



# Information to the condensed consolidated report of the Energa Group for Q3 2020

Gdańsk, 5 November 2020

Table of contents:

<b>1. SUMMARY</b>	<b>3</b>
<b>2. KEY INFORMATION ABOUT ENERGA GROUP</b>	<b>6</b>
2.1. Activities and structure of the Group	6
2.2. Material events in the reporting period and after the balance sheet date	6
2.3. Capital expenditures and execution of key projects	8
<b>3. FINANCIAL AND ASSETS SITUATION</b>	<b>12</b>
3.1. Principles used in the preparation of the quarterly consolidated financial statements	12
3.2. Explanation of the economic and financial data disclosed in the condensed consolidated financial statements	12
3.3. Structure of assets and liabilities in the consolidated statement of financial position	18
3.4. Description of significant off-balance sheet items	19
3.5. Projected financial results	19
3.6. Factors affecting the Energa Group's performance within at least the next quarter	19
<b>4. ACTIVITIES OF THE ENERGA GROUP'S BUSINESS LINES</b>	<b>21</b>
4.1. Distribution Business Line	21
4.1.1. Key operational data	21
4.1.2. Financial results	22
4.2. Generation Business Line	24
4.2.1. Key operational data	24
4.2.2. Financial results	25
4.3. Sales Business Line	29
4.3.1. Key operating data	29
4.3.2. Financial performance	30
<b>5. REGULATORY AND BUSINESS ENVIRONMENT</b>	<b>33</b>
5.1. Macroeconomic situation	33
5.2. Electricity market in Poland	35
5.3. Regulatory environment	40
<b>6. SHARES AND SHAREHOLDING STRUCTURE</b>	<b>43</b>
6.1. Information on shares and Energa's shareholding structure	43
6.2. Prices of the Company's shares and recommendations awarded	43
6.3. Ratings	44
6.4. Changes to shares held by executive and supervisory personnel	44
<b>7. OTHER INFORMATION ON THE GROUP</b>	<b>46</b>
7.1. Information on material contracts and agreements	46
7.2. Risk Management	46
7.3. Proceedings pending before courts, arbitration or public administration bodies	47
7.4. Headcount in the Group	52
7.5. Collective disputes and collective dismissals	52
List of tables	54
List of figures	54
Glossary of terms and abbreviations	55

## 1. SUMMARY

### ENERGA GROUP IN 9M 2020



One of the leading energy groups and a reliable supplier of electricity and services for nearly ¼ of Poland, with a 47% share of RES in own production.

#### Financial data

Revenues	EBITDA	EBITDA margin
PLN 9,175 m	PLN 1,556 m	17.0%




#### Renewable energy sources

Installed capacity	RES production	
532 MWe	1,029 GWh	




#### Operating data

Volume of electricity supplied	Gross electricity production	Retail sales
 <b>16.1 TWh</b>	 <b>2.2 TWh</b>	 <b>13.9 TWh</b>

#### Basic facts for investors

Capitalization*	Share price*	Member of indices, including*:	Fitch's rating of Energa*
PLN 3.4 bn	PLN 8.3	  	BBB-

\*at the end of Q3 2020

Key resources		
Length of distribution network	Installed capacity	Employees
191 k km 	1.38 GWe of which 39% are RES 	9.8 k 



-  Heating plant
  -  Coal
  -  Pumped-storage power plant
  -  System power plant
  -  Small hydro power plant
  -  Big hydro power plant
  -  CHP
  -  Wind farm
  -  Photovoltaic farm
  -  Biomass-fired installation
-  Headquartered ENERGA SA
-  Electricity distribution area
-  Electricity sales area

Key Business Lines		
Distribution	Generation	Sales
		
EBITDA: PLN 1,352 m	EBITDA: PLN 135 m	EBITDA: PLN 114 m

Investments			
PLN 1,189 m	New customers	Upgrade of high-, medium- and low-voltage lines	New RES
Of which Distribution: PLN 897 m	45 thousand	2,219 km	470 MW



Hydro power plant Żelkowo

## Key information about Energa Group

## 2. KEY INFORMATION ABOUT ENERGA GROUP

### 2.1. Activities and structure of the Group

The core business of the Energa Group ("Group") involves the distribution, generation and the sale of electricity and heat. As at 30 September 2020, the Energa Group consisted of 23 companies, including its parent company, Energa SA ("Energa", "Company").

Activities of the Group concentrate on the following business lines:

**Distribution Business Line.** This is the Business Line of key importance to the Group's profitability, involved in the distribution of electricity (which is a regulated activity in Poland) conducted on the basis of tariffs approved by the President of the Energy Regulatory Office ("ERO"). Energa Operator SA acts as the Leading Entity in this Line. 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 million customers, approximately 3.0 million of whom are customers with universal agreements and 180 thousand are TPA (Third Party Access) customers. At the end of September 2020, the total length of the power lines operated by the Group was 191 thousand km and covered almost 75 thousand sq. km, i.e. approximately 24% of the area of Poland.

**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 September 2020, the total installed generation capacity in the Group's power plants was approx. 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 electricity from renewable energy sources in the total energy generated, primarily to the generation of energy by its hydro power plants and wind power plants. Green energy is produced by 46 hydropower plants, 6 wind farms, as well as biomass-fired installations (as part of Energa Elektrownie Ostrołęka and Energa Kogeneracja entities) and 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, and to households. As at the end of September 2020, the Energa Group had 3.1 m customers, including 2.8 m classified as G tariff customers, with the remainder being customers from tariff groups: C, B and A, in a decreasing order.

### Changes in the Group's structure and organization

In Q3 2020 there were no changes in the structure of the Group.

### 2.2. Material events in the reporting period and after the balance sheet date

The key events in the first half of 2020 have been presented in the *Management Board Report on performance of the Energa Capital Group in the first half of 2020*. The material events in Q3 2020 and after the balance sheet date have been presented below.

#### **Signing of a letter of intent between PKN ORLEN SA and PGNiG SA concerning analysis of the prospects for carrying out joint investment projects relating, among other things, to CCGT in Ostrołęka**

On 3 September 2020, a letter of intent was signed between PKN ORLEN SA ("PKN ORLEN") and PGNiG SA ("Parties") in which the parties declared their intention to engage in discussions to analyze the prospects for carrying out joint investment projects, namely the construction of a gas-fired power plant and the construction of a biogas plant ("Projects"). The Projects include construction of a net 750 MW CCGT unit in Ostrołęka by the end of 2024 as well as analytical and development works relating to biogas generation with ultimate creation of a technological, scientific, legal and economic basis for the establishment of a network of biogas plants with a capacity of approx. 2 MW to 2.2 MW each by the end of 2025. Joint investment in construction of the gas-steam generating unit shall be subject to additional arrangements with the parties to the agreement of 2 June 2020 referred to in Energa's Current Report No. 51/2020 of 2 June 2020.

According to the provisions of the Letter of Intent, the Parties shall hold talks to agree the underlying assumptions and terms and conditions of the Projects as well as the content of the Agreements, in particular as regards:

- establishing legal and technical conditions for implementation of the Projects by the parties, as well as any other factors that may be relevant from the point of view of the Projects' feasibility;

- agreeing the principles of the Projects' funding;
- in the case of construction of a gas-fired power plant: preparing a joint-venture agreement governing the principles of the Parties' co-operation in carrying out the Project; and
- agreeing the remaining terms and conditions of co-operation.

### **Initiation of the process leading to the purchase by PKN ORLEN of all Energa shares held by minority shareholders**

On 21 September 2020, PKN ORLEN announced a tender offer (the so-called delisting tender offer) to subscribe to the sale of the shares issued by Energa for all remaining shareholders of Energa ("Tender Offer"). The tender offer was announced pursuant to Article 91(5) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (i.e. of 22 February 2019; Journal of Laws of 2019, item 623, as amended) ("Act").

The subject of the Tender Offer are the Company's AA series 82,754,032 dematerialized ordinary bearer shares with the nominal value of PLN 10.92 each, where one AA series share carries one vote at Energa's general meeting, carrying a total of up to 82,754,032 votes at Energa's general meeting, admitted and introduced to trading in a regulated market operated by the Warsaw Stock Exchange.

The Tender Offer was announced subject to adoption by Energa's general meeting of the resolution on withdrawal of the Company's shares from trading (delisting). On 29 October 2020, the Extraordinary General Meeting of the Company decided to withdraw Energa's shares from stock exchange trading.

Subscriptions for the shares began on 9 October 2020 and are scheduled to end on 20 November 2020.

As at the date of publication of this document, PKN ORLEN holds approx. 80% of shares in the Company's share capital, which corresponds to approx. 85% of share in the overall number of votes at Energa's general meeting, which were purchased by PKN ORLEN as a result of settlement of the transaction to purchase shares covered by subscriptions as part of the tender offer to subscribe to the sale of the Company's shares, announced on 5 December 2019 (the details of the tender offer have been presented in the *Management Board Report on performance of the Energa Capital Group in the first half of 2020*).

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

The impact of the coronavirus pandemic on the performance of the Energa Group in Q3 2020 has been presented in the Condensed interim consolidated financial statements of the Energa Group for the nine-month period ended on 30 September 2020.

### **Signing a letter of intent between Energa, PKN ORLEN and LOTOS Group S.A. concerning analysis of possibilities of realization of common investment**

On 2 November 2020 there has been signed a letter of intent between the Company, PKN ORLEN and LOTOS Group S.A. ("Letter of intent"), ("Parties"), in which the Parties declared the will to start the common talks to analyze possibilities and conditions of common investment, i.e. building a gas-steam power plant in Gdansk by July 2026 ("Project"). The scope of Project includes analysis and choice of the optimal configuration of the plant (technology, efficiency, power) and its location.

According to provisions of the Letter of intent the Parties will conduct talks to agree the assumptions and conditions of the Project regarding mainly the following issues:

- To agree law and technical conditions to realize the Project by the Parties as well as any other factors that could influence the Project realization;
- To agree rules of financing of the Project;
- In case of gas-steam power plant building: preparing a joint venture agreement regulating rules of cooperation of the Parties in Project realization;
- To agree other conditions of the Project realization.

The signed Letter of intent, binds the Parties by the time the certain agreements are concluded, however not later than 31 December 2021.

## 2.3. Capital expenditures and execution of key projects

During the first 9 months of 2020, capital expenditures at Energa Group totalled PLN 1,189 m, up by PLN 81 m, or 7%, from the same period last year. Investments made in the Distribution Business Line accounted for 75% of the total expenditures made by the Group and amounted to PLN 897 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 the Generation Business Line, capital expenditures totalled PLN 232 m, a significant portion of which were outlays for construction of the new Wind Farm Przykona and alignment with environmental requirements at Ostrołęka B Power Plant.

The Sales Business Line, in turn, allocated PLN 33 m to investments, most of which was spent on work related to lighting assets.

**Table 1: Status of the investment program as at 30 September 2020**

Project description	Capital expenditure in 9M 2020
<b>Distribution Business Line</b>	<b>897</b>
Modernisation of the distribution net-work to improve the reliability of supply	288
Grid development related to connection of new customers	377
Grid development related to flows in the high-voltage grid and connection of EE sources	56
Other capital expenditures, collisions and adjustments	176
<b>Generation Business Line</b>	<b>232</b>
Ostrołęka B Power Plant (Construction of IOS II)	123
Przykona Wind Farm	53
Upgrading hydro power plants	14
Modernization of sources and networks for cogeneration sources	7
Other capital expenditures	35
<b>Sales Business Line</b>	<b>33</b>
Capital expenditures for lighting assets	18
Sales Support System	2
Other capital expenditures	13
<b>Other companies, projects and adjustments</b>	<b>27</b>
<b>Total</b>	<b>1,189</b>

### 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.

Currently, site and commissioning works for the new installation will continue and the planned completion date of the investment is Q4 2020.



## **Energy storage facility in Bystra**

The investment is part of a Polish-Japanese project with the participation of the Energa Group and Polskie Sieci Elektroenergetyczne (PSE).

The BESS hybrid energy storage is the largest energy storage in Poland, which uses lithium-ion batteries with high output power in combination with lead-acid batteries. The use of these two technologies allows to achieve high efficiency in the function of minimizing costs. The warehouse tests will enable the assessment of the effectiveness of this solution in "smoothing" short-term fluctuations in active power generated by the wind farm and providing the necessary power reserve to balance the electricity demand ("load balancing").

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

On 25 September 2020, the second phase of tests of a hybrid electric energy storage with a target capacity of 6 MW and nominal capacity of 27 MWh was completed, and the final acceptance of the works was carried out.

## **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. In terms of design works, the last key construction project is currently being finalized, including updating the documentation for the 400kV power take-off point and the reconstruction of the 110kV line, obtaining the final decision on granting building permits for these scopes of works is expected for Q2 / Q3 2021. A tender procedure was launched to select a general contractor for the power plant (EPC & LTSA tender). Finally, on 31 August, 2020, the tender procedure was canceled. Project implementation depends on the ownership decisions and the macroeconomic environment. Currently, actions are being taken to maintain the feasibility of the project, understood as securing the validity of the project products developed so far, while avoiding spending significant amounts.

CCGT Gdańsk - an environmental decision was obtained for the 400kV power take-off point from the planned power plant, actions are continued to secure the rights to the property for power take-off from the planned power plant. On 2 November 2020, a letter of intent was signed with PKN ORLEN and LOTOS Group S.A. on the analysis of the possibility of implementing a joint investment.

## **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.

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.

## **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.

## **Investment program in CHP area**

The key objective of the investment program is to adapt the cogeneration and heat units to the tightening environmental requirements and to increase EBITDA.

The maximization of EBITDA will be achieved through the implementation of the heating development program for CHP Elbląg and CHP Kalisz, which will result in a change of fuel source from hard coal to gas while maintaining the position on the heat markets in Elbląg and Kalisz.

### **Gryf Photovoltaic Farm**

The aim of the project is to build a 19.83 MW photovoltaic farm and prepare to participate in the 2020 RES auction. If the auction is won, the investment will be put into operation by the end of 2021. The farm is being built in the commune of Przykona, on the land reclaimed after the Adamów lignite opencast mine.

### **Mitra Photovoltaic Farm**

The aim of the project is to prepare, build and putting into operation a photovoltaic installation consisting of a set of photovoltaic power plants with a total installed capacity of approx. 100 MW, 50 electric power stations 30/0.8 kV, HV 110 kV power connection with fiber optic tract, GPO 110 / 30 kV, MV 30 kV cable lines and telecommunication lines, grounding and internal road system with full accompanying infrastructure.

### **Wielbark Photovoltaic Farm (acquisition project)**

Purchase of 100% of shares in the company PV Wielbark sp.z o.o., which includes the currently implemented investment of building a photovoltaic farm in Borki Wielbarskie (Wielbark commune, Szczycieński district, Warmian-Masurian Voivodeship). The target installed capacity of this farm will be 62 MWe, of which 8 MWe has been completed so far.



Photovoltaic farm in Bystra

## Financial and assets situation

### 3. FINANCIAL AND ASSETS SITUATION

#### 3.1. Principles used in the preparation of the quarterly consolidated financial statements

The Condensed interim consolidated financial statements of the Energa Group for the nine-month period ended on 30 September 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.

Accounting principles (policy) applied to preparation of the Condensed interim consolidated financial statements were presented in Note 7 to the Condensed interim consolidated financial statements of the Energa Group for the nine-month period ended on 30 September 2020.

