

Climate risks

Climate risks are identified and analyzed within the framework of the enterprise risk management process, meaning that they are periodically evaluated in accordance with the ENEA Group Enterprise Risk Management Policy.

Under the non-financial reporting process for 2020, the Group expanded its analysis of risks arising from climate change that may bring about major changes in the operations, revenues or costs of various business areas. The analysis covered the short term (until the end of 2022), the medium term (until the end of 2025) and the long term (until the end of 2035).

Business area of the ENEA Group	Risk resulting from climate change	Risk factor	Mitigating measures
DISTRIBUTION	Risk of interruption in the continuity of supplies, loss of revenues and significant costs as a result of catastrophic damage to components of line and point infrastructure on the distribution network	Increased frequency of extreme weather phenomena (gusty storms, hurricane winds, icing)	Use of leading-edge technologies during the modernization of power lines, wiring of power lines, monitoring of the condition of the power grid and prompt conduct of maintenance operations.
	Perspective: long term.		
GENERATION	Risk of a decline in or loss of profitability of electricity generation operations resulting from the consolidation of a strong upward trend on the EUA market, with simultaneous disproportionate increases in electricity prices	High price of CO2 emission allowances potentially resulting in a low or negative value of the clean dark spread (CDS)	Greater share of biomass co-firing. Substitution of coal with low-emission fuels.
	Perspective: short, medium and long term		
	Risk of interruption in the continuity of operations, loss of revenues and significant costs as a result of extreme weather phenomena	Increased frequency of extreme weather phenomena (droughts, floods affecting the water level on the Vistula River, heavy snowfalls, frosts, icing, hurricanes)	Vistula River water level monitoring system. Annual assessment of the technical condition of power plant facilities. Continuous supervision of staff over the operation of the power plant. Flood protection system in the event of an increase in the water level on the Vistula River (stoplogs). Ongoing supervision of devices and optimal overhaul management.
	Perspective: short, medium and long term		
	Risk of construction disasters in hydropower plants (damage to hydro-engineering equipment as a result of erosion and water pressure)	Partial or complete damage to hydro-engineering equipment affected by torrential rains increasing the adverse impact of water on hydrotechnical facilities	Continuous execution and preparation of new overhaul and investment projects on hydro-engineering equipment.
	Perspective: medium to long term		
	Risk of construction disasters on wind farms (damage to generation facilities caused by strong winds)	Extreme weather conditions such as strong winds, hurricanes, tornados	Inability to take preventive actions against the forces (elements) of nature.
	Perspective: medium to long term		

<p>Risk of lost revenues or extra costs resulting from the uncertainty of the legislative environment</p> <p>Perspective: medium to long term</p>	<p>Amendments to EU or national regulations, for example resulting from the non-recognition of biomass as a zero-emission energy source</p>	<p>Monitoring of and participation in legislative work.</p>
<p>Risk of a decrease in revenues from sales of heat</p> <p>Perspective: short, medium and long term</p>	<p>Temperature rising trends during the heating season causing demand for heat to decline</p>	<p>Diversification of revenue sources through the development of cogeneration.</p>
<p>Risk of an increase in environmental fees</p> <p>Perspective: short term</p>	<p>Absence of environmental decisions required by law or failure to fulfill the conditions specified therein</p>	<p>Ongoing monitoring of regulations.</p> <p>Ongoing monitoring of the validity of decisions held, thereby enabling an early preparation of requests for changes.</p> <p>Ongoing supervision over the manner of implementation and compliance with the conditions specified in the decisions held.</p>
<p>Risk of suspension of electricity/heat generation as a result of technological misalignment with the requirements of environmental protection regulations</p> <p>Perspective: short term</p>	<p>Need to adapt generation units to the requirements of the IED and future BAT conclusions, the Water Law, etc.</p>	<p>Regular upgrades of and investments in: units for generation of energy from renewable sources, heat accumulation systems, flue gas heat recovery units, flue gas desulphurization units, boilers.</p> <p>Upgrade of transmission infrastructure and heating nodes, gradual extension of the extent of application of telemetric systems.</p> <p>Use of proper cooling systems in electricity and heat generation.</p> <p>Taking care of the proper technical condition of equipment using fluorinated gases.</p>
<p>Risk of interruption or curtailment of business continuity and loss of revenues resulting from failure to maintain continuity of fuel supplies</p> <p>Perspective: short, medium and long term</p>	<p>Unavailability or limited availability of biomass resulting from natural disasters such as hurricanes, floods, droughts or freezes</p> <p>Unavailability or limited availability of coal resulting from natural disasters in the mining sector or in the supply process</p>	<p>Optimization of fuel supplies.</p> <p>Diversification of the fuel portfolio.</p> <p>Emergency fuel purchases.</p> <p>Gradual shift of all or part of the fuel shipment process to the supplier.</p> <p>Performance monitoring with deviation analysis and update of plans for the performance of contracts for the supply of generation fuels and logistics services.</p>

