 5 February 2019, Energa Obrót filed an appeal.

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The second-instance judgment was passed on 28 October 2019. The court dismissed the appeal filed by Energa Obrót and awarded the costs of proceedings amounting to PLN 18,750 from the Defendant to the Plaintiff.

On 30 April 2020, the statement of grounds for the second-instance court judgment was received. The company is planning to file a cassation appeal against the judgment.

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**Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)**

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**Energa Obrót SA  
(plaintiff)**

**MEGAWATT BALTICA  
SA (defendant 1),  
Powszechna Kasa  
Oszczędności Bank  
Polski SA (defendant 2)**

*Court of Arbitration at the Polish Chamber of Commerce in Warsaw, file No. SA 128/17*

On 11 September 2017, Energa Obrót filed a statement of claim. The parties filed a response to the counterclaim. On 29 January 2018, a court session with Megawatt Baltica SA’s participation was held with respect to the summons for a settlement attempt. No settlement was signed.

An updated counterclaim was filed by Megawatt Baltica SA on 1 September 2018. The amount of the claim is PLN 16,969,401.36 including statutory penalty interest.

On 27 December 2018, the final judgment was issued whereby contractual penalties were awarded. The amount of the contractual penalties awarded was reduced by 10% (i.e. PLN 15,272,462).

On 26 September 2019, hearings were held regarding complaints for reversing the partial and final judgment.

The judgment dismissing the appeal filed by Energa Obrót against the final judgment was passed by the court on 10 October 2019. The court awarded the costs of proceedings amounting to PLN 2,417 from Energa Obrót SA to Megawatt Baltica SA. On 11 October 2019, Energa Obrót moved to the court to prepare written statements of grounds for the judgments. The company decided not to file the cassation appeal in the case of the appeal to reverse the partial judgment. On the other hand, the cassation appeal relating to the appeal to reverse the final judgment was filed on 17 February 2020.

On 24 March 2020, the opponent filed a response to the cassation appeal.

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**Energa Obrót SA  
(plaintiff)**

**EOLICA KISIELICE sp. z  
o.o. (defendant 1),  
RAIFFEISEN BANK  
POLSKA SA (defendant  
2)**

*Regional Court in Gdańsk, file No. IX GC 739/17*

On 11 September 2017, Energa Obrót filed a statement of claim.

On 12 March 2018, Raiffeisen Bank Polska SA filed a counterclaim for payment (the amount claimed: PLN 3,104,430). A settlement was signed on 22 July 2019. Energa-Obrót withdrew the statement of claim and Raiffeisen withdrew the counterclaim.

On 1 August 2019, the court decided to discontinue the proceedings regarding the primary claim and the counterclaim.

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**Energa Obrót SA  
(plaintiff)**

**PGE ENERGIA  
ODNAWIALNA SA  
(defendant)**

*Regional Court in Warsaw, file No. XX GC 839/17*

On 11 September 2017, Energa Obrót filed a statement of claim. On 25 April 2018, a hearing was held whereby PGE ENERGIA ODNAWIALNA SA filed a counterclaim for payment of contractual penalties (the amount claimed: PLN 9,175,362). The court referred the parties to mediation which did not lead to a settlement. Nonetheless, the parties continue to discuss the settlement. In the course of consecutive hearings, among other things, PGE ENERGIA ODNAWIALNA SA filed an expanded counterclaim for payment of contractual penalties, Energa Obrót filed a response to the statement of defence and the evidence from witness testimonies was examined.

On 5 November 2019, Energa Obrót SA filed a statement of defence to the expanded counterclaim. On 3 March 2020, Energa Obrót SA withdrew its statement of claim. On 9 March 2020, PGE Energia Odnawialna SA withdrew its counterclaim. On 12 March 2020, Energa Obrót withdrew its motion to the court to award the costs of legal proceedings in the counterclaim case.

On 27 February 2020, Energa Obrót SA made a settlement with PGE Energia Odnawialna SA and ended the disputes regarding three framework agreements for the sale of property rights under certificates of origin.