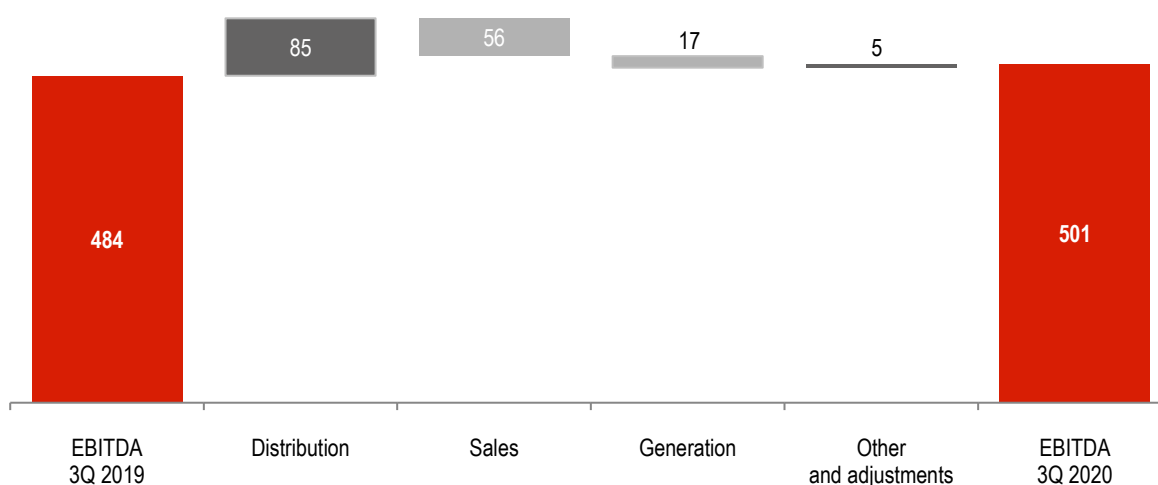
#### 3.2. Explanation of the economic and financial data disclosed in the condensed consolidated financial statements

Table 2: Consolidated statement of profit or loss (PLN m)

	Q3 2019	Q3 2020	Change	Change (%)
<b>Sales revenues</b>	<b>2,952</b>	<b>3,030</b>	<b>78</b>	<b>3%</b>
<b>Revenue from the Price Difference Refund Fund</b>	<b>83</b>	<b>-</b>	<b>(83)</b>	<b>-100%</b>
Cost of sales	(2,624)	(2,654)	(30)	1%
<b>Profit or loss from sale before tax</b>	<b>411</b>	<b>376</b>	<b>(35)</b>	<b>-9%</b>
Other operating income	47	58	11	23%
Selling and distribution expenses	(95)	(83)	12	-13%
General and administrative expenses	(90)	(88)	2	-2%
Other operating expenses	(52)	(27)	25	-48%
<b>Operating profit or loss</b>	<b>221</b>	<b>236</b>	<b>15</b>	<b>7%</b>
Result on financial activity	(92)	(105)	(13)	14%
Share in profit/(loss) of the entities measured by the equity method	11	2	(9)	-82%
<b>Profit or loss before tax</b>	<b>140</b>	<b>133</b>	<b>(7)</b>	<b>-5%</b>
Income tax	(37)	(48)	(11)	30%
<b>Net profit or loss for the period</b>	<b>103</b>	<b>85</b>	<b>(18)</b>	<b>-17%</b>
<b>EBITDA</b>	<b>484</b>	<b>501</b>	<b>17</b>	<b>4%</b>

	9M 2019	9M 2020	Change	Change (%)
<b>Sales revenues</b>	<b>8,472</b>	<b>9,172</b>	<b>700</b>	<b>8%</b>
<b>Revenue from the Price Difference Refund Fund</b>	<b>593</b>	<b>3</b>	<b>(590)</b>	<b>-99%</b>
Cost of sales	(7,906)	(8,503)	(597)	8%
<b>Gross profit on sales</b>	<b>1,159</b>	<b>672</b>	<b>(487)</b>	<b>-42%</b>
Other operating income	195	255	60	31%
Selling and distribution expenses	(283)	(275)	8	-3%
General and administrative expenses	(270)	(277)	(7)	3%
Other operating expenses	(126)	(76)	50	-40%
<b>Operating profit</b>	<b>675</b>	<b>299</b>	<b>(376)</b>	<b>-56%</b>
Result on financial activity	(249)	(563)	(314)	> 100%
Share in profit/(loss) of the entities measured by the equity method	27	(269)	(296)	< -100%
<b>Profit or loss before tax</b>	<b>453</b>	<b>(533)</b>	<b>(986)</b>	<b>&lt; -100%</b>
Income tax	(98)	(149)	(51)	52%
<b>Net profit or loss for the period</b>	<b>355</b>	<b>(682)</b>	<b>(1,037)</b>	<b>&lt; -100%</b>
<b>EBITDA</b>	<b>1,742</b>	<b>1,556</b>	<b>(186)</b>	<b>-11%</b>

Figure 1: EBITDA bridge by Business Lines (PLN m)



In Q3 2020, the Group's EBITDA was PLN 501 m, up by 4% in comparison with the corresponding period of the preceding year.

The Distribution Business Line had a positive impact on EBITDA (which increased by PLN 85 m YoY); it was owed primarily to a higher margin on distribution (grid losses included), in relation to a higher average selling price of the distribution service and a higher volume.

The Sales Business Line had an adverse effect on EBITDA (down by PLN 56 million YoY), which was mainly driven by the decrease in the margin on electricity sales (down by PLN 81 m YoY). The margin decline was mainly driven by two factors, notably the need to sell electricity to some households at disadvantageous pricing terms under a tariff approved by the President of the Energy Regulatory Office as well as lower margins in the business customer segment. In Q3 2020, a portion of the specific provision (raised at the end of 2019) was used, which partially compensated the negative impact of the tariff on the Business Line's financial results in the reporting period.

The Generation Business Line also reported a lower EBITDA (down by PLN 17 m YoY), which was mainly related to decreased revenues from electricity sales, heat sales and distribution, and system services provided to the Transmission System Operator, partially offset by the lower cost of consumption of key production fuels.

In the third quarter of 2020, the Distribution Business Line had the greatest share in the Group's EBITDA (82%). The Generation Business Line and Sales Business Line had a share of 7% and 12%, respectively.

In the third quarter of 2020, operating profit was PLN 236 m compared to PLN 221 m in the corresponding period of 2019. The YoY change in EBIT was primarily affected by the operating factors described above.

The Group's net profit in Q3 2020 amounted to PLN 85 million versus PLN 103 million in the corresponding period of 2019. Higher financial costs (the outcome of valuation of the block of shares of Polimex Mostostal S.A. held by the Energa Group and the related impairment write-down) also contributed to the decline in the YoY result.

In Q3 2020, the Group's sales revenues were PLN 3,030 m, close to the level recorded in the same period of 2019. The Distribution Business Line recorded the highest improvement, mainly courtesy of an increase in the average price of the distribution service year-on-year. By contrast, the Sales Business Line saw a decline in revenues. The main reason for the decline was related to a higher sales volume, particularly on the wholesale market.

The Group's EBITDA in the first 9 months of 2020 was PLN 1,556 m versus PLN 1,742 m in the corresponding period of 2019. The Sales Business Line reported a decline in the result by PLN 144 m, primarily due to a decrease in margin on electricity sale (down by PLN 179 m). Two adverse factors contributed to the decline, i.e. COVID-19 pandemic and the need to sell electricity to some households at disadvantageous pricing terms under a tariff approved for 2020.

Lower revenue from the sale of electricity and system services provided to PSE were reflected in the lower YoY performance of the Generation Business Line, which saw a decline by PLN 91 m YoY.

The Distribution Business Line reported an increase in EBITDA by PLN 49 m year-on-year; it was mainly the effect of a one-off event, following the change in the recognition of the infrastructure obtained free of charge, due to the alignment of the accounting policy with the policy applied by ORLEN Group.

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

**Table 3: EBITDA after material one-off events\* (PLN m)**

Q3 2020	
<b>EBITDA</b>	<b>501</b>
<b>Adjusted EBITDA</b>	<b>516</b>
<i>including:</i>	
<i>Provision for onerous contracts</i>	<i>(28)</i>
<i>Revenue loss due to G Tariff</i>	<i>44</i>
Q3 2019	
<b>EBITDA</b>	<b>484</b>
<b>Adjusted EBITDA</b>	<b>475</b>
<i>including:</i>	
<i>Provision for onerous contracts (reversal)</i>	<i>(23)</i>
<i>Effect of the Act "on energy prices in 2019" (for Q3 2019)</i>	<i>(20)</i>

9 months of 2020	
<b>EBITDA</b>	<b>1,556</b>
<b>Adjusted EBITDA</b>	<b>1,632</b>
<i>including:</i>	
Provision for onerous contracts	(95)
Revenue loss due to G Tariff	140
Estimated impact of COVID-19	100
Change of recognising the infrastructure obtained free of charge (alignment of the accounting policy with PKN ORLEN Group)	(87)
9 months of 2019	
<b>EBITDA</b>	<b>1,742</b>
<b>Adjusted EBITDA</b>	<b>1,708</b>
<i>including:</i>	
Actuarial reserves	27
Provision for onerous contracts (reversal)	(110)
CPA – provision for disputes	31

\* The table presents non-recurring items identified on the basis of the criterion of materiality, which was set at PLN 25 m. In the case of impact of the Act on Energy Prices in 2019, the criterion of materiality was not applied given the importance of the matter.

**Table 4: Consolidated statement of financial position (PLN m)**

	As at 31 December 2019	As at 30 September 2020	Change	Change (%)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	14,262	14,252	(10)	-0%
Intangible assets	223	226	3	1%
Right-of-use assets	847	826	(21)	-2%
Goodwill	11	11	-	-
Investments in associates and joint ventures measured by the equity method	336	102	(234)	-70%
Deferred tax assets	262	315	53	20%
Other non-current financial assets	190	25	(165)	-87%
Other non-current assets	144	143	(1)	-1%
	<b>16,275</b>	<b>15,900</b>	<b>(375)</b>	<b>-2%</b>
<b>Current assets</b>				
Inventories	756	1,014	258	34%
Current tax receivables	61	7	(54)	-89%
Trade receivables	1,489	1,968	479	32%
Contract assets	313	-	(313)	-100%
Other current financial assets	203	294	91	45%
Cash and cash equivalents	1,461	208	(1,253)	-86%

Other current assets	409	205	(204)	-50%
	<b>4,692</b>	<b>3,696</b>	<b>(996)</b>	<b>-21%</b>
<b>TOTAL ASSETS</b>	<b>20,967</b>	<b>19,596</b>	<b>(1,371)</b>	<b>-7%</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	4,522	4,522	-	-
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)	(119)	(67)	< -100%
Retained earnings	1,730	1,455	(275)	-16%
<b>Equity attributable to equity holders of the Parent Company</b>	<b>9,253</b>	<b>8,540</b>	<b>(713)</b>	<b>-8%</b>
<b>Non-controlling interest</b>	<b>11</b>	<b>(38)</b>	<b>(49)</b>	<b>&lt; -100%</b>
	<b>9,264</b>	<b>8,502</b>	<b>(762)</b>	<b>-8%</b>
<b>Non-current liabilities</b>				
Loans and borrowings	2,047	1,789	(258)	-13%
Liabilities on account of the issue of debt securities	2,326	2,472	146	6%
Non-current provisions	786	854	68	9%
Deferred tax liabilities	738	784	46	6%
Deferred income and non-current grants	296	210	(86)	-29%
Liabilities under lease	637	633	(4)	-1%
Other non-current financial liabilities	82	14	(68)	-83%
Contract liabilities	-	11	11	-
	<b>6,912</b>	<b>6,767</b>	<b>(145)</b>	<b>-2%</b>
<b>Current liabilities</b>				
Trade liabilities	802	723	(79)	-10%
Contract liabilities	139	128	(11)	-8%
Current loans and borrowings	393	1,956	1,563	> 100%
Liabilities on account of the issue of debt securities	2,219	22	(2,197)	-99%
Deferred income and grants	188	165	(23)	-12%
Short-term provisions	583	971	388	67%
Other financial liabilities	235	223	(12)	-5%
Other current liabilities	232	139	(93)	-40%
	<b>4,791</b>	<b>4,327</b>	<b>(464)</b>	<b>-10%</b>
<b>Total liabilities</b>	<b>11,703</b>	<b>11,094</b>	<b>(609)</b>	<b>-5%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>20,967</b>	<b>19,596</b>	<b>(1,371)</b>	<b>-7%</b>



As at 30 September 2020, the balance sheet total of Energa Group was PLN 19,596 m, down by PLN 1,371 m compared to the year-end figure for 2019.

As regards non-current assets, the greatest change was seen in the Investments in associated entities and joint ventures valued with the equity method, which was mainly due to the impairment charges of investments in a joint venture in Polska Grupa Górnicza SA ("PGG") in the amount of PLN 145 m and in an associated entity called Polimex-Mostostal SA in the amount of PLN 38 m. In turn, 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), inventories (an increase in the property rights to energy origin) and in other short-term assets, which decreased by PLN 204 m, mainly as a result of the settlement relating to the sale of the Wind Farm Przykona (settlement of advance payments), a decline in VAT receivables and the settlement of the compensation due from the Price Difference Refund Fund.

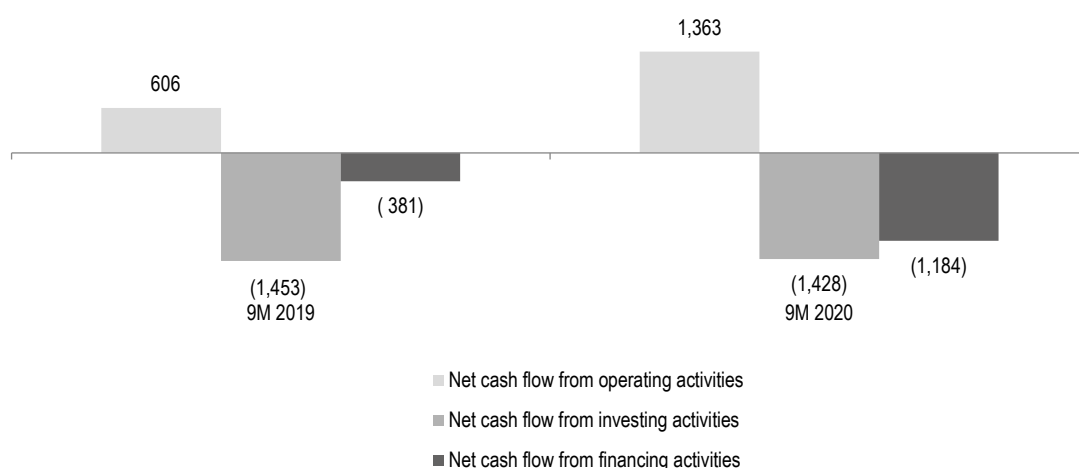
As at 30 September 2020, Energa Group's equity was PLN 8,502 m, and financed the Group's assets in 43%.

The key change in liabilities was related to the current loans and borrowings as a result of loan drawdowns/ repayments, including in particular a syndicated loan and a loan from Bank Gospodarstwa Krajowego in the total amount of PLN 1,400 m as at 30 September 2020. A significant change, opposite to the change specified above, was noted in short-term 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. There was also a significant change vis-à-vis 2019 year-end concerning provisions. It resulted from an increase in provisions due to the obligation to present certificates for redemption.

**Table 5: Consolidated cash flow statement (PLN m)**

	9M 2019	9M 2020	Change	Change (%)
Net cash flow from operating activities	606	1,363	757	> 100%
Net cash flows from investment activities	(1,453)	(1,428)	25	2%
Net cash flows from financial activities	(381)	(1,184)	(803)	< -100%
Net increase / (decrease) in cash	(1,228)	(1,249)	(21)	-2%
Cash and cash equivalents at the end of the reporting period	1,498	208	(1,290)	-86%

**Figure 2: Consolidated statement of cash flows (PLN m)**



As at 30 September 2020, the Group cash position adjusted for the effect of foreign exchange differences, was PLN 208 m, down by PLN 1,290 m YoY. Total net cash flows from operating-, investment- and financing activities of the Group in 9 months of 2020 were negative at PLN 1,249 m, compared to also negative flows of PLN 1,228 m in 9 months of 2019.

Cash flows from operating activities increased by PLN 757 m in 9 months of 2020 compared to 9 months of 2019. The increase in cash flows from operating activities was mainly caused by a lower negative change in trade receivables and an increase in actuarial provisions, provisions on account of the obligation to present certificates for redemption and the establishment of a

new provision for investment liabilities. The changes were higher than the effects of the loss incurred over the first three quarters of 2020, as compared to the profit reported for three quarters of 2019, and changes in inventories and trade payables.

In three quarters of 2020, net outflows from investing activities decreased by PLN 25 m YoY, mainly due to higher inflows from the sale of tangible and intangible assets, as well as investments into investment property and lack of expenditures on the purchase of shares in associates and joint ventures (PLN 181 m were spent on that purpose as at 30 September 2019). However, in 9 months of 2020, the expenditures on loans granted were PLN 151 m higher than in the corresponding period of 2019.

In three quarters of 2020, cash flows from financing activities were negative at PLN 1,184 m compared to negative flows of PLN 381 m in the corresponding period of 2019. Three quarters of 2020 saw significant inflows and outflows from loans taken, and outflows from redemption of debt securities.