	<p>Risk of an increase in the costs of procurement of plant-based substrates necessary for biogas production</p> <p>Perspective: medium term</p>	<p>Hydrological drought potentially affecting the availability and prices of corn silage, which is the key input substrate in biogas production</p>	<p>Adoption of and early preparation for a comprehensive substrate procurement action.</p>
	<p>Risk of an increase in the cost of raising capital and/or property insurance</p> <p>Perspective: short, medium and long term</p>	<p>Global climate crisis making it increasingly difficult for fossil fuel-based businesses to access finance, insurance undertakings treating coal-based power generation as a higher-risk industry</p>	<p>Use of the Group's transformation strategy in consultations with the reinsurance market.</p> <p>Search for new methods of securing assets.</p>
	<p>Risk of reducing or ceasing the operation of power plants due to difficulties in obtaining or maintaining valid environmental decisions and permits.</p> <p>Perspective: short, medium and long term</p>	<p>Activities of environmental organizations conducting aggressive campaigns against power plants by: appealing against and demanding the cancelation of integrated permits or environmental decisions held by power plants, referring to the public interest and joining proceedings aimed at amending integrated permits, thereby delaying or preventing the issue of favorable decisions</p>	<p>Cooperation with leading law firms.</p> <p>Cooperation with environmental organizations.</p>
TRADING	<p>Risk of unplanned costs arising from erroneous assumptions for long-term financial projections</p> <p>Perspective: medium to long term</p>	<p>Progressing climate change affecting the climate policy of various countries and organizations, thereby potentially shaping the operating principles of the system and price of CO₂ emission allowances</p>	<p>Periodic updates of price paths.</p>
	<p>Risk of additional costs or losses resulting from commodity price volatility on the futures market</p> <p>Perspective: short, medium and long term</p>	<p>Potential deviations of electricity and gas prices on the Polish Power Exchange in relation to prices agreed upon in previous months, due to temperatures in the summer and winter seasons different from the originally assumed ones</p>	<p>Maintaining and developing risk management competences in the ENEA Group.</p> <p>Internal risk optimization procedures.</p> <p>Monitoring and analysis of factors affecting prices on the Polish Power Exchange.</p> <p>Adjustment of orders placed, both in terms of price and volumes, to the current market situation.</p>
MINING	<p>Risks related to the need to change the company's operations are run, which would entail additional capital expenditures</p> <p>Perspective: medium to long term</p>	<p>Climate change causing an increasingly restrictive EU climate policy, directly and indirectly translating into a number of more stringent environmental standards imposed on mines</p>	<p>Ongoing supervision over compliance with environmental standards.</p> <p>Continuous monitoring of changes in the EU's climate policy and the resulting amendments to national regulations.</p> <p>Active participation in consultations on new regulations.</p> <p>Continuous search for technical and organizational solutions minimizing the company's impact on the climate, e.g. by energy efficiency improvements.</p>

<p>Risk of inability to perform coal purchase contracts due to a decline in demand for steam coal in Poland and globally</p> <p>Perspective: medium to long term</p>	<p>Probable gradual decrease in demand for the products offered to date, resulting from changes in the country's energy mix, including the ENEA Group's energy mix, and from a decrease in demand for electricity generated from coal (e.g. as a result of measures favoring energy efficiency, elimination of retail customers from the portfolio, more frequent switching to own sources of energy and heat generation, higher average atmospheric temperatures in winter)</p>	<p>Implementation of a new business strategy, including through diversification of revenues towards the extraction of coking coal, which is a strategic commodity in the EU.</p>
<p>Risk of an increase in operating costs due to the need to pay greater compensations for losses in grasslands and agricultural land caused by the need to repair of mining damage to the environment</p> <p>Perspective: short, medium and long term</p>	<p>The conduct of mining activities is associated with the occurrence of mining damage and may lead to the formation of subsidence basins and disruption of local water relations, thus causing occasional local flooding</p>	<p>Effective mining damage management policy.</p> <p>Ongoing dialogue with local communities.</p> <p>Continuous monitoring of rock mass movements using of modern measurement methods.</p> <p>Monitoring of environmental aspects through the Integrated Quality, Environment and Safety Management System.</p> <p>Ongoing reclamation of areas adversely affected by mining activities.</p>
<p>Risk of an increase in the cost of raising capital and/or property insurance</p> <p>Perspective: short, medium and long term</p>	<p>Global climate crisis making it increasingly difficult for fossil fuel-based businesses to access finance, insurance undertakings treating the mining sector as a high-risk industry</p>	<p>Use of the Group's transformation strategy in consultations with the reinsurance market.</p> <p>Search for new methods of securing assets.</p>
<p>Risk of obstruction in the progress of various administrative procedures conducted with the participation of non-governmental environmental organizations</p> <p>Perspective: medium to long term</p>	<p>The activities of environmental organizations may affect the social acceptance of the company's activities, including by the occurrence of potential protests related to investment and development activities</p>	<p>Execution of project activities in partnership with environmental organizations.</p> <p>Ongoing communication of activities aimed at improving environmental safety.</p> <p>Enhanced environmental measures taken by the company and additional investments in this area (energy efficiency improvements, water treatment plant, construction of a photovoltaic farm).</p> <p>Respect for state-imposed forms of nature protection (e.g. no mining and no future mining plans under the Polesie National Park)</p>
<p>Reputation risk related to the conduct of business in the fossil fuel industry</p> <p>Perspective: medium to long term</p>	<p>Due to the climate crisis, the EU's policy and the activities of environmental organizations, the mining industry may be perceived as the perpetrator of climate change</p>	<p>Participation in business initiatives, involvement in local socially beneficial and pro-development activities, intense communication activities, focusing chiefly on demonstrating the role played by the company in the Lublin region along with its environmental</p>

efficiency and openness to change.

Risk of a decrease in revenue from sales of steam coal	Increase in average atmospheric temperatures, especially during the heating season	Reduced impact of the company's business on global warming.
Perspective: medium to long term	An increase in atmospheric temperatures during the heating season may translate into a decrease in demand for heat generated from coal in favor of wind energy and other sources	Taking into account the forecasts of climate models in determining the scope of contracts with customers.

As at the date of publication of the Statement, no analysis of opportunities related to climate change or of climate risks and opportunities in the whole supply chain has been performed.