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On 12 March 2020, Energa Obrót SA withdrew its motion to award the costs of legal proceedings in the counterclaim case. The court ruled on discontinuation of the proceedings on 30 March 2020.

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**Energa Obrót SA**  
**(plaintiff)**  
**C&C WIND sp. z o.o.**  
**(defendant 1),**  
**Bank Ochrony**  
**Środowiska SA**  
**(defendant 2)**

*Court of Arbitration at the Polish Chamber of Commerce in Warsaw, file No. SA 127/17*

On 11 September 2017, Energa Obrót filed a statement of claim. The parties filed a response to the counterclaim. On 29 December 2017, Energa Obrót SA withdrew the statement of claim against BOŚ. In its decision of 16 January 2018, the Court of Arbitration at the Polish Chamber of Commerce in Warsaw discontinued the proceedings against the defendant BOŚ SA as the statement of claim filed against that entity had been withdrawn.

On 1 September 2018, C&C Wind Sp. z o.o. filed the updated counterclaim (the amount claimed is PLN 7,767,619.14 including statutory penalty interest).

On 10 October 2018, Energa Obrót paid the amount due on account of contractual penalties making a reservation that it was to be refunded 90% of the paid amount on the grounds of gross overstatement of contractual penalties. C&C Wind withdrew its counterclaim which Energa Obrót opposed with respect to the amount the refund of which it reserved. C&C Wind withdrew the withdrawal of the counterclaim for the amount opposed by Energa Obrót and changed the claim for payment to an action for declaration that Energa Obrót was not entitled to the refund of contractual penalties. On 27 December 2018, the court issued a judgment whereby it decided that C&C Wind was not required to refund the paid contractual penalties of PLN 6,578,480 to Energa Obrót.

On 8 March 2019, Energa Obrót filed an appeal seeking a reversal of the final judgment and C&C Wind Sp. z o.o. filed a response to that appeal on 6 August 2019.

On 19 June 2020, Energa Obrót SA submitted a procedural writ concerning the appeal for reversal of the partial judgment. The date of the hearing has not been set.

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**Energa Obrót SA**  
**(plaintiff)**  
**BORYSZEWO WIND**  
**INVEST Sp. z o.o.**  
**(defendant 1),**  
**mBank SA (defendant**  
**2)**

*Regional Court in Warsaw, file No. XVI GC 799/17*

On 11 September 2017, Energa Obrót filed a statement of claim. The parties filed a response to the counterclaim and exchanged procedural writs.

In September 2018, the court closed the court proceedings and issued a judgment dismissing the statement of claim, and Energa Obrót filed an appeal on 2 November 2018.

On 21 December 2018, Boryszewo Wind Invest filed a response to the appeal and mBank SA did so on 28 December 2018.

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**Energa Obrót SA**  
**(plaintiff)**  
**JEŻYCZKI WIND**  
**INVEST sp. z o.o.**  
**(defendant 1),**  
**mBank SA (defendant**  
**2)**

*Regional Court in Warsaw, file No. XVI GC 805/17*

On 11 September 2017, Energa Obrót filed a statement of claim. The parties submitted a response to the counterclaim and exchanged procedural writs. Thereafter, a hearing was held, during which, on 6 June 2018 the court issued a judgment dismissing the statement of claim, which the parties appealed against.

The appellate hearing has not been scheduled.

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**Energa Obrót SA**  
**(plaintiff)**  
**WIND INVEST sp. z o.o.**  
**(defendant 1),**  
**mBank SA (defendant**  
**2)**

*Regional Court in Warsaw, file No. XVI GC 798/17*

On 11 September 2017, Energa Obrót filed a statement of claim.

The judgment was pronounced on 19 September 2019. The court dismissed the statement of claim filed by Energa Obrót.

On 27 November 2019, Energa Obrót filed an appeal.