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

Figure 3: Structure of assets and liabilities

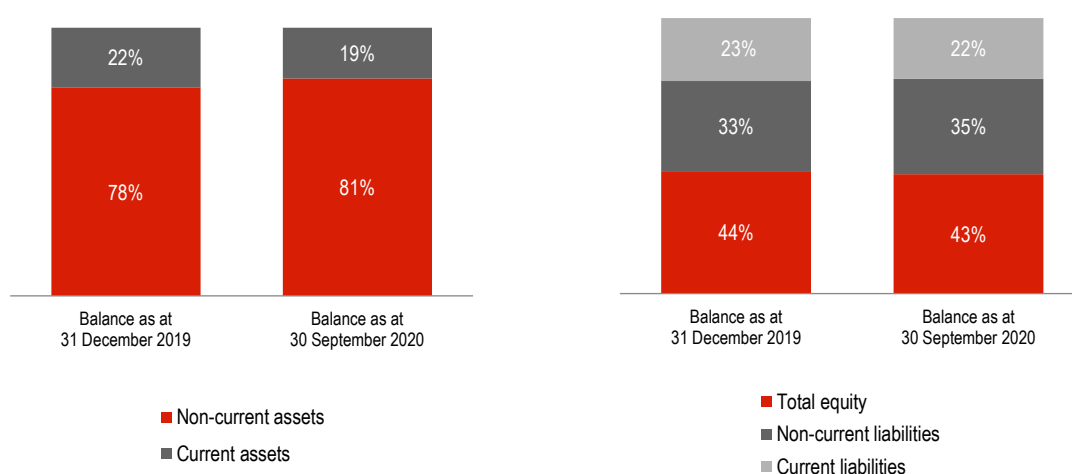


Table 6: Financial ratios of the Energa Group

Ratio	Definition	9M 2019	9M 2020
<b>Profitability</b>			
EBITDA margin	operating result + depreciation and amortization + impairment losses on non-financial non-current assets/ sales revenues (taking into account the revenue from the Price Difference Payout Fund)	19.2%	17.0%
return on equity (ROE)	net profit for the period*/ equity at the end of the period	3.9%	-24.0%
return on sales (ROS)	net profit for the period / sales revenues (taking into account the revenue from the Price Difference Payout Fund)	3.9%	-7.4%
return on assets (ROA)	net profit for the period*/ total assets at the end of the period	1.9%	-10.4%

\* net profit for the last 12 months

Ratio	Definition	As at 31 December 2019	As at 30 September 2020
<b>Liquidity</b>			
current liquidity ratio	current assets/current liabilities	1.0	0.9
<b>Debt</b>			
financial liabilities (PLN m)	total liabilities due to loans and borrowings, debt securities and leases (both long- and short-term)	7,661	6,916
net financial liabilities (PLN m)	financial liabilities - cash and cash equivalents	6,200	6,708
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 saw a decrease in the first 9 months of 2020 as compared to the corresponding period of the preceding year; meanwhile, sales revenues (upon accounting for the Price Difference Refund Fund) increased. The key drivers of the change are presented in the section describing financial figures. Due to the opposite growth rate of EBITDA compared to the sales revenues, the EBITDA margin decreased. In turn, the unfavorable net profit change year-on-year (a negative result in the first 9 months of 2020) caused a decline in the profitability ratios.

The increase in the net debt / EBITDA ratio was driven primarily by a lower level of cash, despite a certain decrease in financial liabilities as at 30 September 2020 compared to 31 December 2019. EBITDA for the last 12 months also declined..

**3.4. Description of significant off-balance sheet items**

For details please see section 7.1. Information on material contracts and agreements of this report and note 19 to the Condensed interim consolidated financial statements of the Energa Group for the nine-month period ended on 30 September 2020: *Contingent assets and liabilities*.

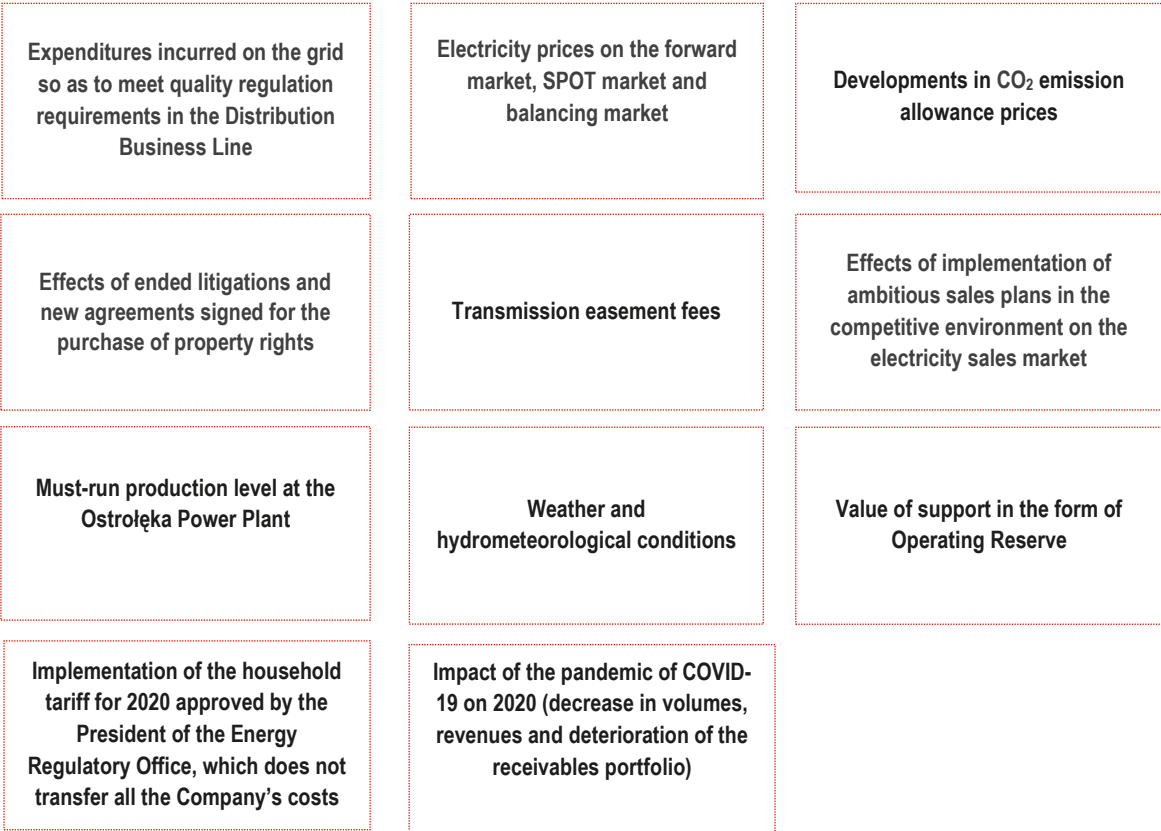
**3.5. Projected financial results**

The Management Board of Energa SA has not published any projections for stand-alone or consolidated financial results for the 2020 financial year.

**3.6. Factors affecting the Energa Group’s performance within at least the next 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 the next quarter.

**Figure 4: Factors affecting the Energa Group’s performance within the next quarter**





## **Activities of the Energa Group's Business Lines**

## 4. ACTIVITIES OF THE ENERGA GROUP'S BUSINESS LINES

Table 7: EBITDA of the Energa Group, by Business Lines (PLN m)

	Q3 2019	Q3 2020	Change	Change (%)
DISTRIBUTION	327	412	85	26%
GENERATION	54	37	(17)	-31%
SALES	118	62	(56)	-47%
OTHER and consolidation eliminations and adjustments	(15)	(10)	5	33%
<b>Total EBITDA</b>	<b>484</b>	<b>501</b>	<b>17</b>	<b>4%</b>

	9M 2019	9M 2020	Change	Change (%)
DISTRIBUTION	1,303	1,352	49	4%
GENERATION	226	135	(91)	-40%
SALES	258	114	(144)	-56%
OTHER and consolidation eliminations and adjustments	(45)	(45)	-	0%
<b>Total EBITDA</b>	<b>1,742</b>	<b>1,556</b>	<b>(186)</b>	<b>-11%</b>

### 4.1. Distribution Business Line

#### 4.1.1. Key operational data

Table 8: Distribution of electricity by tariff groups (GWh)

	Q3 2019	Q3 2020	Change	Change (%)	9M 2019	9M 2020	Change	Change (%)
Tariff group A (HV)	774	846	72	9%	2,447	2,362	(85)	-3%
Tariff group B (MV)	2,212	2,217	5	0%	6,575	6,309	(266)	-4%
Tariff group C (LV)	1,076	976	(100)	-9%	3,285	3,035	(250)	-8%
Tariff group G (LV)	1,334	1,404	70	5%	4,250	4,404	154	4%
<b>Total distribution of electricity</b>	<b>5,396</b>	<b>5,443</b>	<b>47</b>	<b>1%</b>	<b>16,558</b>	<b>16,110</b>	<b>(447)</b>	<b>-3%</b>

In Q3 2020, the volume of electricity supplied was 5,443 GWh, up by 1% from the corresponding period of the previous year. Only Tariff C saw a decline due to COVID-19 pandemic. During the first 9 months of 2020, the volume of electricity distribution was 16,110 GWh, down by 3% YoY. Volume decline was recorded in groups A, B and C and it was mainly the effect of COVID-19 pandemic (with the economy deceleration, particularly in Q2, the consumers were looking for savings and lowered their consumption). An increase in volume was recorded in Tariff G (higher consumption in households due to remote work and remote learning).

Table 9: 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		
Q3 2019	24.7	7.4	32.1	0.5	0.1	0.5
<b>Q3 2020</b>	<b>24.1</b>	<b>6.2</b>	<b>30.3</b>	<b>0.5</b>	<b>0.0</b>	<b>0.5</b>
Change	(0.6)	(1.2)	(1.8)	0.0	(0.0)	(0.0)
Change (%)	-2%	-16%	-6%	1%	-20%	-1%
9 months of 2019	85.4	20.6	106.0	1.6	0.1	1.7
<b>9 months of 2020</b>	<b>75.1</b>	<b>15.4</b>	<b>90.5</b>	<b>1.3</b>	<b>0.1</b>	<b>1.4</b>
Change 2020/2019	(10.2)	(5.3)	(15.5)	(0.2)	(0.0)	(0.3)
Change 2020/2019 (%)	-12%	-26%	-15%	-15%	-28%	-16%

The SAIDI and SAIFI of Energa Operator in Q3 2020 stood at 30.3 min/cust. and 0.5 discr./cust., respectively, i.e. at a level that was equal to or lower than the level recorded in the corresponding period of the preceding year. A similar declining trend was observed during the first 9 months of 2020. The greatest improvement was observed in terms of unscheduled interruptions which was due to operational initiatives aimed to improve power recovery after power grid failures as well as grid modernisation investments.

#### 4.1.2. Financial results

Figure 5: Results of the Distribution Business Line of the Energa Group (PLN m)

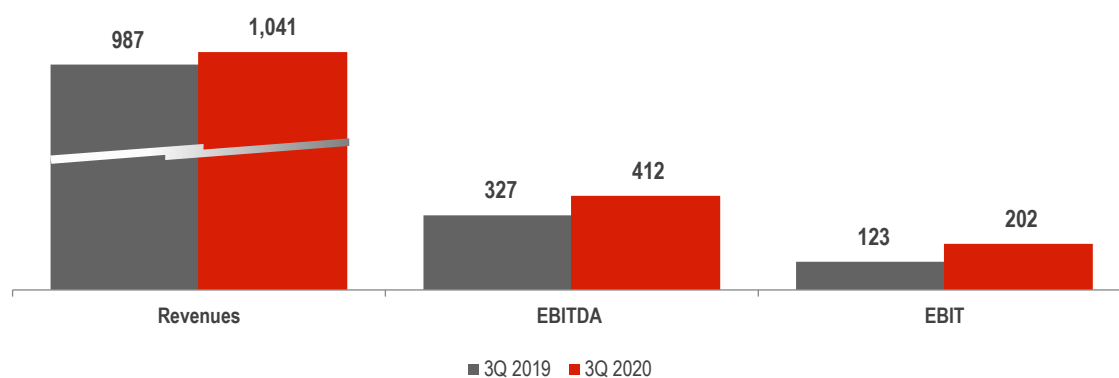


Table 10: Results of the Distribution Business Line (PLN m)

	Q3 2019	Q3 2020	Change	Change (%)
Revenues	987	1,041	54	5%
<b>EBITDA</b>	<b>327</b>	<b>412</b>	<b>85</b>	<b>26%</b>
amortization and depreciation	204	210	6	3%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	123	202	79	64%
Net result	65	135	70	> 100%
CAPEX	297	318	21	7%

	9M 2019	9M 2020	Change	Change (%)
Revenues	3,057	3,189	132	4%
<b>EBITDA</b>	<b>1,303</b>	<b>1,352</b>	<b>49</b>	<b>4%</b>
amortization and depreciation	613	628	15	2%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	690	724	34	5%
Net result	465	479	14	3%
CAPEX	945	897	(48)	-5%

Figure 6: EBITDA bridge of the Distribution Business Line (PLN m)



In Q3 2020, the Distribution Business Line generated 82% of EBITDA for the Energa Group (vs. 68% in the comparable period of 2019).

EBITDA in Q3 2020 was PLN 412 m compared to PLN 327 m for the corresponding period of the preceding year. The distribution margin (with grid losses) was higher by PLN 64 m, primarily due to an average selling price of the distribution service which was 4% higher and a volume which was 1% higher, and it had a considerable bearing on EBITDA.

In the analysed period, OPEX costs decreased YoY by PLN 31 m, mainly in the area of impairment charges on receivables as well as taxes and fees (the effect of IFRS 16). A decrease in actuarial provisions valuation also had a positive impact on costs.

A minor decline in revenue from grid connections and an annual increase in real estate tax had a negative impact on the results.

In Q3 2020, the Distribution Business Line reported net profit of PLN 135 m, up by PLN 70 m from the corresponding period of the preceding year, with the increase being caused by the same factors as in the case of operating profit.

In Q3 2020, sales revenues were PLN 1,041 m, up by 5% from the corresponding period of the previous year. It was related to an increase in the average price of the distribution service (by around 4%) due to an increase in the tariff for the distribution service on a year-on-year basis.

The EBITDA of the Business Line for the first 9 months of 2020 totalled PLN 1,352 m, up PLN 49 m compared with the corresponding period of the preceding year. The factors contributing to that result include primarily a one-off event which improved the Business Line performance by PLN 75 m – there was a change in the recognition of the infrastructure obtained free of charge (which was previously settled through the deferred income during the useful life of those assets), due to the alignment of the accounting policy with the policy applied by ORLEN Group. Meanwhile, margin on distribution (with grid losses) improved by PLN 32 m YoY, mainly as a result of a higher average price of the distribution service.

Higher costs of real estate tax, lower revenue from grid connections and slightly higher OPEX costs had an adverse impact on EBITDA after the first 9 months of 2020.

## 4.2. Generation Business Line

### 4.2.1. Key operational data

Table 11: Gross electricity production (GWh)

	Q3 2019	Q3 2020	Change	Change (%)	9M 2019	9M 2020	Change	Change (%)
Power plants – coal-fired	588	490	(98)	-17%	1,656	1,075	(580)	-35%
Power plants - biomass co-fired	0	11	11	> 100%	0	105	105	> 100%
CHP plants - coal-fired	10	4	(6)	-59%	74	66	(8)	-11%
CHP plants - biomass-fired	27	17	(9)	-35%	103	36	(67)	-65%
Power plants – hydro	103	171	69	67%	577	538	(40)	-7%
Pumped storage plant	10	9	(2)	-15%	37	37	0	0%
Power plants – wind	86	78	(9)	-10%	325	346	21	7%
Power plants - photovoltaics	2	2	(0)	-2%	5	5	(0)	-7%
<b>Total production of electricity</b>	<b>827</b>	<b>783</b>	<b>(44)</b>	<b>-5%</b>	<b>2,776</b>	<b>2,207</b>	<b>(569)</b>	<b>-21%</b>
<i>including from RES</i>	<i>218</i>	<i>279</i>	<i>61</i>	<i>28%</i>	<i>1,010</i>	<i>1,029</i>	<i>19</i>	<i>2%</i>

In Q3 2020, the generating assets in the Energa Group produced approximately 0.78 TWh of electricity vs. 0.83 TWh in the same period last year (down by 5%). The downward trend concerned mainly the Ostrołęka Power Plant, wind power plants and CHP plants (Elbląg). During that period, 63% of the Group's gross electricity production originated from hard coal, 23% from hydro, 10% from wind and 4% from biomass.

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 depended on 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.

The Business Line performance for the first 9 months of 2020 was characterised by lower production of the Ostrołęka Power Plant as well as CHP and hydro sources. Only wind power plants saw higher production.

Table 12: Gross heat production (TJ)

	Q3 2019	Q3 2020	Change	Change (%)	9 M 2019	9M 2020	Change	Change (%)
ENERGA Kogeneracja Sp. z o.o.	263	228	(35)	-13%	1,551	1,490	(61)	-4%
ENERGA Elektrownie Ostrołęka S.A.	193	141	(52)	-27%	890	801	(89)	-10%
Ciepło Kaliskie Sp. z o.o.	0	4	4	> 100%	165	162	(4)	-2%
<b>Total gross heat production</b>	<b>457</b>	<b>374</b>	<b>(83)</b>	<b>-18%</b>	<b>2,606</b>	<b>2,452</b>	<b>(154)</b>	<b>-6%</b>

In Q3 2020, the Group produced heat energy of 374 TJ (down by 18% YoY), which was influenced by, e.g. the ambient temperature shaping the demand for heat from the Group's local consumers in the cities of Ostrołęka, Elbląg and Kalisz.

Lower heat production was also recorded for the first 9 months of 2020. The Group produced 154 TJ (6%) less of heat than in the same period last year. The above result was driven by weather conditions.



