

Transcript of the Q&A portion of the conference on the results for the first half of 2020

1. What identified criteria necessitated the write-downs to the Energa Ostrołęka Power Plant? After all, you had in place a programme to upgrade the Ostrołęka Power Plant B. What is the current value of the power plant in your books?

**M. Kasicki, CFO:** when it comes to the Power Plant upgrade programme, in addition to reducing emissions, the programme made it possible to obtain assistance from the power market in the years 2021-2025 and significantly increased the production capacity of 3 units in the plant. The write-downs referred to in the online question were created as a result of the impairment tests carried out for these assets. The test was carried out on the basis of financial projections for the finite useful life period of 2020-2036, relying on a defined estimated useful life of the underlying core plant and equipment. Of course, another element that we considered was the assistance obtained from the power market for the years 2021-2025, and in our subsequent analysis, we had to take into account limited support or even lack of support for that power plant due to the requirements of emission standards set out in the Regulation, which entered into force in 2019, which significantly limits or even eliminates Ostrołęka B from assistance under that instrument. An additional factor that affected the value of the assets was the level of WACC adopted for the calculations and tests, and we also adopted a specific risk premium of 3 pps. This risk reflects volume risk for conventional units, which results from the merit order, the structure of which depends on the shifts in the energy mix, which, as we know, will neither favour nor promote conventional units. All these factors necessitated the PLN 473 million in write-downs. What's important and what we'd like to emphasise is that the Energa Group's goal is to strive towards the most strategically favourable approach to that asset, to that company and its operations after 20235. So we are commencing the relevant analyses and we will discuss their findings in the coming periods, when they are further along.

2. What prompted the write-down and provision related to Ostrołęka C and what do they mean for the project itself, for the relationship with the main contractor and the SPV itself? Are you planning any further write-downs in relation to that project?

**M. Kasicki, CFO:** As for the provisions as at the end of the first half, they essentially reflect the current estimate of the amount of financing for our company - the SPV of the Ostrołęka C Power Plant in terms of reconciling the current formula of the project, i.e. the gas formula, and it is PLN 218 million. When it comes to write-downs related to the PLN 185 million loan granted to the SPV, one prerequisite was also the decision to convert the coal-fired plant into a gas-fired plant. And because works are under way, and as at the end of the first half, there is no formal decision on launching the gas project, we were required to write down that loan as the cash flows allowing for repayment of that loan from the project were not materialised. It is a non-cash accounting event and it will be assessed in the following periods and treated appropriately depending on subsequent decisions. As for any further write-downs, we will of course announce their levels in our upcoming current reports.

3. What is the current status of the integration of Energa and Orlen?

**D. Wadecki, Vice-President of Operations:** I would like to take this opportunity to answer this question. Analytical and conceptual efforts are under way with representatives of the Energa Group and Orlen. The many workshops focus on developing solutions aimed at arriving at the most optimal integration model and the most effective operational model. The reorganisation process does not solely involve reorganising the modelling of the Energa Group, but also the energy division in the Orlen Group. In this context it is a challenge that renders our work complex and requires fairly complicated modelling and validation of assumptions for the purpose of achieving optimal results. We will be

communicating the target integration structure and the operational model as soon as decisions in this regard are made.

4. When will you be providing an update on the Ostrołęka C project?

**D. Wadecki, Vice-President of Operations:** Let me answer this question as well. As we noted, efforts are under way to draft a new shareholders agreement. In technical terms, the project is now at an initial stage of conversion, so we are working on refining some of the details involved in the technology transition and project model. At this moment we have no additional information to share, and all key decisions are communicated in accordance with market practice and the applicable laws. We will share the details as soon as appropriate decisions are made in this regard.

5. In the first six months, and in particular in Q2, you reported large EBITDA decreases compared to the corresponding periods of the previous year. What EBITDA levels do you expect to reach for 2020 overall? How likely is it to improve? Or do you expect it to be lower than in 2019?