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<b>Energa Obrót SA (plaintiff) STARY JAROSŁAW WIND INVEST sp. z o.o. (defendant 1), mBank SA (defendant 2)</b>	<p><i>Regional Court in Warsaw, file No. XVI GC 802/17</i></p> <p>On 11 September 2017, Energa Obrót filed a statement of claim. On 17 November 2017, the defendants filed statements of defence, the parties exchanged procedural writs and the witnesses were heard.</p> <p>With its judgment of 24 September 2019, the court dismissed the action for declaration. On 17 December 2019, Energa Obrót filed an appeal against the judgment.</p> <p>On 19 March 2020, Stary Jarosław Wind Invest filed a response to the appeal.</p> <p>On 23 March 2020, mBank filed a response to the appeal.</p>
<b>Energa Obrót SA (plaintiff/counter- defendant) PGE ENERGIA ODNAWIALNA SA (defendant/counter- plaintiff)</b>	<p><i>Regional Court in Warsaw, file No. XX GC 842/17</i></p> <p>On 11 September 2017, Energa Obrót filed a statement of claim. On 27 March 2018, PGE Energia Odnawialna SA filed a statement of defence and the court referred the parties to mediation and appointed a mediator.</p> <p>The mediation procedure ended on 15 December 2018. The parties did not reach an agreement.</p> <p>On 22 May 2019, a hearing was held during which the court took evidence from a witness and PGE filed a counterclaim to which Energa Obrót filed a defence on 12 June 2019. The hearing scheduled for 4 September 2019 was postponed on the parties' joint motion motivated by settlement negotiations.</p> <p>On 3 March 2020, Energa Obrót withdrew its statement of claim. On 9 March 2020, PGE Energia Odnawialna SA withdrew its counterclaim. On 12 March 2020, Energa Obrót SA withdrew its motion to award the costs of legal proceedings in the counterclaim case.</p> <p>The settlement was signed on 27 February 2020.</p>
<b>Energa Obrót SA (plaintiff) KRUPY WIND INVEST sp. z o.o. (defendant 1), mBank SA (defendant 2)</b>	<p><i>Regional Court in Warsaw, file No. XVI GC 803/17</i></p> <p>On 11 September 2017, Energa Obrót SA filed a statement of claim. The parties filed statements of defence to the statement of claim. On 10 April 2019, the court held a hearing at which it heard the defendant and closed the proceedings. On 8 May 2019, the court passed a judgment dismissing the statement of claim against which Energa Obrót SA filed an appeal.</p> <p>On 14 August 2019, Krupy Wind Invest filed a response to the appeal. On 16 August 2019, mBank filed a response to the appeal.</p> <p>The appellate hearing scheduled for 17 April 2020 was cancelled due to the state of epidemic. The new hearing was set to take place on 27 August 2020.</p>
<b>Energa Obrót SA (plaintiff) PGE ENERGIA NATURY sp. z o.o. (defendant)</b>	<p><i>Regional Court in Warsaw, file No. XX GC 841/17</i></p> <p>On 11 September 2017, Energa Obrót filed a statement of claim.</p> <p>On 26 February 2018, the court referred the parties to mediation. The mediation procedure ended on 15 December 2018. The parties did not reach an agreement. Nonetheless, they continue discussing the settlement.</p> <p>On 20 August 2019, PGE ENERGIA NATURY Sp. z o.o. filed a counterclaim, to which Energa Obrót filed a defence on 14 November 2019.</p> <p>On 3 March 2020, Energa Obrót SA withdrew its statement of claim. On 9 March 2020, PGE Energia Odnawialna SA withdrew its counterclaim.</p> <p>On 12 March 2020, Energa Obrót SA withdrew its motion to award the costs of legal proceedings in the counterclaim case.</p> <p>The settlement was signed on 27 February 2020.</p> <p>The court ruled on discontinuation of the proceedings on 23 March 2020. The hearing scheduled for 28 May 2020 was cancelled.</p>