Table 13: Volume and cost of consumption of key fuels\*

	Q3 2019	Q3 2020	Change	Change (%)	9M 2019	9M 2020	Change	Change (%)
<b>Coal</b>								
Quantity (thous. of tonnes)	282	227	(55)	-19%	835	569	(266)	-32%
Cost (PLN m)	86	66	(20)	-23%	249	174	(76)	-30%
<b>Biomass</b>								
Quantity (thous. of tonnes)	22	24	2	11%	82	97	15	19%
Cost (PLN m)	12	12	(0)	-2%	47	48	1	1%
<b>Total fuel consumption (PLN m)</b>	<b>99</b>	<b>79</b>	<b>(20)</b>	<b>-20%</b>	<b>296</b>	<b>222</b>	<b>(75)</b>	<b>-25%</b>

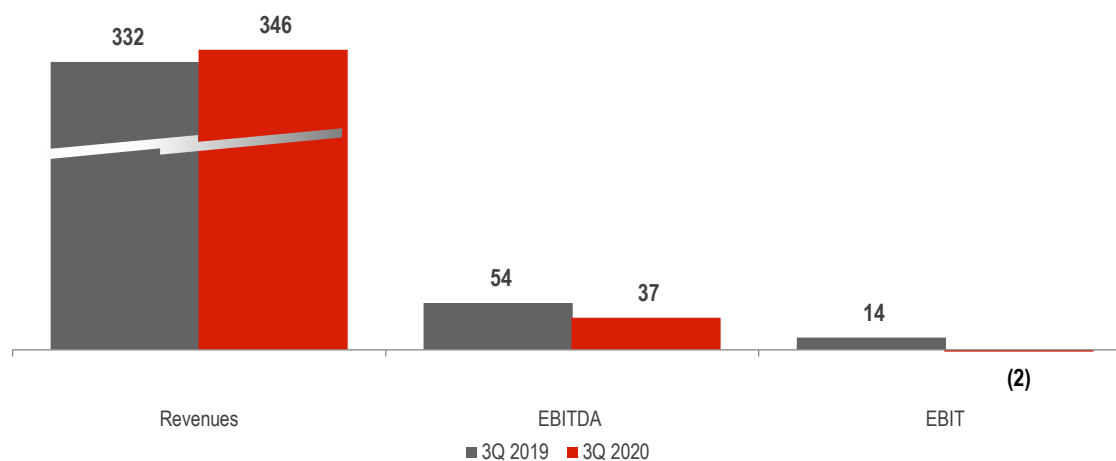
\* including the cost of transport

In Q3 2020, the Group's generators consumed 55 thousand tonnes less coal and 2 thousand tonnes more biomass than in the corresponding period of the preceding year. The increase in the production from biomass resulted mainly from the start of biomass co-firing at the Ostrołęka Power Plant, along with a decrease in production from biomass in Elbląg. The lower coal consumption is an effect of lower electricity production, mainly by the Ostrołęka Power Plant. At the same time, lower unit costs of coal and biomass purchase were recorded.

While analysing the data for the first 9 months on a YoY basis, it is evident that the above described trends for biomass unit prices are kept while the unit prices of coal remain stable. At the same time, one should underline a decline in coal consumption and a spike in biomass consumption during the period for the same reasons as the ones reported for Q3 2020 (vs. Q3 2019).

#### 4.2.2. Financial results

Figure 7: Results of the Generation Business Line of the Energa Group (PLN m)



**Table 14: Results of the Generation Business Line (PLN m)**

	Q3 2019	Q3 2020	Change	Change (%)
Revenues	332	346	14	4%
<b>EBITDA</b>	<b>54</b>	<b>37</b>	<b>(17)</b>	<b>-31%</b>
amortization and depreciation	40	37	(3)	-8%
impairment losses on non-financial non-current assets	-	2	2	0%
EBIT	14	(2)	(16)	< -100%
Net result	(1)	(28)	(27)	< -100%
CAPEX	19	35	16	84%

	9M 2019	9M 2020	Change	Change (%)
Revenues	1,047	895	(152)	-15%
<b>EBITDA</b>	<b>226</b>	<b>135</b>	<b>(91)</b>	<b>-40%</b>
amortization and depreciation	132	108	(24)	-18%
impairment losses on non-financial non-current assets	270	472	202	75%
EBIT	(176)	(445)	(269)	< -100%
Net result	(178)	(504)	(326)	< -100%
CAPEX	120	232	112	93%

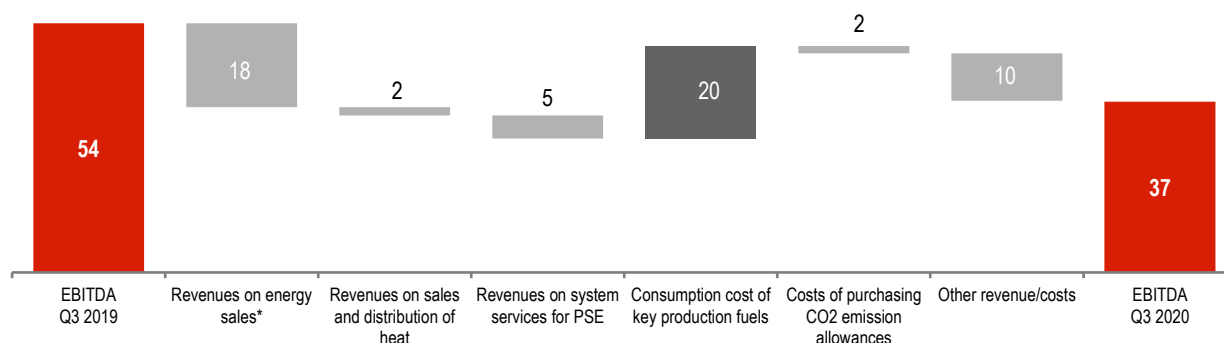
The following table presents EBITDA breakdown of the Generation Business Line into individual Generation Segments. The statement presents unit data with the elimination of mutual transactions among business segments and consolidation adjustments.

**Table 15: EBITDA for Generation Business Line broken down to Generation Segments (PLN m)**

	Q3 2019	Q3 2020	Change	Change (%)
Water	20	31	11	52%
Wind	25	17	(8)	-31%
Ostrołęka power plant	17	(14)	(31)	< -100%
Other and adjustments	(8)	3	11	> 100%
<b>Generation total</b>	<b>54</b>	<b>37</b>	<b>(17)</b>	<b>-31%</b>

	9M 2019	9M 2020	Change	Change (%)
Water	111	91	(20)	-18%
Wind	84	74	(10)	-12%
Ostrołęka power plant	44	(33)	(76)	< -100%
Other and adjustments	(12)	3	15	> 100%
<b>Generation total</b>	<b>226</b>	<b>135</b>	<b>(91)</b>	<b>-40%</b>

Figure 8: 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 7% in Q3 2020 (11% in the corresponding period of the preceding year).

The lower EBITDA of the Line (down by PLN 17 m YoY) was mainly due to lower revenues from the sale of electricity, sale and distribution of heat and system services provided to the Transmission System Operator. The negative impact of these factors was only partially offset by a lower fixed cost (mainly the lower cost of consumption of key production fuels and a higher cost of purchasing CO<sub>2</sub> emission allowances).

A decrease in revenue from sales of electricity in Q3 2020 as compared to the corresponding period of the preceding year was driven mainly by the lower production volumes at the Ostrołęka Power Plant, the wind power plants and CHP plants of the Group (with higher production from the water sources). The effect of the above factors was additionally augmented by the reduced prices of energy sold from the water and wind sources.

Lower revenues from sale and distribution of heat resulted, among other things, from the ambient temperature shaping the demand for heat from the Group's local consumers in the cities of Ostrołęka, Elbląg and Kalisz.

Lower revenues from system services stem mostly from lower revenues from the Operating Reserve provided by the Ostrołęka Power Plant, where the price obtained for that service (given the higher volume reported to that mechanism) was the main factor determining the result.

The lower cost of production fuel consumption is an effect of lower electricity production, mainly by the Ostrołęka Power Plant. Lower unit costs of coal and biomass purchase were recorded.

Higher costs of purchasing CO<sub>2</sub> emission allowances were driven by an increase in the market prices of emission allowances and having a quantity of free emission allowances available for the year 2019.

In addition to the above presented factors that shape EBITDA, it needs to be emphasised that in Q3 2019 the Ostrołęka Power Plant reversed impairment charges on receivables for more than PLN 7 m (the settlement of a contractual fine towards the contract for the modernisation of turbine set no. 2).

Capital expenditures of the Business Lines in Q3 2020 were higher YoY by PLN 16 m and related primarily to the modernisation of co-generation sources and environmental investment projects in the Ostrołęka Power Plant.

The lower EBITDA of the Line in the first 9 months of 2020 on a year-on-year basis (down by PLN 91 m YoY) was mainly due to lower revenues from the sale of electricity (down by PLN 170 m) and lower revenues from system services provided to PSE (down by PLN 19 m). The negative impact of these factors was only partially offset by the lower cost of consumption of key production fuels (by PLN 75 m), and a lower cost of purchasing CO<sub>2</sub> emission allowances (by PLN 16 m).

Table 16: Results of the Hydro Power Division (PLN m)

	Q3 2019	Q3 2020	Change	Change (%)	9M 2019	9M 2020	Change	Change (%)
Revenues	41	54	13	32%	182	165	(17)	-9%
<b>EBITDA</b>	<b>20</b>	<b>31</b>	<b>11</b>	<b>52%</b>	<b>111</b>	<b>91</b>	<b>(20)</b>	<b>-18%</b>
EBIT	12	22	10	86%	86	65	(21)	-24%
CAPEX	8	3	(4)	-59%	12	7	(5)	-43%

Table 17: Results of the Wind Power Division (PLN m)

	Q3 2019	Q3 2020	Change	Change (%)	9M 2019	9M 2020	Change	Change (%)
Revenues	32	26	(7)	-21%	111	101	(11)	-10%
<b>EBITDA</b>	<b>25</b>	<b>17</b>	<b>(8)</b>	<b>-31%</b>	<b>84</b>	<b>74</b>	<b>(10)</b>	<b>-12%</b>
EBIT	11	1	(10)	-94%	44	30	(14)	-31%
CAPEX	1	(1)	(2)	< -100%	10	130	120	> 100%

Table 18: Results of the Ostrołęka Power Plant Division (PLN m)

	Q3 2019	Q3 2020	Change	Change (%)	9M 2019	9M 2020	Change	Change (%)
Revenues	225	237	12	5%	607	508	(99)	-16%
<b>EBITDA</b>	<b>17</b>	<b>(14)</b>	<b>(31)</b>	<b>&lt; -100%</b>	<b>44</b>	<b>(33)</b>	<b>(76)</b>	<b>&lt; -100%</b>
EBIT	7	(16)	(23)	< -100%	(269)	(519)	(250)	-93%
CAPEX	1	12	11	> 100%	77	60	(17)	-22%

Table 19: Results of the Other and Adjustments Division (PLN m)

	Q3 2019	Q3 2020	Change	Change (%)	9M 2019	9M 2020	Change	Change (%)
Revenues	34	29	(4)	-13%	147	121	(25)	-17%
<b>EBITDA</b>	<b>(8)</b>	<b>3</b>	<b>11</b>	<b>&gt; 100%</b>	<b>(12)</b>	<b>3</b>	<b>15</b>	<b>&gt; 100%</b>
EBIT	(17)	(9)	8	48%	(37)	(21)	16	44%
CAPEX	9	21	11	> 100%	21	35	14	65%

### 4.3. Sales Business Line

#### 4.3.1. Key operating data

Table 20: Sale of electricity (GWh)

	Q3 2019	Q3 2020	Change	Change (%)	9M 2019	9M 2020	Change	Change (%)
<b>Retail sales of electricity</b>	<b>4,863</b>	<b>4,611</b>	<b>(252)</b>	<b>-5%</b>	<b>14,667</b>	<b>13,886</b>	<b>(781)</b>	<b>-5%</b>
<b>Sales of electricity in the wholesale market, including:</b>	<b>969</b>	<b>702</b>	<b>(266)</b>	<b>-27%</b>	<b>3,396</b>	<b>3,316</b>	<b>(80)</b>	<b>-2%</b>
<i>Sales of energy to the balancing market</i>	273	242	(31)	-11%	706	947	241	34%
<i>Sales of energy to cover network losses to Energa-Operator</i>	201	-	(201)	-100%	760	-	(760)	-100%
<i>Other wholesale</i>	494	460	(34)	-7%	1,930	2,369	438	23%
<b>Total sales of electricity</b>	<b>5,832</b>	<b>5,314</b>	<b>(518)</b>	<b>-9%</b>	<b>18,064</b>	<b>17,203</b>	<b>(861)</b>	<b>-5%</b>

In Q3 2020, the total volume of electricity sold by the Sales Business Line declined by 9% (or, 0.5 TWh) vs. Q3 2019. It resulted from lower sales on the wholesale and retail markets.

In Q3 2020, the sale volume on the retail market dropped by 5% (or, 0.25 TWh) YoY. Within retail sales, a decrease was noted in the volume of sales to business customers (down by approx. 8%) along with an increase in sales to households (up by 3%). The level and structure of energy consumption in the reporting period was affected by the COVID-19 pandemic which caused lower energy consumption by business customers, coupled with an increase in energy consumption by households. The effect has been seen since March 2020, or since the start of the pandemic.

As at the end of Q3 2020, the number of end consumers of electricity amounted to 3.1 m, an increase of approx. 46,000 customers YoY. The customer base increased mainly in the G tariff group (households).

Electricity sales to the wholesale market in Q3 2020 fell by 0.3 TWh (or, 27%) compared to the corresponding period of 2019. The main reason behind the volume drop in 2020 was the lack of energy sale to cover grid losses to Energa Operator SA – another seller was selected for that period.

The trend during the first 9 months of 2020 was the same as the trend on a quarterly basis, i.e. the energy sale volume was lower than in the corresponding period of 2019. The sale volume on the retail market went down by 5% YoY. The energy sale volume on the wholesale market also dropped (by 2% YoY); however, the growth rate of that decline was much lower than on a quarterly basis. It is related to the need to resell excess electricity on a balancing market and as part of the other sales, which resulted in lower consumption of electricity by end consumers (business clients) as a consequence of the COVID-19 pandemic. That situation was particularly visible in Q2 2020 when the sale to the wholesale market grew by as much as 47% YoY. Such transactions are necessary to balance the position of Energa Obrót SA.

### 4.3.2. Financial performance

Figure 9: Results of the Sales Business Line (PLN m)

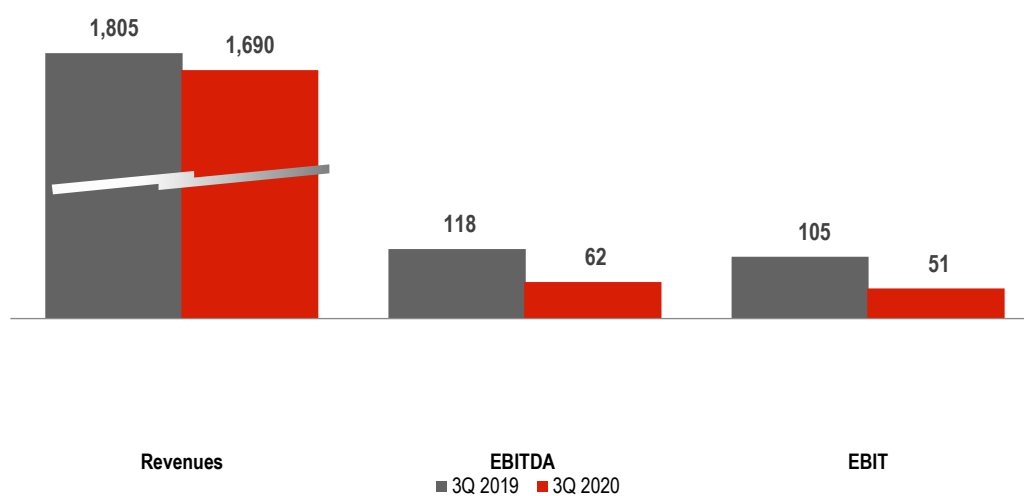
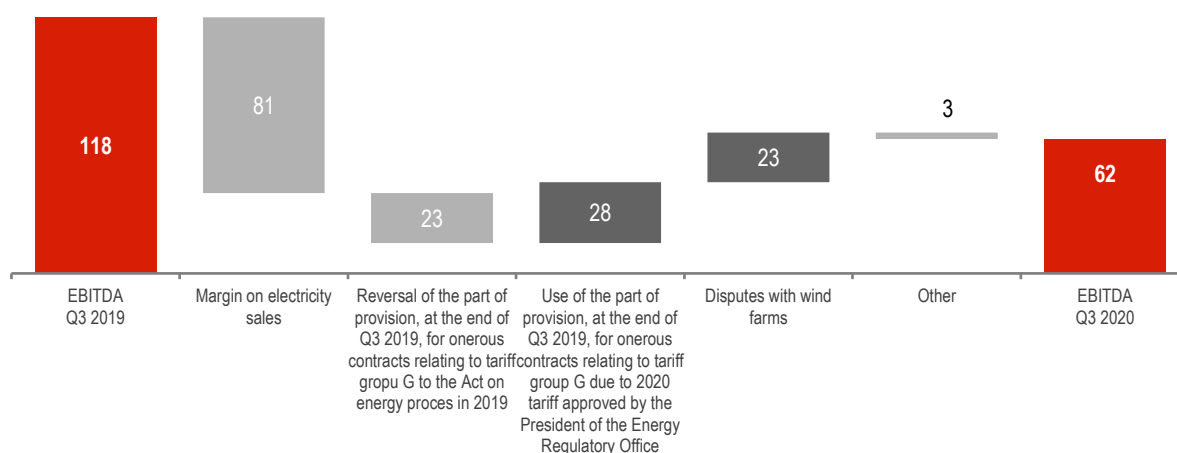


Table 21: Result of the Sales Business Line (PLN m)

	Q3 2019	Q3 2020	Change	Change (%)
Revenues	1,805	1,690	(115)	-6%
<b>EBITDA</b>	<b>118</b>	<b>62</b>	<b>(56)</b>	<b>-47%</b>
amortization and depreciation	13	11	(2)	-15%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	105	51	(54)	-51%
Net result	78	42	(36)	-46%
CAPEX	9	10	1	11%

	9M 2019	9M 2020	Change	Change (%)
Revenues	5,382	5,268	(114)	-2%
<b>EBITDA</b>	<b>258</b>	<b>114</b>	<b>(144)</b>	<b>-56%</b>
amortization and depreciation	39	38	(1)	-3%
impairment losses on non-financial non-current assets	(1)	-	1	100%
EBIT	220	76	(144)	-65%
Net result	161	54	(107)	-66%
CAPEX	26	33	7	27%

Figure 10: EBITDA bridge of the Sales Business Line (PLN m)



In Q3 2020, EBITDA of the Sales Business Line was PLN 62 m, which represents a 12% share in the Group's EBITDA. In the same period of the previous year, the line's EBITDA share in the Group's EBITDA was 24%.

