

Gdańsk, 8 July 2019

Area A

Pursuant to Article 293 of the Commercial Companies Code (CCC) the Management Board Members and Supervisory Board Members of ENERGA SA are obliged, while performing their duties, to exercise diligence resulting from the professional nature of their activities" and are liable towards the Company for damage caused by the breach of the duty of diligence. On 28 December 2018, ENERGA SA voted in favour of a resolution consenting to issuing a notice to proceed (NTP) by ELEKTROWNIA OSTROŁĘKA SP. Z O.O. in relation to the OSTROŁĘKA C coal-fired power plant construction project with a value of over PLN 6 billion – with the consent of the Supervisory Board of the Company.

1 . What steps have been taken by the Management Board Members and Supervisory Board Members to ensure that the above decision is taken and executed with due diligence and in the best interest of the Company and its shareholders?

Answer to question 1: The actions of the Management Board and the Supervisory Board of the Company, preceding the decision on the approval of the notice to proceed (NTP), were intended to ensure that the decision would be taken and executed with due diligence and in the best interests of the Company and its shareholders. Internal analyses of profitability and risks related to the project were carried out. At the same time, the support of external renowned advisors in the field of market forecasts, profitability analysis and legal and regulatory aspects was used. On the basis of the above work, the potential of the project to build the value of the ENERGA Group within the framework of cooperation with the Enea Group, having in particular experience related to the construction of the power unit in Koźlenice (unit no. 11), was confirmed.

The decision to issue the NTP was preceded by the determination of the minimum level of support from the Capacity Market that is necessary to implement the project. This level was reflected in the auction strategy adopted by the SPV Shareholders' Meeting.

- 2. What documents or other materials were used as the basis for the Management Board Members and Supervisory Board Members of the Company in the above matter?**
- 3. What was the content of the above documents or other materials?**
- 4. What was the position of individual Management Board Members and Supervisory Board Members regarding the above matter?**
- 5. In particular: how did individual Management Board Members and Supervisory Board Members vote when adopting appropriate resolutions on the above matter?**

Answer to questions 2-5: The above information constitutes a business secret within the meaning of generally applicable regulations, hence pursuant to Article 428(2) of the Code of Commercial Companies the Management Board refuses to provide such information.

6. How did ENERGA SA examine the profitability of the project before giving its consent to the issuing a notice to proceed (NTP)?

Answer to question 6: The profitability assessment was carried out for the period of the expected technical life of the power plant, taking into account the construction period. All capital expenditures were taken into account, including those incurred prior to the issuance of the NTP and the provision, and future revenues and operating costs were estimated on the basis of the power contract, price forecasts and marketable electricity generation volumes. The forecasts provided by the external consultant covered mainly the market prices of coal, CO₂ emission allowances, electricity and production volumes within the market demand. The profitability calculations were verified by an external independent advisor.

7. In particular:

a) What projections of CO₂emission allowance prices were used?

Answer to question 7 (a): ENERGA SA does not publish information on forecasts of electricity, fuel and CO₂ prices applied in the ENERGA Group. Analyses of this type are prepared by independent highly specialised suppliers, who are responsible for reliable and professional preparation of market forecasts.

b) What sensitivity analysis was carried out?

Answer to question 7(b): The sensitivity analysis was carried out as part of a study by an external consultant. It included an examination of changes in capital expenditures, electricity prices, carbon dioxide emission allowance prices, carbon prices, the term of a power contract, the amount of the financing margin and the cost of equity. A limit price level for power in the Capacity Market was also examined, resulting in a limit profitability of the project, i.e. an NPV of zero. Profitability analyses were also carried out on scenarios other than the baseline scenario.

c) Does the Company have any external opinions or analyses regarding the profitability of the project?

Answer to question 7(c): The Company has commissioned and holds appropriate reports on the external verification performed in relation to the internal profitability analysis.

d) What other materials did ENERGA SA rely on when examining the profitability of the project?