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<p><b>Energa Obrót SA</b> <b>(plaintiff)</b> <b>WINDVEST-POLAND</b> <b>sp. z o.o. (defendant 1),</b> <b>RAIFFEISEN BANK</b> <b>POLSKA SA (defendant</b> <b>2)</b></p>	<p><i>Regional Court in Warsaw, file No. XXVI GC 711/17</i></p> <p>On 11 September 2017, Energa Obrót filed a statement of claim.</p> <p>On 20 November 2019, the parties reached a settlement and Energa Obrót withdrew the statement of claim and moved for the proceedings to be discontinued.</p> <p>The court ruled on discontinuation of the proceedings on 20 January 2020.</p>
<p><b>Energa Obrót SA</b> <b>(plaintiff) –</b> <b>SAGITTARIUS</b> <b>SOLUTIONS sp. z o.o.</b> <b>(defendant 1),</b> <b>RAIFFEISEN BANK</b> <b>POLSKA SA (defendant</b> <b>2)</b></p>	<p><i>Regional Court in Warsaw, file No. XVI GC 804/17</i></p> <p>On 11 September 2017, Energa Obrót filed a statement of claim. The parties filed statements of defence and exchanged procedural writs, and witnesses were heard.</p> <p>The parties signed an out-of-court settlement on 8 May 2020.</p> <p>On 11 May 2020, Energa Obrót SA withdrew its statement of claim and moved to the court to discontinue the proceedings.</p>
<p><b>Energa Obrót SA</b> <b>(plaintiff/counter-</b> <b>defendant)</b> <b>EW CZYŻEWO sp. z o.o.</b> <b>(defendant 1/counter-</b> <b>plaintiff), BANK BGŻ</b> <b>BNP PARIBAS SA</b> <b>(defendant 2)</b></p>	<p><i>Regional Court in Gdańsk, file No. IX GC 736/17</i></p> <p>On 11 September 2017, Energa Obrót filed a statement of claim. With the statement of defence, EW Czyżewo sp. z o.o. filed a counterclaim.</p> <p>On 4 December 2018, the court issued a judgment dismissing the action for declaration and awarding contractual penalties in the amount of PLN 4,065,769 with statutory interest from Energa Obrót. Energa Obrót SA filed an appeal on 6 February 2019 and EW Czyżewo Sp. z o.o. and BGŻ BNP Paribas SA filed appeals on 18 March 2019.</p> <p>The judgment was pronounced on 28 November 2019 whereby the second-instance court revised the judgment of the first-instance court in such a way that it awarded PLN 2,439,461 (instead of PLN 4,065,769) plus statutory penalty interest from Energa Obrót to EW Czyżewo Sp. z o.o., dismissed the remaining part of the counterclaim and awarded the amount of PLN 62,160 as reimbursement of the costs of first-instance proceedings (instead of PLN 130,000) from Energa Obrót to EW Czyżewo Sp. z o.o. In the remaining part, the court dismissed the appeal and awarded from Energa Obrót to Bank BGŻ BNP PARIBAS SA the amount of PLN 11,250 on account of reimbursement of the cost of appellate proceedings and from EW Czyżewo Sp. z o.o. to Energa Obrót the amount of PLN 26,500 on account of reimbursement of the costs of appellate proceedings. A statement of the grounds for the judgment was requested.</p> <p>The statement of grounds for the judgment was received on 4 February 2020.</p> <p>The cassation appeal was filed on 6 April 2020.</p> <p>BGŻ BNP's response to the cassation appeal was served on 8 July 2020.</p>
<p><b>Energa Obrót SA</b> <b>(plaintiff),</b> <b>ELEKTROWNIA</b> <b>WIATROWA EOL sp. z</b> <b>o.o. (defendant 1),</b> <b>BANK ZACHODNI WBK</b> <b>SA (defendant 2)</b></p>	<p><i>Regional Court in Warsaw, file No. XXVI GC 712/17</i></p> <p>On 11 September 2017, Energa Obrót filed a statement of claim. On 6 February 2018, the court referred the parties to mediation and the defendants refused to mediate.</p> <p>With its judgment of 21 February 2020, the court dismissed the statement of claim filed by Energa Obrót. A statement of the grounds for the judgment was requested.</p> <p>The first-instance court judgment was served on 16 June 2020.</p>
<p><b>Energa Obrót SA</b> <b>(plaintiff),</b> <b>WIELKOPOLSKIE</b> <b>ELEKTROWNIE</b> <b>WIATROWE sp. z o.o.</b> <b>(defendant 1),</b> <b>BANK BGŻ BNP</b> <b>PARIBAS SA</b> <b>(defendant 2)</b></p>	<p><i>Regional Court in Gdańsk, file No. IX GC 735/17</i></p> <p>On 11 September 2017, Energa Obrót filed a statement of claim.</p> <p>On 6 December 2018, the court dismissed the action for declaration with its judgment. Energa Obrót filed an appeal.</p> <p>On 13 August 2019, the court pronounced a judgment dismissing the appeal by Energa Obrót SA and awarding the costs of legal representation to the defendants. The judgment is final and non-appealable.</p> <p>The judgment of the court of second instance with the statement of grounds was received on 5 June 2020.</p>