Revenues of the Sales Business Line in Q3 2020 amounted to PLN 1,690 m, down by PLN 115 m in comparison to Q3 2019. The main reason for the revenue decline was related to a lower sales volume, particularly on the wholesale market.

The decline of margin on electricity sale (down by PLN 81 m) had the key impact on the YoY decrease in EBITDA of the Sales Business Line. The margin decline was mainly driven by two factors, notably the need to sell electricity to some households at disadvantageous pricing terms under a tariff approved by the President of the Energy Regulatory Office as well as lower margins in the business customer segment. The rates under the 2020 tariff approved by the President of the Energy Regulatory Office do not cover the full costs arising from the contracts implementation. In Q3 2020, PLN 28 m, or a portion of the specific provision (raised at the end of 2019), was used, which partially offset the negative impact of the tariff on the Business Line's financial results in the reporting period.

The pandemic effect, notably the lower energy consumption by retail customers and the need to sell energy excess (previously contracted to cover customer needs) at a loss, was not as acute in Q3 2020 as it was in the preceding quarter. Compared to Q2 2020, the third quarter saw a much lower rate of decline in energy consumption by customers on a year-on-year basis; it also saw higher electricity prices on the SPOT market, which translated into a lower financial loss due to energy sale.

The YoY change in EBITDA was also affected by other, one-off and non-cash events which took place in Q3 2019 and did not recur in 2020. In Q3 2019, the Group released a part of the provision (PLN 23 m) raised in 2018 for onerous contracts in relation to the G tariff arising from the Act on Energy Prices in 2019 (a negative impact on the YoY change of EBITDA). Additionally, in relation to the ongoing legal disputes concerning validity of long-term contracts for the purchase of property rights to RES (CPA Contracts), the provisions related to those disputes had a positive impact on the EBITDA, totalling PLN 23 m YoY (in Q3 2019, the provisions balance increased slightly; the current period saw the release of a minor portion of the provisions).

The EBITDA of the Sales Business Line for the 9 months of 2020 totalled PLN 114 m, down by PLN 144 m, or 56%, from the corresponding period of 2019. The decline of margin on electricity sale (down by PLN 179 m) also had a major impact on the high YoY decrease in EBITDA of the Business Line. Two adverse factors contributed to the decline, i.e. COVID-19 pandemic and the need to sell electricity to some households at disadvantageous pricing terms under a tariff approved for 2020. In case of the pandemic effect, the losses due to the sale of energy excess cumulated in Q2 2020 with a considerable decline in energy consumption by business clients as a result of restrictions, and low prices of energy sold on the market.



Pumped storage power plant in Żydowo

## Regulatory and business environment



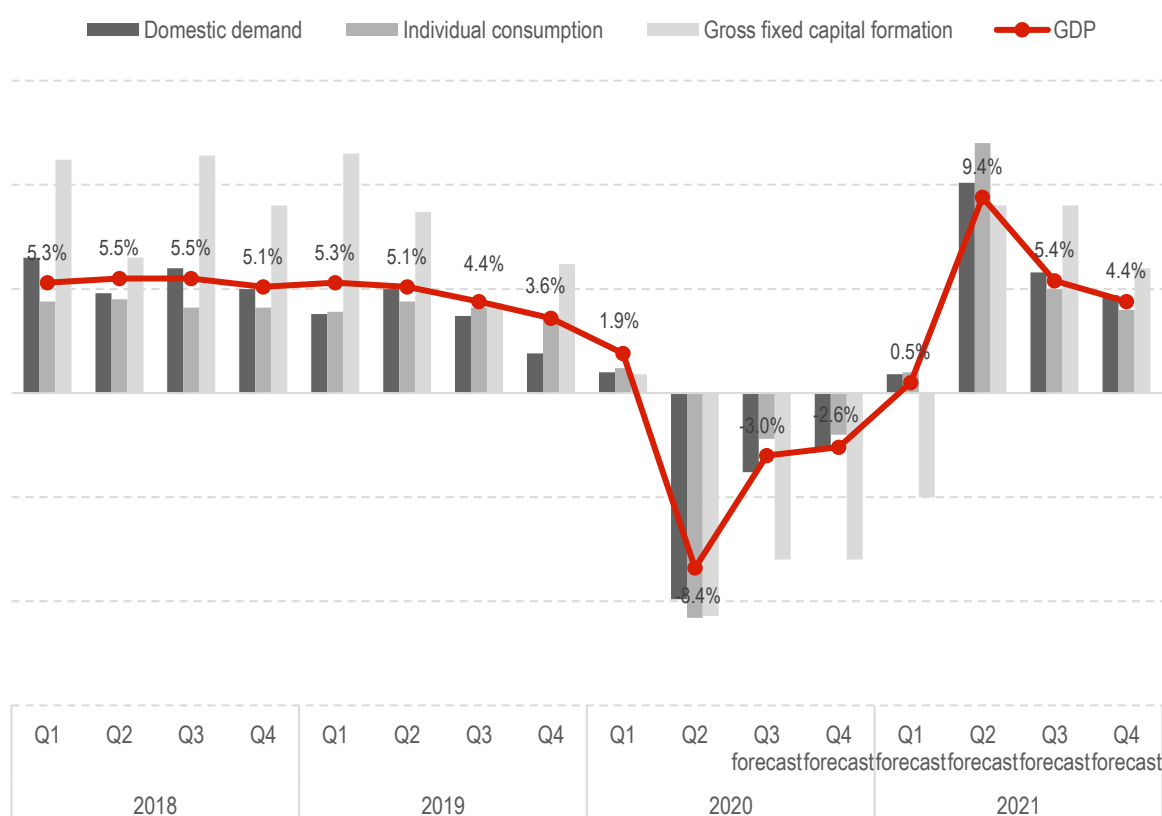
## 5. REGULATORY AND BUSINESS ENVIRONMENT

### 5.1. 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. The SARS-CoV-2 pandemic (coronavirus) and propagation of COVID-19 disease also remain a material factor.

In connection with the easing of social distancing and business restrictions and the introduction of shielding measures by the Polish government and the National Bank of Poland (NBP), the business climate in Poland began to recover gradually in Q3 2020, primarily in the industry and trade sectors. However, the resurgence of the number of COVID-19 cases observed over a number of recent weeks poses material risk to the country's continued economic growth. According to the update from the Central Statistical Office ("GUS"), GDP in Poland shrank in Q2 2020 in real terms by 8.4% YoY, compared to a 5.1% increase in the corresponding quarter of 2019. The negative value of the indicator denotes recession. The forecasts prepared by Santander Bank Polska SA analysts assume that GDP growth will have amounted to -3% YoY in Q3 2020. The scenario under which the level of restrictions introduced to counter propagation of the coronavirus would reverse to that established in spring and the ongoing recession would deepen is not currently being envisaged. Nonetheless, in the case of continued rapid growth in the number of COVID-19 cases and deaths, the risk of imposition of enhanced restrictions that could impact the activity of businesses and consumers to the greater extent and thus slow down the forecast GDP growth rate remains critical.

**Figure 11: Annual changes in the GDP, domestic demand, individual consumption and investments**



Source: Data from the GUS and forecasts of Santander Bank Polska SA (October 2020)

The growth of marketed industrial production in Q3 2020 accelerated steadily, increasing by 5.9% in September 2020 compared to the corresponding month of the previous year. The observed recovery is associated with exports growth and improved economic climate worldwide, mainly in Germany, Poland's largest trade partner. According to GUS, production of durable consumer goods increased by 21.2%, that of procurement goods by 7.3%, that of non-durable consumer goods by 4.1% and that of investment goods by 2.6%. Decreased production was reported solely in energy-related goods and amounted to 3.9%. A 4.3% decline YoY was recorded in the segment of production and supply of electricity, gas, steam and hot water.

The epidemiological situation in the country materially impacts the current and future consumer mood and trends in demand. The current consumer confidence index, serving as a summary indicator of current trends in individual consumption, stood at -14.6 in Q3 2020, down by 23.7 pps compared to the corresponding period of the previous year. In turn, the forward-looking consumer confidence index, describing individual consumption trends expected in the forthcoming months, stood at -15.3 in Q3 2020, dropping over one year by more than 20.9 pps. Negative values of both indices show that there are more pessimistic than optimistic consumers. However, when analyzed on a quarterly basis, the indices show substantial improvement. The current consumer confidence index rose by 14.1 pps in relation to Q2 2020, whereas the forward-looking consumer confidence index grew by 21 pps. The country's future economic outlook, current prospects for making important purchases and changes in the unemployment rate represented the constituents of the above indices that showed the greatest improvement.

A slight economic recovery in the Polish manufacturing sector is also reflected in the PMI index (i.e. forward-looking index of the Polish industry), which remained just above the 50 pts threshold in Q3 2020, indicative of economic recovery. In September 2020, the PMI index amounted to 50.8 pts and was close to its August value. IHS Markit observed that the growth trend which manifested itself in Q3 2020 followed record falls in Q2 2020 prompted by the restrictions imposed on the economy in connection with COVID-19 pandemic. The manufacturers' forecasts relative to their future 12-month production improved. However, according to the commentary to the September results of PMI study, the increase in the number of COVID-19 cases in Europe and the restrictions imposed on economies in connection with the approaching winter season do not bid well for the Polish industry in Q4 2020.

As regards the situation in the labor market, employment growth observed since May 2020 continued into Q3 2020. Average employment in the enterprise sector in September 2020 rose by 0.3% in relation to the preceding month. Meanwhile, 0.7% and 1.1% month-to-month growth was observed in August and July, respectively. Although falling average employment was reported in September, compared to the corresponding period of the previous year, that fall slowed down from -2.3% YoY in July to -1.2% in September 2020, driven by the enterprises' return to full working time and resumption of recruitment processes. The (gross) average monthly salary at the end of September amounted to PLN 5,371.56, compared to PLN 5,370.64 throughout Q3 2020. According to GUS, when analyzed on an accrual basis during the period of nine months of 2020 and set against the corresponding period of the previous year, the average gross salary rose across virtually all PKD sections from 0.7% in the mining and extraction section to 8.9% in the administration and support activities section, which represented an overall growth of 4.5% in the enterprise sector.

The consumer price index in Q3 2020 amounted to 3% compared to the corresponding period of the previous year. Consequently, it remained within the range of deviations from the inflation target set by the Monetary Policy Council (RPP), i.e. 2.5% +/- 1 pp. A 4.5% price growth YoY was reported for energy carriers (electricity, gas, firewood and heat energy). According to the forecasts prepared by Santander Bank Polska SA, a decline in inflation driven by lower demand, weaker cost pressure and falling foodstuffs prices in connection with the Chinese ban on pork imports from Germany is expected in the coming months.

As far as monetary policy is concerned, RPP kept interest rates in Q3 2020 at an unchanged level. It is forecast that the current level of interest rates in Poland will be maintained at least until the end of 2021, as a minimum. According to the press release issued after the October meeting of the Council, the easing of NBP's monetary policy compensates for the negative impact of the pandemic, supports economic recovery, mitigates the risk of the inflation rate declining below the inflation target in the mid-term and contributes to the strengthening of stability of the financial system by having a positive influence on the financial standing of borrowers.

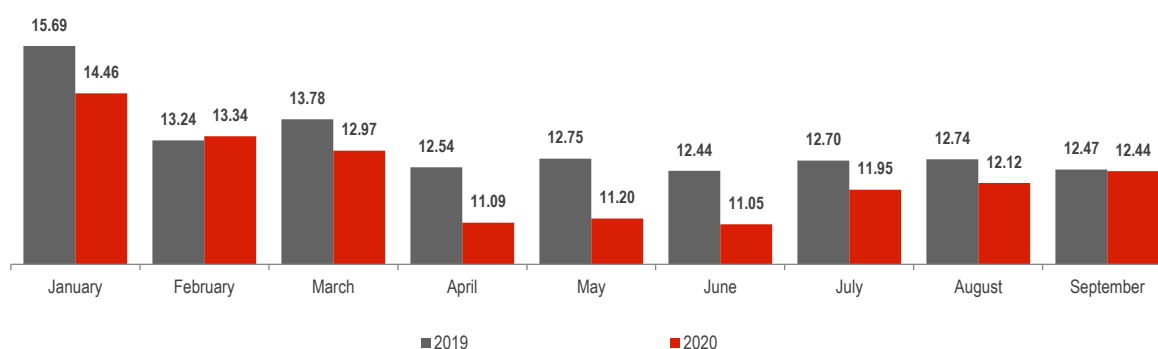
## 5.2. Electricity market in Poland

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 neighboring 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), the production of electricity in Poland totaled 110.59 TWh after three quarters of 2020 and was 7.76 TWh or 6.6% lower compared to the corresponding period of the previous year (118.35 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 generation from gas sources. The decline in generation was prompted by lower demand for electricity within KSE.

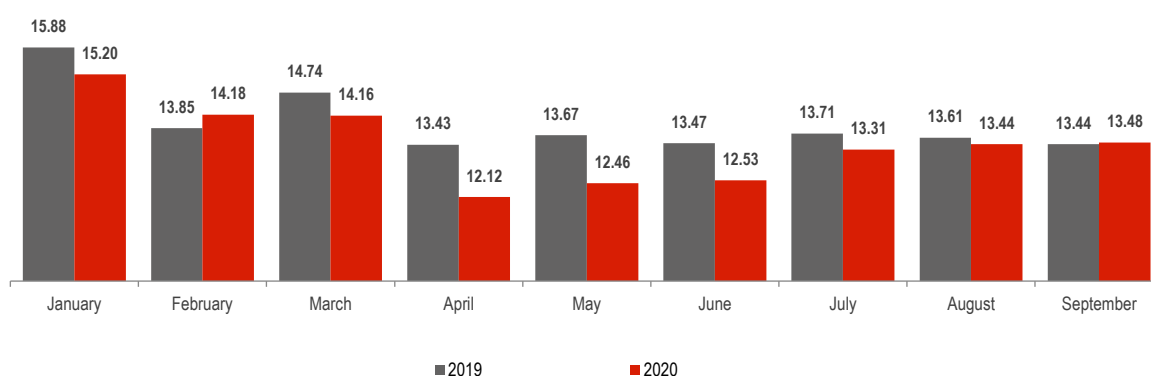
Figure 12: Production of electricity in Poland after three quarters of 2020 (TWh)



Source: PSE

After three quarters of 2020, domestic consumption of electricity in Poland totaled 120.87 TWh and was lower by 4.91 TWh or 3.9% than in the corresponding period of the previous year (125.78 TWh). The decline in consumption was attributed to lower demand triggered by restrictions associated with COVID-19 pandemic.

Figure 13: Consumption of electricity in Poland after three quarters of 2020 (TWh)



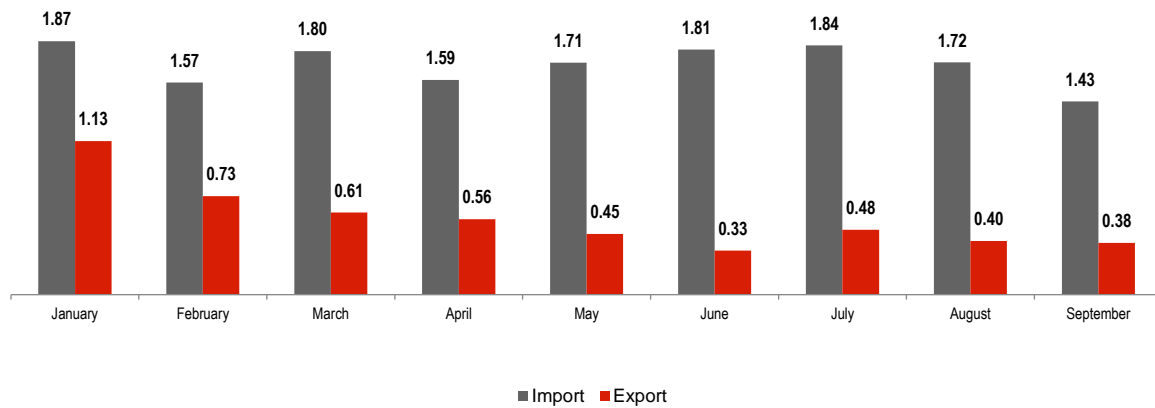
Source: PSE

### Poland's cross-border power exchange

In the first three quarters of 2020, electricity exports were only slightly lower (by 0.49 TWh) than in the same period last year. When comparing the two corresponding periods, a growth in electricity imports by 2.35 TWh can be observed, being the main reason for the 10.28 TWh surplus of net electricity imports in the period under review over net imports of 7.43 TWh in the

corresponding period of the previous year. This is attributable to the increased consumption of electricity in parallel exchange and the interconnection to Sweden.