Answer to question 7 (d): Due to the high value of the project, its complexity and its potential impact on the financial situation of the ENERGA Group, ENERGA SA has taken a comprehensive set of actions to support the decision-making process. Within the framework of these activities, analyses were prepared, the aim of which was a detailed and comprehensive assessment and review of all project parameters. The set of analyses included in particular: financial analyses, legal and technical analyses, market analyses, internal corporate documents of ENERGA SA.

e) What was the content of the above-mentioned CO₂emission allowance price projections, sensitivity analyses, external analyses or opinions and other materials used in this case?

Answer to question 7 (e): ENERGA SA does not publish information on forecasts of electricity, fuel and CO₂ prices applied in the ENERGA Group. Analyses of this type are prepared by independent highly specialised suppliers, who are responsible for reliable and professional preparation of market forecasts.

Area B

In April 2019, a Company's shareholder and manager of assets worth over EUR 1.1 bln, LEGAL & GENERAL INVESTMENT MANAGEMENT (LGIM) published a report for 2018. LGIM stated that "the construction of the power plant [OSTROŁĘKA C] constitutes a financial risk to our customers and other shareholders" and: "LGIM opposed the proposal to build a power plant when it was voted on by the extraordinary general meeting of ENEA S.A. in September 2018. We coordinated a private letter to two Polish companies, signed by four other major institutional investors."

8. How did ENERGA SA analyse LGIM's concerns?

9. What is ENERGA SA's response to the LGIM's concerns regarding the financial risk for the Company and its shareholders related to the OSTROŁĘKA C project?

Answer to questions 8 and 9: ENERGA SA continuously monitors risks and financial conditions related to the Ostrołęka C project, but does not comment on opinions presented by third parties, including those contained in external reports.

Area C

In January 2019, the former President of PGE, Krzysztof KILIAN, stated that the OSTROŁĘKA C project was "completely pointless" and that "if he had been in place of the President of ENERGA or ENEA, who are equally responsible for the project, he would not have entered into this investment project". The Money.pl portal informed that "the former president of PGE emphasizes that the responsibility for the decisions made ultimately rests with the president and members of the management board. By proving that the project could have caused measurable losses for the company from the outset and that the authorities had committed mismanagement, they could have been held liable".

10. How did ENERGA SA analyse the concerns of the former President of PGE?

11. What is ENERGA SA's response to the concerns of the former President of PGE?

Answer to question 10-11: ENERGA SA does not refer to media comments on certain actions taken by the company. In these comments private opinions are expressed, usually without explaining the exact basis on which they are formulated, thus it is impossible and pointless to argue with them.

Area D

ENERGA SA stated on 29 December 2018 that the "schedule and terms of financial engagement" of further investors in the OSTROŁĘKA C project "will be agreed by 28 January 2019". Six months later, the project has still not secured financing from third parties. This is not the first deadline that has been breached. The Company's CFO told journalists in August 2017 that "the financial model of OSTROŁĘKA should be ready within one month".

12. What was the rationale for both these statements?

Answer to question 12: When making public statements, the Company relies on the best knowledge at a given moment, which means that it was based on the most up-to-date knowledge resulting from discussions and negotiations with parties potentially involved in project financing.

13. What specific financial arrangements were considered at the time of the statements and why did they not materialise?

Answer to question 13: It is invariably assumed that ENERGA SA and Enea S.A. are responsible for financing the project, and obtaining financing from other sources is to complement and optimise the structure of project financing. The parties are currently bound by an agreement entered into on 30 April 2019.

14. What other attempts to obtain external financing have been made?

Answer to question 14: Information in this respect was published on an ongoing basis in current reports both by ENERGA SA or ENEA SA, as well as by the entities participating in the talks themselves (e.g. PGE Polska Grupa Energetyczna S.A.).