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<b>Energa Obrót SA (plaintiff) EW KOŹMIN sp. z o.o. (defendant 1), BANK BGŻ BNP PARIBAS SA (defendant 2)</b>	<p><i>Regional Court in Gdańsk, file No. IX GC 738/17</i></p> <p>On 11 September 2017, Energa Obrót SA filed a statement of claim. The defendant wind farm filed a counterclaim against the company for payment of contractual penalties.</p> <p>On 30 August 2018, the court issued a judgment dismissing the action for declaration and awarding contractual penalties. Energa Obrót filed an appeal.</p> <p>The appellate hearing, scheduled originally for 17 March 2020, was postponed until 1 June 2020 due to the existing epidemiological threat. An appellate hearing was held on 1 June 2020.</p> <p>On 24 June 2020, the Court of Appeal in Gdańsk pronounced a judgment whereby:</p> <ol style="list-style-type: none"><li>1. It revised the appealed judgment on the counterclaim for payment in such manner that:<ol style="list-style-type: none"><li>a. In item 1, it awarded from plaintiff/counter-defendant Energa Obrót SA in Gdańsk to plaintiff/counter-defendant EW Koźmin sp. z o.o. in Poznań<ul style="list-style-type: none"><li>• the amount of PLN 101,496.07 plus statutory penalty interest from 14 December 2017 until the payment date;</li><li>• the amount of PLN 273,385.25 plus statutory interest until the payment date; and</li><li>• the amount of PLN 746,017.24 plus statutory interest until the payment date;</li></ul>And it dismissed the counterclaim in the remaining scope.</li><li>b. In item 2, it awarded from plaintiff/counter-defendant Energa Obrót SA in Gdańsk to plaintiff/counter-defendant EW Koźmin sp. z o.o. in Poznań the amount of PLN 53,465 on account of reimbursement of the costs of legal proceedings.</li></ol></li><li>2. To dismiss the complaint to any remaining extent.</li><li>3. It awarded from the plaintiff to the defendant BNP Paribas Bank Polska SA in Warsaw the amount of PLN 11,250 as reimbursement of the costs of the appellate proceedings.</li><li>4. It awarded from defendant/counter-plaintiff EW Koźmin sp. z o.o. in Poznań to plaintiff/counter-defendant Energa Obrót SA in Gdańsk the amount of PLN 13,490 on account of reimbursement of the costs of the appellate proceedings.</li></ol>
<b>Energa Obrót SA (plaintiff/counter-defendant) WIATROWA BALTICA sp. z o.o. (defendant 1/counter-plaintiff), Raiffeisen Bank Polska SA (defendant 2)</b>	<p><i>Court of Arbitration at the Polish Chamber of Commerce in Warsaw, file No. SA 129/17</i></p> <p>On 11 September 2017, Energa Obrót filed a statement of claim. The defendants filed a statement of defence accompanied by a counterclaim.</p> <p>On 4 June 2018, the court issued a partial judgment dismissing the action for declaration filed by Energa Obrót.</p> <p>An updated counterclaim was filed by Raiffeisen Bank on 1 September 2018. The amount claimed was PLN 1,352,533.66 including statutory penalty interest.</p> <p>In its final judgment of 27 December 2018, the court awarded the amount of contractual penalties, reduced by 10% (i.e. PLN 1,019,280.31).</p> <p>On 8 March 2019, Energa Obrót filed an appeal seeking a reversal of the final judgment. The defendants did not file a response to the appeal and the date of the hearing was not set.</p>
<b>Wielkopolskie Elektrownie Wiatrowe sp. z o.o. (plaintiff), Energa Obrót SA (defendant)</b>	<p><i>Regional Court in Gdańsk, file No. IX GC 719/19</i></p> <p>On 14 August 2019, Wielkopolskie Elektrownie Wiatrowe (WEW) filed a statement of claim for payment by Energa Obrót SA of contractual penalties on account of failure to perform CPA.</p> <p>The court referred the parties to mediation and a mediation meeting took place on 14 January 2020. The parties did not reach an agreement.</p> <p>The mediation ended and no settlement was reached. The scheduling of the first hearing after the revoking of the state of epidemic is to be anticipated. Evidence (in the form of witness statements) shall be examined during the hearings.</p> <p>Energa Obrót filed a rejoinder on 19 May 2020. The court scheduled the hearing for 29 July 2020.</p>