**Figure 14: Monthly volumes of cross-border power exchange in Poland after three quarters of 2020 (TWh)**

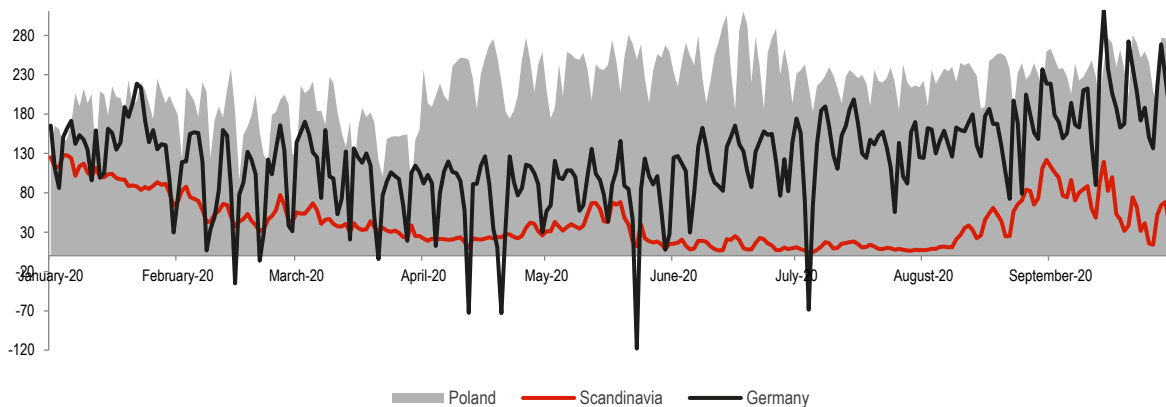


Źródło: PSE

### 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 after three quarters of 2020 were higher than in the neighbouring countries. In Q2, following the economic lockdown due to the pandemic visible in Q1 and at the start of Q2, the demand for capacity began to resume, system losses increased, the balance of cross-border power exchange decreased, and the EUA prices picked up, which led to electricity price growth in the Polish market. The highest price differences were found in comparison to the Scandinavian market (+397.9%, or PLN 172.50/MWh), and lower differences were identified in comparison to the German market (+76.5%, or PLN 93.55/MWh).

**Figure 15: Prices of energy in the SPOT market in Poland and in selected neighboring countries after three quarters of 2020 (PLN/MWh)**

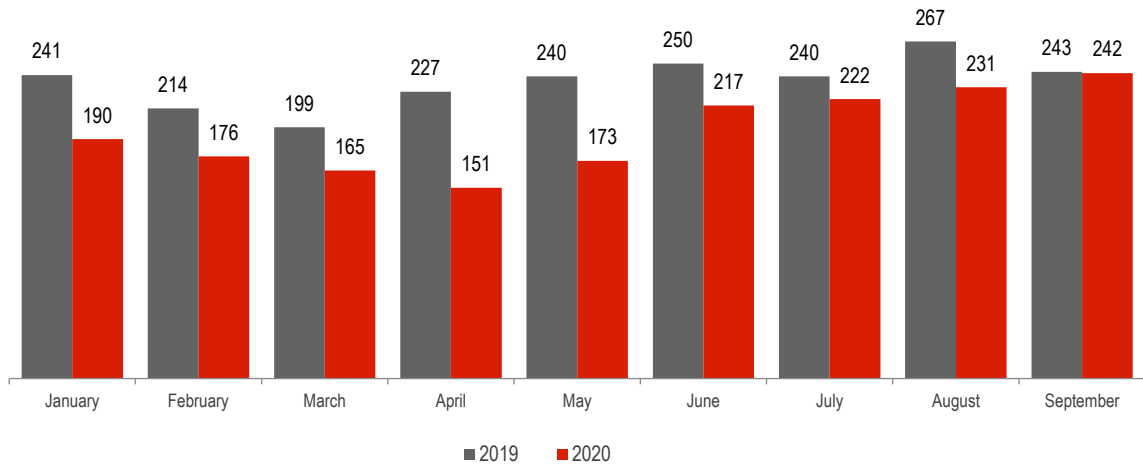


Source: Bloomberg, Reuters

### Day-Ahead Market of electricity in Poland

After the first three quarters of 2020, the TGeBase index averaged PLN 196.31/MWh, and was lower by PLN 39.53/MWh than in the corresponding period of the previous year (PLN 235.84/MWh). When comparing Q3 2020 to Q3 2019, a drop in the price by PLN 18.57/MWh can be seen. The increase in domestic demand for power and system losses in Q3 2020 was supported by lower energy imports, fuelling price increases relative to the first two quarters of 2020, however the last year's levels were not exceeded as a result.

Figure 16: TGeBase index after three quarters of 2020 (PLN/MWh)



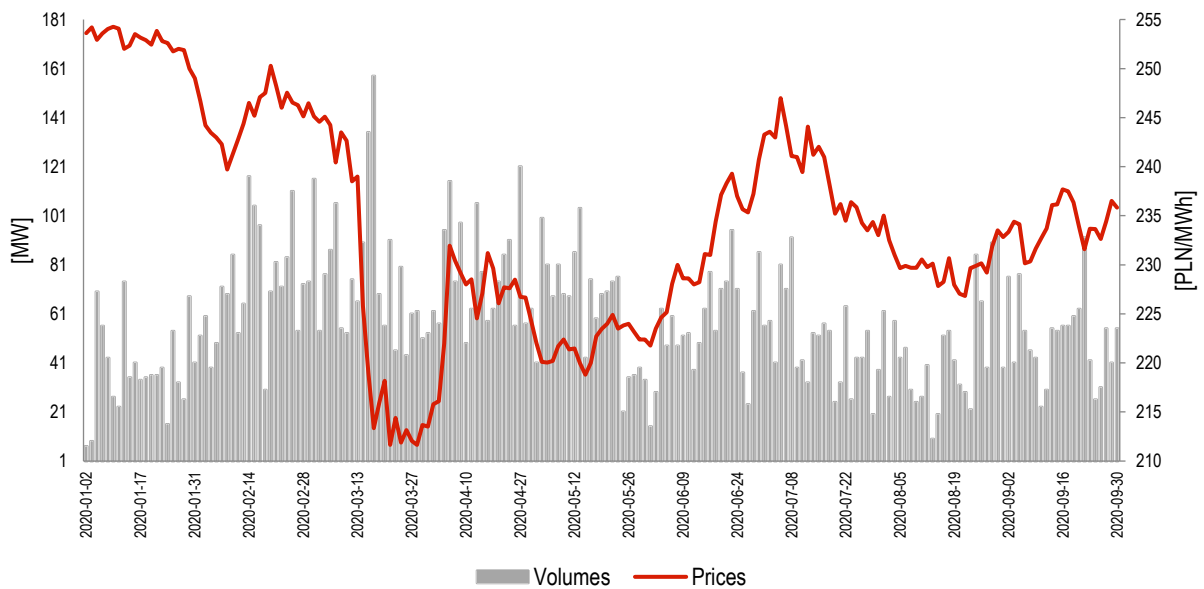
Source: TGE

### Electricity futures market in Poland

In Q1 2020, the electricity futures market was in a downward trend. Since then, increases in the BASE 2020 market have been observed, pushing the price above PLN 230/MWh for the most time. The main drivers of energy rate increases in Q3 2020 in the futures market were:

- growth in CO<sub>2</sub> emission allowance prices;
- declining windiness;
- an increase in SPOT market prices; and
- increased demand for electricity in the National Power System following the COVID-19 pandemic lockdown.

Figure 17: Forward contract price, base with delivery for 2021 after three quarters of 2020

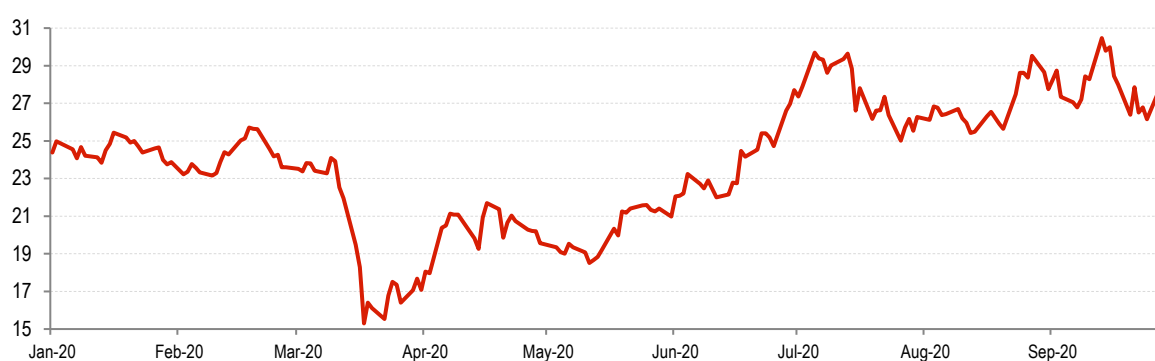


Source: TGE

## 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 is 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. Economic lockdown measures were lifted in Q2 2020, which drove a recovery of demand for electricity and increased consumption of fossil fuels. In Q3, the rate increased on the back of market projections predicting possible increases in emission prices in the coming years, and a debate was resumed to increase the emission reduction target to 50-55% by 2030. As a result, at the end of Q3 2020, the price of EUAs was EUR 26.93 per tonne, up 8% since the end of 2019 and up 9% compared to the end of Q3 2019.

**Figure 18: EUA prices after three quarters 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 22: Average price levels of green property rights listed on the Polish Power Exchange**

Index (type of certificate)	Index value		% obligation (%)	Substitution fee (PLN)
	Three quarters of 2019 (PLN/MWh)	Three quarters of 2020 (PLN/MWh)		
OZEX_A (green)	127.18	136.29	19.5*	300.03*

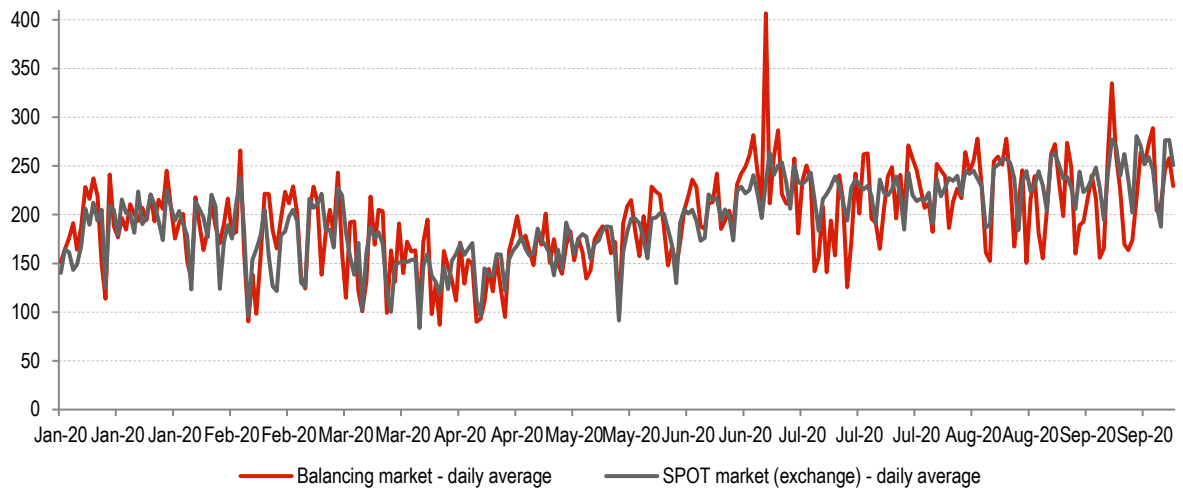
\* value of the substitution fee and redemption obligation for 2020

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 152.00/MWh in the first three quarters of 2020. PM RES prices were quoted at PLN 139.22/MWh at the end of Q3 2020.

## 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 the most part of the 3 quarters of 2020, prices in the balancing market were close to 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 194.50/MWh, compared to PLN 241.84/MWh in the corresponding period of the previous year.

Figure 19: Comparison of prices in the balancing market and SPOT market (exchange) after three quarters of 2020 (PLN/MWh)

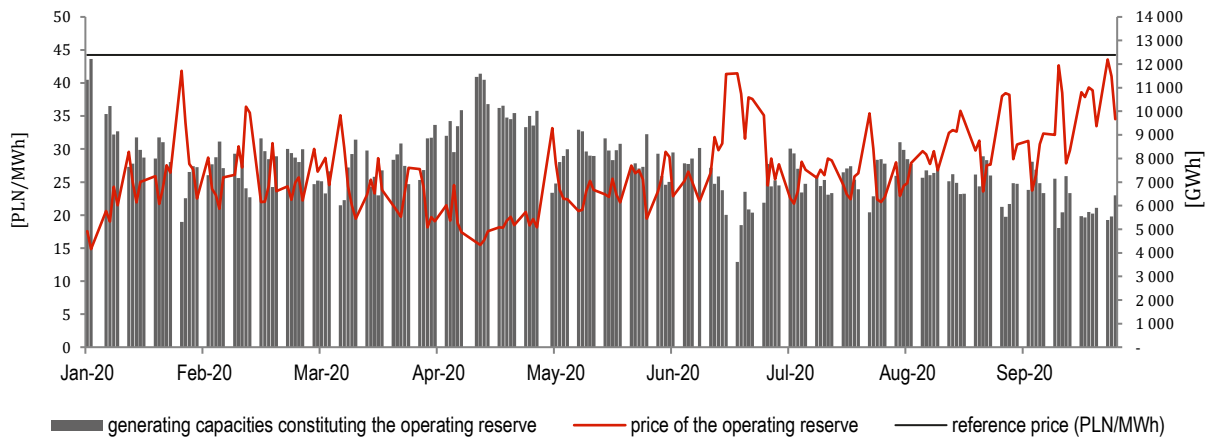


Source: TGE, PSE

### Operating reserve

The operating power reserve service continues to be provided in 2020. The reference price was raised to PLN 44.24/MWh. After the first three quarters of 2020, the average operating power reserve fee was PLN 26.62/MWh and was lower by PLN 8.32/MWh compared to the same period of the previous year (PLN 34.94/MWh) due to the shrinking demand for electricity.