15. Why was funding not granted in the end? (the question relates to each individual attempt to secure financing)

Answer to question 15: The financial needs of the project are satisfied by investors on an ongoing basis.

16. How do the difficulties in obtaining financing, which last for years, correspond to the assurances of ENERGA SA that the OSTROŁĘKA C project is profitable?

Answer to question 16: The project is profitable, but the scale of the investment poses a significant challenge to the closure of its financing. The profitability element is one of the boundary conditions required to obtain external financing, but not the only one. In addition to the above, the security package, the layout of individual sources of project financing, access to free project flows, the method of mitigating project risks, etc. are taken into account. The multitude of issues to be resolved causes the extension of work in this area. Prolongation of the process of obtaining financing is not unusual given the scale of the project.

17. What is the content of the profitability analyses carried out by ENERGA S.A. in connection with the OSTROŁĘKA C project (both before and after the issue of the NTP)?

Answer to question 17: The analyses carried out indicated positive NPV ratios (internal rate of return on investment higher than the weighted average cost of capital) for the base scenario of the assumptions. The profitability analyses are updated on an ongoing basis.

18. How does the Company intend to finance the remaining PLN 4 billion necessary to cover the construction cost? The question concerns the details of each solution that was or is being considered.

Answer to question 18: Sponsors (ENERGA SA and Enea S.A.) assume that they will obtain financing in the Project Finance formula without recourse to their balance sheets. It may also be necessary to use equity instruments.

19. In the light of the apparent serious difficulties in obtaining external financing, how does ENERGA justify the financial risks for the Company and its shareholders due to the approval of the notice to proceed (NTP) in the absence of external financing?

Answer to Question 19: In connection with Elektrownia Ostrołęka Sp. z o.o. having obtained a favourable result in the capacity market auction and financial support as a result of concluding a conditional power contract for a period of 15 years, it was justified to move to the next stage of contract performance. Risks related to the closure of financing are monitored on an ongoing basis.

20. What are the expenditures made by the Company and by ELEKTROWNIA OSTROŁĘKA SP. Z O.O. in connection with the implementation of the ELEKTROWNIA OSTROŁĘKA C project?

Answer to question 20: The basic reporting period used in the ENERGA Group is a calendar month, therefore the financial status of the Ostrołęka C Power Plant project as at 30 June 2019 has been presented.

As at 30.06.2018, ENERGA S.A. invested in Projekt Elektrownia Ostrołęka C in the form of acquisition of shares in Elektrownia Ostrołęka special purpose vehicle, including the transaction of resale of 50% of the rights to the project to ENEA S.A., in the amount of approximately PLN 460.4 million.

As at 30/06/2019, the level of expenditures of Elektrownia Ostrołęka Sp. z o.o. amounted to approximately PLN 889.8 million net. The expenses covered the entire financial exposure of the company, i.e. items of expenditure, costs and advances paid. Advances paid to the General Contractor amount to 10% of the contract value, i.e. PLN 505.0 million.

21. What were the expenditures made by the Company and ELEKTROWNIA OSTROŁĘKA SP. Z O.O. until the issuance of the NTP in connection with the implementation of the ELEKTROWNIA OSTROŁĘKA C project on preparatory, design and organisational works?

Answer to question 21: The basic reporting period used in the ENERGA Group is a calendar month, therefore the financial status of the Ostrołęka C Power Plant project as at 31/12/2018 has been presented. (in the period between the date of NTP issuance, i.e. 28/12/2018 and 31/12/2018, no material expenditures resulting from the fact of NTP issuance were identified).

As at 31/12/2018, ENERGA S.A. invested in Projekt Elektrownia Ostrołęka C in the form of acquisition of shares in the special purpose vehicle Elektrownia Ostrołęka Ostrołęka, including the transaction of resale of 50% of the project rights to ENEA S.A., in the amount of approximately PLN 279.7 million.