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<b>Elektrownia Wiatrowa Zonda sp. z o.o (plaintiff), Energa Obrót SA (defendant)</b>	<i>Regional Court in Gdańsk, file No. IX GC 735/19</i> <p>On 19 August 2019, Elektrownia Wiatrowa Zonda filed a statement of claim for payment by Energa Obrót SA of damages on account of failure to perform CPA.</p> <p>On 8 October 2019, Energa Obrót filed a statement of defence.</p> <p>The court referred the parties to mediation. However, neither party consented thereto.</p> <p>A preparatory session was held on 31 January 2020 during which the time schedule of examination of witnesses was agreed. The scheduled dates of examination of witnesses and parties were cancelled due to the state of epidemic. The new dates were scheduled for 13–14 July 2020.</p>
<b>Elektrownia Wiatrowa EOL sp. z o.o. (plaintiff), Energa Obrót SA (defendant)</b>	<i>Regional Court in Gdańsk, file No. IX GC 740/19</i> <p>On 20 August 2019, Elektrownia Wiatrowa EOL filed a statement of claim for payment by Energa Obrót SA of contractual penalties on account of failure to perform CPA.</p> <p>On 23 September 2019, Energa Obrót filed a statement of defence, to which Elektrownia Wiatrowa EOL filed a response on 18 December 2019.</p> <p>On 23 January 2020, the Regional Court in Gdańsk decided to suspend the case for payment brought by Elektrownia Wiatrowa EOL Sp. z o.o. until final and non-appealable conclusion of the action for declaration (Regional Court in Warsaw, case file No. XXVI GC 712/17).</p>

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### 8.3. HR and payroll situation

#### Employment

As at 31 March 2020, the Energa Group employed the total of 9,938 persons compared to 9,957 as at the end of last year. The main reason for changes in the level of employment in H1 2020 (down by 19 people) was natural rotation. In Q2 2020, there were no significant changes in the level of employment (down by 4 people).

#### Collective dismissals

In H1 2020, Group companies did not carry out any collective dismissals as defined in the Act of 13 March 2003 on special rules for termination of employment contracts for reasons not attributable to employees.

#### Collective disputes

According to data provided by trade unions (on a semi-annual basis, in accordance with applicable law), trade unions had 5,845 Energa Group employees as at 30 June 2020.