Figure 20: Prices and generating capacity constituting operating reserve after three quarters of 2020



Source: PSE

### 5.3. Regulatory environment

#### Legislative processes completed in Q3 2020

Table 23: List of legal acts materially affecting the Group

Legal act	Description and purpose of the regulations
<p>Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment (or Taxonomy). Entry into force: 5 July 2020.</p> <p>(1) in respect of the environmental objectives referred to in points (a) and (b) of Article 9, by 1 January 2022; and</p> <p>(2) in respect of the environmental objectives referred to in points (c) to (f) of Article 9, by 1 January 2023.</p>	<p>The Regulation establishes the framework for determining whether an economic activity qualifies as environmentally sustainable. It introduces, <i>inter alia</i>:</p> <p>(1) harmonised and transparent financing principles and support criteria for green projects;</p> <p>(2) provisions to prevent the financing of projects (EU funding) involving carbon-intensive technologies.</p>
<p>Commission Implementing Regulation (EU) 2020/1294 of 15 September 2020 on the Union renewable energy financing mechanism. Entry into force: 7 October 2020</p>	<p>The regulation sets out provisions necessary for the implementation of the Union renewable energy financing mechanism. It enables, <i>inter alia</i>:</p> <p>(1) support for new renewable energy projects in the Union with the aim of covering a gap in the indicative Union trajectory;</p> <p>(2) contributing to and enabling framework supporting renewable energy deployment across the Union.</p>

#### Legislative processes pending in Q3 2020

Table 24: Overview of legislation with a potential material effect on the Group al acts materially affecting the Group

Legal act	Description and purpose of the regulations
<p>Bill to amend the Capacity Market Act. Number on the list: UC 42.</p>	<p>The objective of the bill is to bring the provisions of the Capacity Market Act of 8 December 2017 in line with the provisions of the Market Regulation, including with respect to:</p> <p>(1) limiting the participation of generation capacities emitting more than 550 g CO<sub>2</sub>/kWh and more than 350 kg CO<sub>2</sub>/kW on average per year in capacity mechanisms (starting from 4 July 2019, the provisions of the Market Regulation exclude from the capacity market new generation capacities (that did not start commercial production before that date) emitting more than 550 g of CO<sub>2</sub>/kWh, and starting from 1 July 2025 also existing generation capacities (that started commercial production before 4 July 2019) emitting more than 550 g of CO<sub>2</sub>/kWh of electricity and more than 350 kg CO<sub>2</sub>/kW);</p> <p>(2) guarantees of acquired rights under capacity contracts concluded before the end of 2019;</p> <p>The terms of the project enable:</p> <p>(1) further specification of the rules for the secondary market and carbon-intensive units;</p> <p>(2) continued functioning of the capacity market based on the classification of carbon intensity of market participants;</p> <p>(3) conversion of the capacity contracts of planned capacity market units and modification of their technical parameters (including changing the electricity production technology of units exceeding the emission limit).</p> <p>If the revision does not come into effect before the launching of the capacity market on 1 January 2021, there may be a problem with capacity substitution in the system (including issues relating to the functioning of the secondary market).</p>
<p>Proposal for a Regulation of the European Parliament and of the Council establishing the Just Transition Fund. COM/2020/22 final.</p>	<p>The purpose of the Just Transition Fund is to provide support to territories facing serious socio-economic challenges deriving from the transition process towards a climate-neutral economy by 2050.</p> <p>The resources of the fund are to be allocated to zero-carbon and low-carbon energy projects (natural gas, for instance in regions that are highly dependent on coal production and combustion) and other projects, such as micro-enterprises, sustainable tourism, social infrastructure, universities and public research institutes, energy storage technologies, low-carbon district heating, smart and sustainable mobility, digital innovation, including digital and precision farming, projects to combat energy poverty, as well as culture, education and building of a community.</p> <p>On 20 July 2020, the European Council announced an agreement on the EU budget for 2021-2027 and the recovery plan, including resources for the Just Transition Fund. On 16 September 2020, the European Parliament (EP) adopted its position on the matter, calling for increasing the allocation to the Fund from the EU budget for 2021-2027 to EUR 25 bn (2018 prices). The European Commission proposed EUR 11 bn, and the European Council reduced this allocation to EUR 10 bn. Poland is expected to receive as much as 35% of the final allocation.</p>



<p><b>Bill to amend the Act on the system for greenhouse gas emission allowance trading and certain other acts (pertaining mainly to the Modernisation Fund (MF)).</b> Number on the list: UC36.</p>	<p>This bill lays down, among other things, provisions aimed at establishing an operator for the distribution of resources from the Modernisation Fund (MF) in Poland, which is to operate between 2021 and 2030.</p> <p>The priority areas for support are:</p> <ol style="list-style-type: none"> <li>(1) investments in networks of energy distribution;</li> <li>(2) development of renewable energy sources;</li> <li>(3) energy storage;</li> <li>(4) energy efficiency.</li> </ol> <p>By 2030, 43.11% of the resources (equal to approx. PLN 14.5 bn or EUR 3.3 bn) will be allocated to Poland;</p> <p>Key assumptions:</p> <ol style="list-style-type: none"> <li>(1) Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej (the National Fund for Environmental Protection and Water Management) will play the role of the Polish operator of MF resources;</li> <li>(2) Priority investment projects may seek funding up to 100% of eligible costs. Non-priority investment projects can obtain up to 70%.</li> <li>(4) The European Investment Bank, as the European MF operator, has the right to challenge the project list or a part of the project list as being non-compliant with the provisions of Directive (EU) 2018/410 of 14 March 2018, which sets out the objective of the Fund.</li> </ol>
<p><b>Proposal for a Regulation of the Minister of Climate laying down the method of determining the connection capacity for indoor and outdoor parking spaces associated with public utility buildings and residential multi-family housing.</b> Number on the list: 10.</p>	<p>The objective of the Regulation is to set out how to determine the minimum connection capacity to supply indoor and outdoor parking spaces associated with public utility buildings and residential multi-family housing.</p> <p>Pursuant to the specific new regulations, it is the responsibility of the Distribution System Operator to incur capital expenditure on upgrading and new distribution networks.</p>
<p><b>Proposal for a Regulation of the Council of Ministers on the maximum volume and value of electricity from renewable energy sources that may be sold at an auction in 2021.</b> Number on the list: RD173.</p>	<p>The objective of the Regulation is to set out the necessary provisions for announcing and carrying out renewable energy auctions.</p> <p>Key assumptions:</p> <ol style="list-style-type: none"> <li>(1) the proposal does not provide for any support to existing and upgraded renewable energy installations;</li> <li>(2) the total estimated volume of energy for auction sale in 2021 is 53.2 TWh in the 15-year period of support. The total maximum value of the aforesaid volume is approximately PLN 20 bn.</li> </ol>
<p><b>The Act on investment projects preventing the effects of drought.</b> Number on the list: UD101.</p>	<p>The objective of the Act is to introduce solutions to the legal system that will enable the simplification and acceleration of work relating to the preparation for execution of water retention projects aiming at mitigating the effects of drought in Poland (applicable also to facilities and areas used for hydropower purposes).</p> <p>As a result of the change in the manner and rate of calculating the fee for water drainage, the cost of water drainage from storage yards, car parks, internal roads etc. is likely to increase.</p>
<p><b>Proposal for a Regulation of the Minister of Climate amending the regulation setting out the specific rules of structuring and calculating tariffs and billings in electricity trading.</b> Number on the list: 50.</p>	<p>The proposed changes are aimed at introducing, <i>inter alia</i>:</p> <ol style="list-style-type: none"> <li>(1) the possibility of setting up a tariff group for connected recipients who use electricity for the sole purpose of the functioning of a public charging station and provision of charging services by means of that public charging station;</li> <li>(2) a mechanism to include differences between actual revenue of electricity system operators and planned revenue of electricity system operators arising from the tariffs approved for the year concerned in the regulatory account balance in the tariffs of those operators;</li> <li>(3) the option for end users to receive electronic invoices for electricity and to receive electricity billing information electronically;</li> <li>(3) transparent provisions for new tariff groups;</li> <li>(4) the possibility of making settlements with end users exclusively by electronic means.</li> </ol>
<p><b>Regulations of the Minister of Climate amending the Regulation laying down the specific conditions of functioning of the electricity system.</b> Number on the list: 51.</p>	<p>The objective of the proposal for the Regulation is to amend the provisions on, <i>inter alia</i>:</p> <ol style="list-style-type: none"> <li>(1) functioning of the electricity balancing market;</li> <li>(2) power grid connections;</li> <li>(3) the possibility of active participation for subsequent electricity system users, considering the specific nature of each group of entities;</li> <li>(4) establishing new rules for the determination, calculation and updating of some key prices used in the Polish Balancing Market (BM) model;</li> <li>(5) extending the possibility of creating active scheduling units for various technologies;</li> <li>(6) adapting the BM requirements to the specific requirements of units other than centrally dispatched generating units (large baseload generators).</li> </ol> <p>In the Regulation, pumped storage power stations are not classified in the same manner as other energy storage facilities.</p>



*Hydro power plant Owidz, on the Wierzyca river*

## **Shares and shareholding structure**

## 6. SHARES AND SHAREHOLDING STRUCTURE

### 6.1. Information on shares and 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.

As at 30 September 2020, the strategic shareholder was PKN ORLEN, which acquired 80.01% of the Company's shares under the tender offer for the sale of all shares issued by Energa announced on 5 December 2020 (detailed information is presented in the Management Board Report on performance of the Energa Capital Group in the first half of 2020).

**Table 25: Energa shares by series and type as at 30 September 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.

**Table 26: 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>

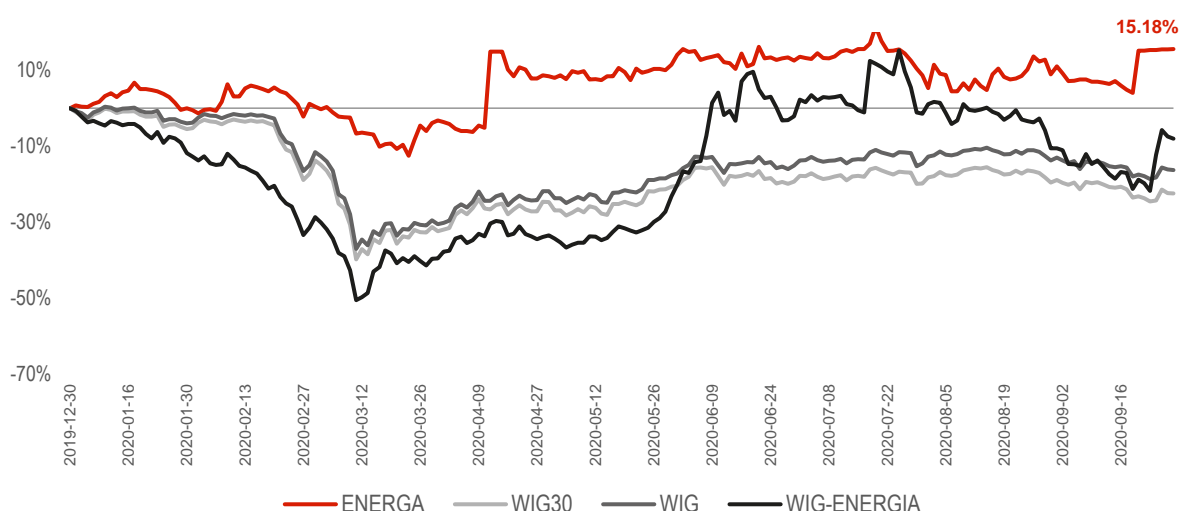
### 6.2. Prices of the Company's shares and recommendations awarded

**Table 27: Data on Energa stock as at 30 September 2020**

Data	Value
Issue price	PLN 17.00
Number of shares	414,067,114
Stock price at the end of the period	PLN 8.30
Capitalisation at the end of the period	PLN 3.4 billion
Q3 of the year minimum	PLN 7.31
Q3 of the year maximum	PLN 8.86
Q3 of the year average trading value	PLN 1.28 m
Q3 of the year average trading volume	157.4 thou.
Q3 of the year average number of trades	0.22 thou.

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

**Figure 21: 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 September 2020) stood at PLN 8.30, which represents an increase by 17.2% compared with the last trading day in 2019 (i.e. 30 December 2019) and in Q3 2020 alone by 2.0%. In 2020, the Company's share price was subject to fluctuations, which was related to, i.a., the tender offers to subscribe for the sale of all shares issued by Energa announced by PKN ORLEN: the first one announced on 5 December 2019 and the second (the so-called deleting) announced on 21 September 2020 (more information on this subject has been presented in chapter 2.2. *Significant events in the reporting period and after the balance sheet date*). In Q3 2020, the WIG-Energa index decreased by 5.1%, and the WIG30 index by 3.2% (compared to the end of 2019, these indices decreased by 5.3% and 20.8%, respectively). On 14 October 2020, an extraordinary adjustment was made to the stock index portfolios and Energa was replaced by Allegro in the WIG30 index.

On 29 October 2020, the Extraordinary General Meeting of the Company decided to withdraw Energa's shares from stock exchange trading.

In Q3 2020, no new recommendation for the Company's shares was issued. The list of recommendations issued for the Company's shares can be found on the Company's Investor Relations website at <https://ir.energa.pl/en/ir/investor-relations-web-site/Financial-results/Recommendations>.

### 6.3. Ratings

In Q3 2020, the ratings assigned by Fitch Ratings agency remained unchanged.

### 6.4. Changes to shares held by executive and supervisory personnel

As at 30 September 2020 and as the date of publication of the interim report for the Q3 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 Łyna

## Other information on the Group

## 7. OTHER INFORMATION ON THE GROUP

### 7.1. Information on material contracts and agreements

#### Agreements for loans and borrowings and the domestic bond issue programme

Details on agreements for loans and borrowings and the domestic bond issue programme are presented, inter alia, in Note 16, Financial Instruments, to the Condensed interim consolidated financial statements of the Energa Group for the nine-month period ended on 30 September 2020.

**Table 28: Nominal value of bonds subscribed by Energa SA and not redeemed, broken down by issuer, as at 30 September 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.	7
<b>Total</b>		<b>1,720</b>

#### Guarantees and sureties granted

As at 30 September 2020, sureties extended by Energa SA to cover the liabilities of the Group companies totaled PLN 6,893 m and included:

- surety for liabilities of Energa Finance AB (publ) under Eurobond issue for PLN 5,658 m,
- sureties for liabilities of the Energa Group companies arising from bank guarantees granted by PKO Bank Polski SA under guarantee facilities dedicated to Energa Group companies in the total amount of PLN 57 m,
- other sureties for liabilities of the Energa Group companies towards other creditors, including: Commodity Clearing House (IRGiT), the State Treasury, the National Fund for Environmental Protection and Water Management (NFOŚiGW) and the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW), in the total amount of PLN 1,268 m.

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

All transactions within the Energa Group are made based on market prices of goods, products or services delivered resulting from their manufacturing costs.

Information on transactions with related entities is presented in Note 18 to the Condensed interim consolidated financial statements of the Energa Group for the nine-month period ended on 30 September 2020.

### 7.2. Risk Management

The Energa Group classifies risks into four categories:

- strategic risks – risks involved in the delivery of strategic objectives, including the planning and completion of investment projects or execution of corporate governance;
- legal and regulatory risks – risks concerning compliance with binding laws and regulations;
- operational risks – risks involved in the delivery of operational objectives, including infrastructure, processes or resources;
- financial risks – risks involved in finance management.

A detailed description of the risks involved in the business operations of the Company is presented in the *Management Report on performance of the Energa Capital Group and of Energa SA in the first half of 2020*. In the opinion of the Management Board, the risks identified therein are still present.

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

As at 30 September 2020, the Energa Group was a party to 15,701 court proceedings. The Group was a plaintiff in 13,425 cases where the aggregate amount in dispute was approx. PLN 434 m. The Group was a defendant in 1,601 cases where the aggregate amount in dispute was approx. PLN 469 m.

As at 30 September 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 PLN 43.4 m in 746 cases. 984 court cases with amounts in dispute totalling PLN 88.5 m were pending.

Based on the available data pertaining to the value of pending proceedings, the Company assumes that the actual amount to be paid after the above-mentioned disputes are resolved may reach approx. PLN 75 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.

As at 30 September 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 amounted to PLN 188.6 m, of which:

Type of receivables	Balance at the end of Q3 2020 (PLN m)
court and enforcement-based	115.4
bankruptcies	64.3
non-billed	6.3
non-billed – bankruptcies	2.7
<b>TOTAL</b>	<b>188.6</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 29: Proceedings pending before courts, arbitration or public administration bodies**

Parties	Object of dispute and details of the case
Energia Operator SA (plaintiff); Arcus SA (defendants)	<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 parties moved to the court to appoint experts for the purpose of drafting of opinions. As at the date of update of the case (15 October 2020), two opinions have been received by EOP: one in the field of meteorology and one in the field of metrology.</p>
Arcus SA (plaintiff); Energia Operator SA (defendant)	<p><b>Action for declaration of a contract for stage II of AMI invalid</b></p> <p><b>Counterclaim for payment of contractual penalties for stage II of AMI</b></p> <p><i>Regional Court in Gdańsk, file No. IX GC 893/15</i></p> <p>As at 15 October 2020, the court is looking for experts capable of preparing an opinion.</p>
Arcus SA (plaintiff); Energia Operator SA (defendant)	<p><b>Claim for payment of compensation for unlawful acts/unfair competition practices</b></p> <p>Energia Operator SA disputes the 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. Energia Operator SA appealed against this decision in a complaint, which was dismissed.</p>
Arcus SA (plaintiff); Energia Operator SA (defendant)	<p><b>Claim for payment for additional works at Stage 1 of AMI</b></p> <p>Energia Operator SA disputes legitimacy of that statement of claim and has moved for it to be dismissed. Energia Operator SA has recently filed an appeal against the decision to refuse dismissal of the statement of claim.</p>
Energia Operator SA (plaintiff); PKN ORLEN SA (defendant)	<p><b>Claim for payment on account of the system fee for services provided to that entity as an autoproducer undertaking</b></p> <p>On 26 November 2019, the Regional Court in Warsaw delivered its judgment, awarding the amount of ca. PLN 16 m 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 to Energia 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%.</p> <p>The parties have appealed against the judgment. The appellate hearing has not been scheduled. Given the current status of the case, the Group showed a contingent asset in the amount of PLN 11.7 m.</p>
Energia Operator SA (party); PRESIDENT OF THE ENERGY REGULATORY OFFICE (authority)	<p><b>Fine imposed by the authority</b></p> <p><i>Regional Court in Warsaw, file No. XVII AmE 224/17</i></p> <p>Energia Operator received the decision of 21 December 2016 in which the President of the URE imposed a fine of PLN 11 m on Energia Operator SA for misleading the President of the URE. 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.</p>
Energia Operator SA (party); PRESIDENT OF THE ENERGY REGULATORY OFFICE (authority)	<p><b>Fine imposed by the authority</b></p> <p><i>Regional Court in Warsaw, file No. XVII AmE 68/18</i></p> <p>Energia Operator received the decision of 6 November 2017 imposing fines totalling PLN 13.6 m 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 to provide measurement data to trading companies; (3) failure to meet the deadlines to examine complaints from trading companies; (4) failure to meet the deadlines to verify supplier switching reports; (5) failure to meet the deadlines for the final settlement of electricity sales agreements; and (6) failure to restart power supplies to one of the customers.</p> <p>The first hearing was held on 3 March 2020 and no subsequent hearing has been scheduled.</p>



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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*

Energa Kogeneracja Sp. z o.o. moved to the court to award the amount of ca. PLN 106.4 m from Mostostal Warsaw S.A., which includes: ca. PLN 15.2 m in contractual penalties, ca. PLN 90.3 m in reduced remuneration and ca. PLN 0.96 m in capitalised interest. In its statement of defence of 15 December 2017, Mostostal Warszawa SA moved to the court to dismiss the claims in their entirety and filed a counterclaim to award the amount of ca. PLN 7.4 m from Energa Kogeneracja Sp. z o.o. as compensation.