**M. Kasicki, CFO:** As I noted before, as a rule, we do not publish our financial projections. It is worth noting that our performance each year is affected by numerous factors that are beyond the control of the Energa Group. This year we have also had to grapple with the coronavirus pandemic, and it is unclear how it will unfold in the second half of the year. Therefore, our performance will be affected by the rate at which the economy recovers from the crisis. This applies generally to EU markets and foreign markets and a revival in international trade. Therefore, it is difficult to predict the results of the second half of this year. We are keeping a close eye on the rate and directions of growth, our position, particularly our cash position, to jointly determine the actions to be taken on the Energa SA level, but also in collaboration with the business lines. Like everyone else, we keep hoping that things will improve. Certainly a micro-level factor for our Group are, for instance, improvements on the income side due to handing over the Przykona wind farm, or parts of the integration, identifying cost and proceeds synergies with the PKN Orlen Group.

6. What scale of investment in the RES segment should we expect and in what time frame?

**B. Marchut, Energa OZE:** Ladies and Gentlemen, the Energa Group is certainly planning further bold investments into this segment. We have in mind both greenfield projects and acquisitions, primarily in the area of photovoltaics and wind projects. However, the question did mention scale. As for scale, indeed, at this time, we are assessing our financial potential with respect to performing the investments that are largely identified, and as part of the integration and our strategic role in the Orlen Group, we will ultimately be making these decisions. So, when it comes to scale, we'd ask for a bit more time. As for elements that may occur sooner, we are considering participating in an auction for the Gryf photovoltaic farm, and we are considering participating in this year's auction for a number of projects with a capacity of up to 1 MW. We can also note that we are participating in developing a barrage on the Vistula river, which includes a hydro-electric power plant with a capacity of 60 MW. It could be commissioned no earlier than 2028. That's all I can say about it at this time.

7. How did the pandemic affect the Q2 and first half performance, both overall and by business unit?

**M. Kasicki, CFO:** We estimate that the effect of the pandemic on our EBITDA in the first half was approximately PLN 95 million. As you know, the effect of the pandemic mainly boils down to reduced use of energy and lower demand for electricity, which affected our distribution volumes, retail sales levels and market sales of electricity. If we break these down into individual business lines, according to our estimates, at the Distribution level we recognised proceeds of PLN 36 million, of which PLN 33 million stems from decreased volumes, it also affected the margin, with PLN 3 million in health and

safety-related expenses, to ensure the safety of our electrical engineers and employees during this challenging time. As for LB Sales, the amount is PLN 58 million, related entirely to selling our excess electricity, due to lower demand from our customers than originally ordered. And there is the symbolic amount at our LB Generation level - PLN 1 million - in defined additional health and safety expenses to ensure the safety of our workers. Crucially, our thanks go to our employees, who during this challenging time mitigated the effect of the pandemic, in particular, with respect to grid work, as this work quarter-on-quarter in the previous year was completed at a similar level, which means that the effect of the pandemic had been mitigated quite significantly for operational efforts to secure energy supplies, much like in Generation.

8. Will Energa oversee all of its own and Orlen's energy assets? During the Przykona conference announcements were made that Energa OZE may take over low- and zero-emission projects from Orlen. Is work being done to that end?

**D. Wadecki, Vice-President of Operations:** due to the fact that it involves the issue of the operational model, in response to this question, I would like to state that the Energa Group, including Energa OZE, has the competency and know-how when it comes to building and operating renewable energy sources, and therefore appears to be naturally positioned to play such a role. However, as noted earlier, the target model is still being refined and at this point we are not in a position to discuss the details. The basic principle that will determine the ultimate solutions will certainly be whether it is possible to reach the maximum synergy potential of the two Groups.

9. What is the status of the talks with the ERO about changing the return on distribution model?

**W. Jasiński, ENERGA Operator:** Ladies and Gentlemen, Energa Operator is conducting these discussions, communicating with the Energy Regulatory Office about issues involving return on equity, in particular, as part of the Polish Society for Transmitting and Distributing Electricity. We are dealing with essentially a homogeneous, consistent position of all the operators in these communications. Our focus in the return on equity is, in particular, one of its components, i.e. the weighted average cost of capital, and we primarily concentrate on the period of observing yield fluctuations of the State Treasury bonds. It is our intention and the position of all operators within the PTPIREE for that period to be extended to 60 months, or 5 years, so that it benefits return on equity. These talks are and will be under way as I am now aware of plans to account for this in the 2022 model. Thank you very much.