As at 31/12/2018, the level of expenditures of Elektrownia Ostrołęka Sp. z o.o. amounted to approximately PLN 508.8 million net. The expenses covered the entire financial exposure of the company, i.e. items of expenditure, costs and advances paid. The aforementioned performance included in particular the first part of the advance payment paid to the General Contractor in the amount of about PLN 202.0 million net (4% of the contract value) for the execution of organizational works.

Area E

The FITCH evaluation of 3 June 2019 states that "in the first year of operation (i.e. 2023) the project may result in penalties and lost revenues from the capacity market as according to the current plan the plant will be completed in September 2023".

22. What is the planned date of completion of the construction?

Answer to Question 22: The contractual deadline for completion of the works is 28 August 2023, which is 56 months from the date of issue of the NTP (28 December 2018). Actions are being taken to optimise the work schedule in order to speed up the commissioning of the unit.

23. Assuming the plant is built as planned, what is the estimated amount of penalties and lost revenues in 2023 according to the Capacity Market Act?

Answer to question 23: Taking into account the date of NTP issuance (i.e. 28/12/2018), the base period for the performance of the contract with the General Contractor (56 months from the date of NTP issuance) and the date on which the Ostrołęka C Power Plant is commence providing capacity services (1/1/2023), it should be pointed out that the delay in the performance of the capacity contract will be approximately 8 months. This delay was considered in the evaluation of the project's profitability by taking into account: the lack of revenues from the capacity market during the first eight months of 2023, as well as the expected penalties under the Capacity Market Act. The amount of the possible penalty is a derivative of the amount of the capacity obligation of Elektrownia Ostrołęka Sp. z o.o. (852.603 MW) and the price for the performance of the capacity obligation (202.99 PLN/kW/year). It should be noted that the assumed eight-month delay in the commencement of the provision of the capacity service does not constitute a threat to the validity of the concluded capacity contract (Article 46 paragraph 2 of the Capacity Market Act).

Area F

The FITCH evaluation also assumes that "OSTROŁĘKA C will be financed to a significant extent at the special purpose vehicle level, without the right of recourse to ENERGA, and the total contribution of the Company to the project will be limited to approximately PLN 1.3 billion."

24. Is the assumption made by FITCH correct and ENERGA will not contribute more than PLN 1.3 billion to the project?

Answer to question 24: At present, the Company relies on such assumptions.

FITCH states that "ENERGA's guarantee on the debt of OSTROŁĘKA C, recourse to ENERGA on account of the debt of the project, or majority shareholding of ENERGA leading to full consolidation" – may have a negative impact on the rating.

25. Can ENERGA confirm that it will not guarantee OSTROŁĘKA C debt, provide recourse to the Company in respect of the debt of this project, or increase its share in the special purpose vehicle?

Answer to question 25: At present, the Company relies on such assumptions.

Area G

26. What is the status of the talks with ENEA and PGE regarding PGE's potential involvement in the construction of OSTROŁĘKA C, announced on 7 January 2019?

Answer to question 26: The talks have not yet been completed. Further, important elements of the investment process will be communicated by the company in accordance with the regulations defining disclosure obligations of public companies, in particular in accordance with the regulations governing the obligation to disclose confidential information.

Area H

According to press reports, on 17 April 2019, a shareholder holding a controlling interest in the Company stated that ENERGA SA and ENEA S.A. could finance the project among themselves, inter alia, from unpaid profit, without the participation of third parties. This would significantly increase the financial risk of the project for ENERGA SA and its shareholders.

27. Can ENERGA SA confirm that it is not considering and will not consider an increased contribution to the project?

Answer to question 27: The current project financing assumptions are set out above.

Area I

On 16 April 2019, Gazeta Prawna reported that the NIK and the UOKiK are investigating the OSTROŁĘKA C project.

28. What information does the Company have on the above proceedings?

Answer to Question 28: We do not comment on press reports. ENERGA SA cooperates on an ongoing basis with all the authorities carrying out audit activities in relation to the Capital Group.