As at 30 June 2020, there are two collective disputes in the Energa Group:

1. A collective dispute with Energa Elektrownie Ostrołęka SA (EEO SA) initiated by the demands of organizations of trade unions made on 22 August 2017 and on 8 September 2017 regarding, among others, the conclusion of a Collective Agreement covering the employees of EEO SA. The dispute is currently at the mediation stage.
2. A collective dispute with Elektrownia Ostrołęka SA (EEO SA) initiated by the demands of organisations of trade unions: made on 7 February 2019 regarding the introduction of Employee Pension Plans in Energa Elektrownia Ostrołęka SA. The dispute is currently at the mediation stage.

## MANAGEMENT BOARD REPRESENTATION AND INFORMATION

Gdańsk, 29 July 2020

The Management Board of Energa SA hereby informs and represents that:

- (1) according to the best knowledge, the Condensed interim consolidated and standalone financial statements and the comparative data were prepared in line with the accounting principles, and reflect, truly, reliably and clearly, the asset and financial position of the Energa Group and its financial result. Management Board Report on performance of the Energa Capital Group in the first half of 2020 gives a true view of the Group's development, achievements and condition, and includes a description of the key risks and threats;
- (2) KPMG Audyt Sp. z o.o. Sp.k., an entity authorized to audit financial statements, which reviewed the Condensed interim consolidated financial statements of the Energa Group and the Standalone interim financial statements of Energa SA for the first half of 2020 was selected in accordance with the applicable regulations. The said entity and the statutory auditors who reviewed the said statements met the conditions for expressing an unbiased and independent opinion on the reviewed interim condensed consolidated financial statement and reviewed interim condensed standalone financial statement, in accordance with the governing law and professional standards.

### Signatures of Energa SA Management Board Members

Jacek Goliński  
President of the Energa SA Management Board

Marek Kasicki  
Vice-President of the Energa SA Management Board for Finance

Dominik Wadecki  
Vice-President of the Energa SA Management Board for Operations

Iwona Waksmundzka-Olejniczak  
Vice-President of the Energa SA Management Board for Corporate Affairs

Adrianna Sikorska  
Vice-President of the Energa SA Management Board for Communication

Mikołaj Zwierzewski  
Director of the Finance Department

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## Glossary of terms and abbreviations

Biomass	Solid or liquid, biodegradable substances of plant or animal origin, originating from products, waste and residues from agriculture, forestry and related industries, as well as the biodegradable fraction of other waste, in particular agricultural raw materials
CAPEX	Capital expenditures
Certificate of origin from co-generation	A document issued by the President of the URE pursuant to Article 9I of the Energy Law confirming that electricity has been generated in high-efficiency co-generation in: (i) a gas-fired co-generation unit or a co-generation unit with a total installed electrical capacity at source under 1 MW (known as the yellow certificate), (ii) a co-generation unit fired by methane released and captured during deep mining operations in coal mines (open, in liquidation or closed), or gas obtained by processing biomass, (known as a purple certificate), or (iii) another co-generation unit (known as a red certificate)
Certificate of origin from renewable energy sources, green certificate	A document issued by the President of the URE pursuant to Article 9e of the Energy Law confirming that electricity has been generated from a renewable energy source (known as a green certificate)
CIRS, CCIRS (Currency Interest Rate Swap, Cross-Currency Interest Rate Swap)	Currency Interest Rate Swap and Cross-Currency Interest Rate Swap transactions in which payments are made over a specified period with a prescribed frequency, based on variable interest rates, in two different currencies (CIRS) or in more currencies (CCIRS)
Co-firing	Electricity or heat generation based on a joint, simultaneous process of biomass or biogas combustion with other fuels in one device; part of the energy generated in the above manner may be considered as energy produced from a renewable energy source
Co-generation, CHP	An engineering process of simultaneous production of heat and electrical or mechanical energy in the course of the same engineering process
CO <sub>2</sub>	Carbon dioxide
DSO, Distribution System Operator	A utility company distributing gaseous fuels or electricity, responsible for grid operation in a gas or electricity distribution system, current and long-term operational safety of the system, operation, maintenance, repairs and the necessary expansion of the distribution network, including connections to other gas or electricity systems
EIB	European Investment Bank
EBITDA (Earnings before interest, taxes, depreciation and amortization)	Energa SA defines EBITDA as operating profit/loss plus depreciation/amortisation and impairment of non-financial non-current assets.
EBIT (earnings before interest and taxes)	Operating profit
EBOR	European Bank for Reconstruction and Development
Energa SA, Energa	Parent company in the Energa Group of Companies
Energa Operator, EOP	Energa Operator SA – a subsidiary of Energa SA and the Leading Entity of the Distribution Business Line in the Energa Group.
Energa Obrót, EOB	Energa Obrót SA – a subsidiary of Energa SA and the Leading Entity of the Sales Business Line in the Energa Group
EMTN	The Euro Medium Term Notes programme
EUR	Euro, currency used in European Union's eurozone countries