The court decided to ask the Danish institute about the possibility of drafting an opinion in the case, the anticipated date of drafting the opinion and the anticipated costs of drafting the opinion.

In accordance with a letter received from the Danish institute, the institute does not prepare opinions for the purposes of judicial proceedings, but it identified the Danish Society of Engineers as an entity capable of drawing up such opinions. In response to a request from the court, Energa Kogeneracja Sp. z o.o. stated that they consented to the drafting of the opinion by the Danish Society of Engineers. Moreover, the court announced that it would send requests about the possibility of drafting the opinions to other institutes identified by the parties. Mostostal Warszawa S.A., on the other hand, challenged the capability of the Danish Society of Engineers to deliver the opinion due to the Society's links to Ramboll. The outside intervener consented to the delivery of the opinion by the Danish Society of Engineers, provided that it meets the criteria of a scientific research institute, and furthermore, the outside intervener informed that the Minister of Climate was the current representative of the State (*statio fisci*).

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 ca. PLN 26.3 m thereto from Energa Kogeneracja Sp. z o.o. as (partial) remuneration. In its objection to the writ of payment of 23 February 2018 in writ-of-payment proceedings, Energa Kogeneracja Sp. z o.o. moved to dismiss the statement of claim in its entirety. Two witnesses were heard in a two-year period.

Recently, the court has permitted the parties to submit an attachment to the minutes of the hearing in which the parties will summarise the evidence collected so far. Energa Kogeneracja has met its commitment and submitted the attachment to the minutes of the hearing. The commitment has also been met by Mostostal Warszawa S.A., which has also submitted the attachment to the minutes of hearing and responded to the position of Energa Kogeneracja Sp. z o.o.

Energa Kogeneracja Sp. z o.o. is waiting for a new hearing to be scheduled.

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

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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 ca. PLN 31.9 m 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 (ca. PLN 25.7 m) and incidental costs relating to debt service under a credit facility agreement (ca. PLN 6.3).

The case was concluded in the first instance with a judgment awarding ca. PLN 17.8, plus statutory interest accruing from 26 July 2017 in favour of Boryszewo Wind Invest and dismissing the remaining part of the claim. Energa-Obrót S.A. has appealed against this judgment. The judgment was delivered on 28 October 2019. On 22 July 2020, Energa-Obrót S.A. filed a cassation appeal, and on 7 September 2020 Boryszewo Wind Invest filed a response to the cassation appeal.

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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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<b>Energa Obrót SA (plaintiff); MEGAWATT BALTICA SA (defendant 1), Powszechna Kasa Oszczędności Bank Polski SA (defendant 2)</b>	<p><i>Court of Arbitration at the Polish Chamber of Commerce in Warsaw, file No. SA 128/17</i></p> <p>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.</p> <p>An updated counterclaim was filed by Megawatt Baltica SA on 1 September 2018. The amount of the claim is ca. PLN 17 m including statutory penalty interest.</p> <p>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. ca. PLN 15.3 m).</p> <p>On 26 September 2019, hearings were held regarding complaints for reversing the partial and final judgment.</p> <p>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.</p> <p>On 24 March 2020, the opponent filed a response to the cassation appeal.</p>
<b>Energa Obrót SA (plaintiff); C&amp;C WIND sp. z o.o. (defendant 1), Bank Ochrony Środowiska SA (defendant 2)</b>	<p><i>Court of Arbitration at the Polish Chamber of Commerce in Warsaw, file No. SA 127/17</i> <i>Second instance file No.: VII Aga 1994/18</i></p> <p>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.</p> <p>Arbitration procedures were concluded by final judgments of the arbitration court, against which extraordinary remedies were sought – appeals to reverse the judgments were filed with the Court of Appeal in Warsaw. The parties attempted to negotiate a settlement but they did not reach an agreement.</p> <p>The appeal to reverse the partial judgment was heard on 9 October 2020. The court postponed the delivery of the judgment until 22 October 2020.</p>
<b>Energa Obrót SA (plaintiff); BORYSZEWO WIND INVEST Sp. z o.o. (defendant 1), mBank SA (defendant 2)</b>	<p><i>Regional Court in Warsaw, file No. XVI GC 799/17</i></p> <p>On 11 September 2017, Energa Obrót filed a statement of claim. The parties filed a response to the counterclaim and exchanged procedural writs.</p> <p>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.</p> <p>On 21 December 2018, Boryszewo Wind Invest filed a response to the appeal and mBank SA did so on 28 December 2018.</p>
<b>Energa Obrót SA (plaintiff); JEŻYCZKI WIND INVEST sp. z o.o. (defendant 1), mBank SA (defendant 2)</b>	<p><i>Regional Court in Warsaw, file No. XVI GC 805/17</i></p> <p>On 11 September 2017, Energa Obrót SA 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 court of second instance passed a judgment dismissing the appeal of Energa Obrót SA. The Company applied for a copy of the judgment with reasoning.</p>
<b>Energa Obrót SA (plaintiff); WIND INVEST sp. z o.o. (defendant 1), mBank SA (defendant 2)</b>	<p><i>Regional Court in Warsaw, file No. XVI GC 798/17</i></p> <p>On 11 September 2017, Energa Obrót filed a statement of claim.</p> <p>The judgment was delivered on 19 September 2019. The court dismissed the statement of claim filed by Energa Obrót.</p> <p>On 27 November 2019, Energa Obrót filed an appeal. The date of the appellate hearing has not yet been scheduled.</p>

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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>  <i>Second instance file No.: VII AGa 61/20</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> <p>An appellate hearing was held on 8 October 2020, during which the parties upheld their positions. The court ended the hearing and postponed the delivery of the judgment until 26 October 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 case is now pending before a court of second instance. The case was concluded by the court of first instance with a judgment dismissing the Company's action. Energa-Obrót appealed on 2 July 2019. The appellate hearing scheduled for 17 April 2020 was rescheduled due to the state of epidemic to 27 August 2020. At the hearing, the court closed the court proceedings. On 15 September 2020, the Court dismissed the appeal of Energa-Obrót SA. On 16 September 2020, Energa-Obrót SA applied for a copy of the judgment with reasoning.</p>
<b>Energa Obrót SA (plaintiff/counter-defendant); EW CZYŻEWO sp. z o.o. (defendant 1/counter-plaintiff), BANK BGŻ BNP PARIBAS SA (defendant 2)</b>	<p><i>Regional Court in Gdańsk, file No. IX GC 736/17</i></p> <p>The case was concluded by the court of first instance. The Court dismissed the action for declaration with its judgment and awarded contractual penalties. The law firm appealed against the judgment. Appellate hearings were held on 23 July and 28 October 2019. The judgment was delivered on 28 November 2019. A cassation appeal was filed against the judgment. BGŻ BNP's response to the cassation appeal was served on 8 July 2020.</p>
<b>Energa Obrót SA (plaintiff); ELEKTROWNIA WIATROWA EOL sp. z o.o. (defendant 1), BANK ZACHODNI WBK SA (defendant 2)</b>	<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. The case was concluded in the first instance by dismissal of the action (21 February 2020). Energa-Obrót appealed on 7 July 2020. The date of the appellate hearing has not yet been scheduled.</p>
<b>Energa Obrót SA (plaintiff); WIELKOPOLSKIE ELEKTROWNIE WIATROWE sp. z o.o. (defendant 1), BANK BGŻ BNP PARIBAS SA (defendant 2)</b>	<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>The case was closed by the court of first instance. The parties attempted to negotiate a settlement but no settlement was signed. Energa-Obrót filed a cassation appeal on 5 August 2020. In September 2020, Wielkopolskie Elektrownie Wiatrowe and BNP Paribas filed a response to the cassation appeal.</p>
<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.</p> <p>The case was concluded by the court of first instance. The defendant wind farm filed a counterclaim against the company for payment of contractual penalties. On 30 August 2018, the Court dismissed the action for declaration with its judgment and awarded contractual penalties. The law firm filed an appeal. On 24 June 2020, the court of second instance delivered a judgment dismissing the appeal with respect to the declaration of invalidity of CPA and granting the appeal with respect to the request to reduce the contractual penalties. The judgment with reasoning was served on 10 August 2020.</p>
<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 ca. PLN 1.4 m 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 m).</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.
<b>Wielkopolskie Elektrownie Wiatrowe sp. z o.o. (plaintiff); Energa Obrót SA (defendant)</b>	<i>Regional Court in Gdańsk, file No. IX GC 719/19</i> 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. The case is now pending in the first instance. Energa-Obrót filed a response to the statement of claim. A hearing was held on 29 July 2020. The next hearing is scheduled for 4 November 2020.
<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> The case is now pending in the first instance. Energa-Obrót filed a response to the statement of claim. A preparatory hearing was held on 31 January 2020. Hearings were held on 13 and 14 July 2020. On 17 August 2020, the court delivered a judgment granting Zonda's claim.
<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> 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. The case is now pending in the first instance. Energa-Obrót filed a response to the statement of claim. The proceedings are now stayed.

## 7.4. Headcount in the Group

As at 30 September 2020, the Energa Group employed the total of 9,805 persons compared to 9,957 as at the end of last year. The main reason for changes in the level of employment was natural rotation, including retirement of employees and process optimization.

## 7.5. Collective disputes and collective dismissals

### Collective dismissals

In Q3 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

In Q3 2020, there were two collective disputes pending at the Group. All collective disputes are currently at mediation stage.

A collective dispute between Energa Elektrownie Ostrołęka SA (EEO SA) and organisations of trade unions: Związek Zawodowy Energetyków and Związek Pracowników Ruchu Ciągłego, in connection with demands made on 22 August 2017 and on 8 September 2017 regarding the conclusion of a Collective Agreement covering the employees of EEO SA.

A collective dispute between Energa Elektrownia Ostrołęka SA (EEO SA) and organisations of trade unions: Związek Zawodowy Energetyków, Związek Zawodowy Pracowników Ruchu Ciągłego, Związek Zawodowy Inżynierów i Techników, in connection with demands made on 7 February 2019 regarding the introduction of Employee Pension Plans in Energa Elektrownia Ostrołęka SA from 1 January 2019.

Gdańsk, 5 November 2020

### **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

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

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

Mikołaj Zwierzewski  
Director of the Finance Department

## List of tables

Table 1: Status of the investment program as at 30 September 2020 .....	8
Table 2: Consolidated statement of profit or loss (PLN m) .....	12
Table 3: EBITDA after material one-off events* (PLN m) .....	14
Table 4: Consolidated statement of financial position (PLN m) .....	15
Table 5: Consolidated cash flow statement (PLN m) .....	17
Table 6: Financial ratios of the Energa Group .....	18
Table 7: EBITDA of the Energa Group, by Business Lines (PLN m) .....	21
Table 8: Distribution of electricity by tariff groups (GWh) .....	21
Table 9: SAIDI and SAIFI indicators .....	22
Table 10: Results of the Distribution Business Line (PLN m) .....	22
Table 11: Gross electricity production (GWh) .....	24
Table 12: Gross heat production (TJ) .....	24
Table 13: Volume and cost of consumption of key fuels* .....	25
Table 14: Results of the Generation Business Line (PLN m) .....	26
Table 15: EBITDA for Generation Business Line broken down to Generation Segments (PLN m) .....	26
Table 16: Results of the Hydro Power Division (PLN m) .....	28
Table 17: Results of the Wind Power Division (PLN m) .....	28
Table 18: Results of the Ostrołęka Power Plant Division (PLN m) .....	28
Table 19: Results of the Other and Adjustments Division (PLN m) .....	28
Table 20: Sale of electricity (GWh) .....	29
Table 21: Result of the Sales Business Line (PLN m) .....	30
Table 22: Average price levels of green property rights listed on the Polish Power Exchange .....	38
Table 23: List of legal acts materially affecting the Group .....	40
Table 24: Overview of legislation with a potential material effect on the Group al acts materially affecting the Group .....	40
Table 25: Energa shares by series and type as at 30 September 2020 .....	43
Table 26: Shareholding structure of Energa as at the date of this Report .....	43
Table 27: Data on Energa stock as at 30 September 2020 .....	43
Table 28: Nominal value of bonds subscribed by Energa SA and not redeemed, broken down by issuer, as at 30 September 2020 (PLN m) .....	46
Table 29: Proceedings pending before courts, arbitration or public administration bodies .....	48

## List of figures

Figure 1: EBITDA bridge by Business Lines (PLN m) .....	13
Figure 2: Consolidated statement of cash flows (PLN m) .....	17
Figure 3: Structure of assets and liabilities .....	18
Figure 4: Factors affecting the Energa Group's performance within the next quarter .....	19
Figure 5: Results of the Distribution Business Line of the Energa Group (PLN m) .....	22
Figure 6: EBITDA bridge of the Distribution Business Line (PLN m) .....	23
Figure 7: Results of the Generation Business Line of the Energa Group (PLN m) .....	25
Figure 8: EBITDA bridge of the Generation Business Line (PLN m) .....	27
Figure 9: Results of the Sales Business Line (PLN m) .....	30
Figure 10: EBITDA bridge of the Sales Business Line (PLN m) .....	31
Figure 11: Annual changes in the GDP, domestic demand, individual consumption and investments .....	33
Figure 12: Production of electricity in Poland after three quarters of 2020 (TWh) .....	35
Figure 13: Consumption of electricity in Poland after three quarters of 2020 (TWh) .....	35
Figure 14: Monthly volumes of cross-border power exchange in Poland after three quarters of 2020 (TWh) .....	36
Figure 15: Prices of energy in the SPOT market in Poland and in selected neighboring countries after three quarters of 2020 (PLN/MWh) .....	36
Figure 16: TGeBase index after three quarters of 2020 (PLN/MWh) .....	37
Figure 17: Forward contract price, base with delivery for 2021 after three quarters of 2020 .....	37
Figure 18: EUA prices after three quarters of 2020 (Euro/ton) .....	38
Figure 19: Comparison of prices in the balancing market and SPOT market (exchange) after three quarters of 2020 (PLN/MWh) .....	39
Figure 20: Prices and generating capacity constituting operating reserve after three quarters of 2020 .....	39
Figure 21: Changes in Energa SA stock prices in comparison with changes in WIG, WIG30 and WIG-ENERGIA indices .....	44

## 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)	Capital expenditures
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 <sub>2</sub>	Carbon dioxide
EIB (European Investment Bank)	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
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 (Euro Medium Term Notes)	The Euro Medium Term Notes programme
EUA (European Union Allowance)	emission allowances
EUR	Euro, currency used in European Union's eurozone countries
WSE	Giełda Papierów Wartościowych w Warszawie SA (the Warsaw Stock Exchange).
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
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
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
Co-generation, CHP	An engineering process of simultaneous production of heat and electrical or mechanical energy in the course of the same engineering process
KRS (National Court Register)	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
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
OR	Operating reserve
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
TSO, Transmission System Operator	A utility company transmitting gaseous fuels or electricity, responsible for grid operation in the gaseous transmission system or in the electrical energy transmission system, current and long-term operational safety of this system, operation, maintenance, refurbishment and required expansion of the transmission grid, including connections with other gaseous systems or other electrical power systems
OZEX_A	Volume-weighted average price for all transactions pertaining to the PMOZE_A contract on an exchange session
GDP	Gross Domestic Product
PLN	Polish zloty; national currency
PMI	Industrial economic activity index calculated by Markit in cooperation with HSBC
PMOZE_A	Property rights to certificates of origin for renewable electricity generated starting from 1 March 2009, as specified in the certificate of origin
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

YoY	Year on year
SAIDI (System Average Interruption Duration Index)	System Average Interruption Duration Index
SAIFI (System Average Interruption Frequency Index)	System Average Interruption Frequency Index
SFIO	Specialist open-end investment funds
SPOT	Day-Ahead Market (DAM): an energy market operating in the "day ahead" time interval (DA) supplying energy on day D
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)
Tariff G	A tariff group for individual customers – households
Polish Power Exchange, TGE	Towarowa Gielda 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.
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)	Weighted average cost of capital
WIBOR (Warsaw Interbank Offered Rate)	Warsaw Interbank Offered Rate
RAB	Regulatory Asset Base
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