Area J

On 20 December 2018, 95 investors, whose assets totalled USD 11.5 bln, sent a public letter calling on European energy companies to ensure "clear deadlines and commitments to the rapid elimination of the use of coal. ... no later than in 2030", taking into account that "energy economics is significantly shifting in favour of green energy". The letter was signed by many of the Company's major shareholders, including AVIVA, CALPERS, CALSTRS, CHURCH COMMISSIONERS FOR ENGLAND, FIDELITY, LGIM, NN INVESTMENT PARTNERS, ROBECO.

29. Did ENERGA SA take into account the concerns of its shareholders regarding the investment in coal prior to issuing the notice to proceed (NTP) regarding OSTROŁĘKA C?

30. Why does ENERGA SA continue its investments in coal-based power engineering, in particular in OSTROŁĘKA C, in view of the above-mentioned demands of shareholders?

Answer to Questions 29-30: The company's coal-related investments are divided into two groups. The first group includes investments related to the adaptation of existing assets to environmental requirements (the so-called BAT conclusion), and the second group includes investments related to the Ostrołęka C power plant under construction. The Company reacts on an ongoing basis and explains the shareholders' concerns related to the investments in question. In particular, the Company widely commented in current report no. 45/2018 on the shareholders' concerns regarding Ostrołęka C by answering the questions asked. Moreover, during the Individual Investor Day, chats and conferences we answered questions of investors and analysts related to our investments, including Ostrołęka C.

In 2014, ENERGA expressed its support for ten UN GLOBAL COMPACT principles on human rights, labour, environment and combating corruption and intended to implement these principles.

Area K

31. How does ENERGA SA reconcile its investment in OSTROŁĘKA C with principles 7, 8 and 9?

- (7) companies should: promote a preventive approach to environmental problems.**
- (8) take initiatives to promote greater environmental responsibility and**
- (9) support the development and propagation of environmentally-friendly technologies.**

Answer to question 31: According to the Polish Energy Policy Until 2040, the planned construction of the Ostrołęka C unit will aim at replacing the conventional coal-fired power plants which are being

phased out in Poland and which will not be modernised in the near future in order to reduce emissions. The Ostrołęka C Power Plant will be a modern low-emission coal-fired power plant. The installation will meet all the required emission standards for large combustion plants (LCP), as well as the emission standards contained in the latest EU directives, which impose requirements for the application of best available techniques (BAT) in the field of environmental protection. The power unit will be designed in supercritical technology and will achieve one of the highest efficiency among steam power plants in Poland - at the level of 46%, with the global average of 33%. Increasing the efficiency of power plants means a significant reduction in emissions, including CO₂.

The planned Ostrołęka C power plant will demonstrate maximum flexibility in the operation of the unit, including short start-up time and dynamic load shifting, which will enable co-operation with renewable energy sources. Currently, the share of RES in own production in the ENERGA Group amounts to 31%. Renewable energy sources include 52 facilities: Hydroelectric power plant in Włocławek, 44 small hydroelectric power plants, 5 wind farms in north-western Poland (Karcino, Karścino, Bystra, Myślino, Parsówek) and 2 photovoltaic farms (near Gdańsk and Czernikowo near Toruń).

ENERGA S.A. continuously strives to increase the capacity of modern conventional power plants and focuses on the development of district heating and cogeneration plants, while maintaining a strong leadership position in the area of RES share in total energy generation.

Eco-innovations in the energy sector are an important factor in the competitiveness of the economy. In September 2018, the Strategic Research Agenda of the ENERGA Group for the years 2019-2028 was adopted. This document provides for the development of innovative business models and new pro-environmental, manufacturing and storage technologies (renewable energy storage), which will support the area of energy production and distribution.

More information on the eco-innovations implemented and planned in the ENERGA Group as well as other environmental protection activities can be found in the CSR Report of the ENERGA Group, entitled "Our responsibility 2018" available on the website.