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Energa Group of Companies, Energa Group	A Group of Companies engaged in distribution, trade and generation of electricity and heat. It also conducts activity related to street lighting, design, procurement of materials, grid-related services, specialized transport, hotel and IT services
GDP	Gross Domestic Product
GUS	Central Statistical Office
GW	Gigawatt, unit of power in the International System of Units, 1 GW = 10 <sup>9</sup> W
GWe	Gigawatt of electrical power
GWh	Gigawatt hour
IRS (Interest Rate Swap)	An interest rate swap agreement between two parties, under which the parties pay interest to each other on a contractual nominal amount calculated according to a different interest rate
KRS	National Court Register (Krajowy Rejestr Sądowy)
kWh	Kilowatt hour, unit of electricity generated or used by a 1 kW device in an hour; 1 kWh = 3,600,000 J = 3.6 MJ
MW	Unit of power in the International System of Units, 1 MW = 10 <sup>6</sup> W
MWe	Megawatt of electrical power
MWh	Megawatt hour
NIB	Nordic Investment Bank
OR	Operating reserve
OZEX_A	Volume-weighted average price for all transactions pertaining to the PMOZE_A contract on an exchange session
PLN	Polish zloty; national currency
PMI	Industrial economic activity index calculated by Markit in cooperation with HSBC
Polish Power Exchange, TGE	Towarowa Giełda Energii SA, a commodity exchange where admitted commodities are traded, i.e. electricity, liquid and gaseous fuels, mine gas, pollution emission allowances and property rights arising from certificates of origin, whose price depends directly or indirectly on the price of electricity, liquid or gaseous fuels and the volume of pollution emissions.
Property rights	Transferable rights constituting a commodity arising from certificates of origin for renewable energy and energy from co-generation
PSE	Polskie Sieci Elektroenergetyczne Spółka Akcyjna with its registered office in Warsaw, entered in the Register of Entrepreneurs of the National Court Register under KRS No. 0000197596; a company designated by the President of the URE's decision No. DPE-47-58(5)/4988/2007/BT of 24 December 2007 to operate as the Electricity Transmission System Operator in the Republic of Poland in the period from 1 January 2008 to 1 July 2014
QoQ	quarter on quarter
RAB	Regulatory Asset Base
Renewable energy sources, RES	Sources converting the energy of wind, solar radiation, geothermal energy, waves, currents and marine tides, run of rivers and energy obtained from biomass, landfill biogas as well as biogas from sewage discharge or treatment processes or the decomposition of plant and animal remains to generate electricity
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SPOT	Day-Ahead Market (DAM): an energy market operating in the "day ahead" time interval (DA) supplying energy on day D
Tariff group	Group of customers off-taking electricity or heat or using electricity or heat supply services with respect to which a single set of prices or fee rates along with their terms and conditions are applicable
Tariff G	A tariff group for individual customers – households
TPA (Third Party Access)	The rule which means the ability to use the power grid of a power company without an obligation to buy electricity from that company
TWh	Terawatt hour, a multiple of the SI unit of electricity. 1 TWh equals 10 <sup>9</sup> kWh.
URE	Energy Regulatory Office
WACC	Weighted average cost of capital
WIBOR	Warsaw Interbank Offered Rate

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WSE	Warsaw Stock Exchange
YoY	year on year