10. What criteria necessitated another write-down on the value of PGG? Did you write-off the PGG package in full?

**M. Kasicki, CFO:** The prerequisites for conducting another valuation of PGG's shares were that entity's economic standing, proceeds and expenses, and, with the help of external advisors, a valuation was conducted using the discounted cash flow method related to dividends. As part of this approach, the fair value of shares was assessed at zero and was the basis for further write-downs at PLN 145 million at the end of the first half.

11. What is your view on the Just Transition Fund and the changes to it, particularly the reduction in available resources?

**M. Kasicki, CFO:** If I may, this issue is fairly neutral to the Energa Group, as the Fund itself, at its core, is dedicated to supporting regions affected by the ongoing decarbonisation, so it is primarily aimed at coal-mining regions.

12. How realistic is it to use some of the completed actions in the Ostrołęka C project during the transition to the gas-steam unit?

**D. Wadecki, Vice-President of Operations:** In arranging the installation within the gas technology, every possible element of the infrastructure that may be used is taken into consideration, including clearing the area, all groundwork, piling, and elements of the logistical infrastructure, including access roads and power lines. It will ultimately be possible to determine the remaining elements completed as part of the coal-fired unit that may be used upon determining the final technical parameters of the gas-fired unit.

13. What criteria necessitated the write-downs in Energa AB Finance?

**M. Kasicki, CFO:** The main reason was the issue of creating the deferred tax provision in this entity of PLN 102 million for any future potential tax liabilities of Energa Finance, related to foreign exchange differences resulting from repayment of intragroup loans granted by the company in previous years. Because of this event, it became necessary to test those assets for their value.

14. Will there be other write-downs as large in 2020?

**M. Kasicki, CFO:** If there are any further write-downs, we will communicate them to you as they occur, in our current reports.

15. When will we receive a timeline for the consolidation of the two Groups? When will you announce the strategy?

**D. Wadecki, Vice-President of Operations:** As part of the works, as we noted earlier, we have now identified a significant potential for synergies, both business and operational, both in the fundamental areas of business and those forming the Groups' basic value chain, and in terms of the so-called support areas, such as procurement or IT. The new integrated structure model and the updated strategy are being refined, as we have noted. We will communicate the outcomes of these efforts as well as any decisions in this regard as soon as they become available. Our earlier statement still applies with respect to the power industry, regarding the growth of the distribution network operator's area, in terms of generation, in terms of generation - concentration on low- and zero emission capacity.

16. Can you provide any details of the investment in the Gryf photovoltaic power station? When will further decisions on the direction of this project be taken? Has a timeline for the project been drafted yet?

**B. Marchut, Energa OZE:** Ladies and Gentlemen, the mention of "Gryf", which I discussed earlier, appears to directly address me, so I am happy to discuss this proposed investment. The Gryf photovoltaic power station is planned to have a capacity of 20 MW, which is quite high for these types of projects. It is located in the Przykona District, on a plot adjacent to our project - the Przykona wind farm, which we consider to be a good location as it allows us to lower our operating costs by having a single location for our operations. At this time we have a building permit that allows us to proceed with the construction portion of the project. But you asked about the timeline and our next steps. We are still in the process of developing the timeline and making further time-related arrangements. This is being discussed as part of arrangements involving the strategic role of the Energa Group within the Orlen Group, and we will be making further updates during our future meetings.

17. This is about a one-off event. What specifically was involved in the effect of the change in recognising the infrastructure obtained free of charge with respect to aligning the accounting policy with Orlen? Will this occur again?

**M. Kasicki, CFO:** Of course, this is a one-off event. The change ensures compliance with the approach taken by PKN Orlen, and of course it is permitted under the accounting policy standards. It means that

instead of deferred income on events in the form of obtaining grid infrastructure, and in this approach we reconcile this as a one-off. These positions so far, which had been entered under prepayments, were recognised immediately as a result. The amount in PLN 85 million and concerns 2 companies: Energa Operator and Energa Oświetlenie.