Gdańsk, 23.10.2018

Dear [Name],

We are referring to your letter sent to us on behalf of our shareholder [Name] of 18th of September 2018 (hereinafter referred to as "the Letter") followed by your letter of the 15th of October 2018. On behalf of the Management Board of Energa SA we would like to emphasise that we very much appreciate your attention to our business with a particular focus on profitability of Ostrołęka C project. We reviewed carefully the Letter, that includes requests for certain confirmations, information and assurances. Please, note the following:

Profitability analyses of all investment projects in Energa Group are, as a rule, confidential and therefore cannot be disclosed. However, we would like to assure you that we cannot commit to any investment project, including Ostrołęka C power plant, if its profitability is expected to be negative.

We don't rely on third-party judgements about the profitability of our projects and investments. As a prudent investor we are under the obligation to perform precise calculations of the anticipated rate of return as well as to evaluate all risks involved in the project.

The profitability of Ostrołęka C project has been confirmed not only in the course of internal evaluation but also by external professional advisors. Each major decision about any move to next phase of the project development is subject to review and confirmation by external professional consultants.

The key factor affecting the profitability analysis is electricity price forecast. The price projections applied in internal Ostrołęka C analysis are not made internally but they are purchased from renowned, independent consultancies. This shows that any internal analysis is dependent mostly on external impartial professional research.

We cannot comment in detail on Carbon Tracker report, but we would like to draw your attention to the fact that key factor, i.e. electricity price forecasts used in the report are oversimplified. The report states that the forecasts were based on average prices for years 2011-2016 and simple power optimisation rule. The forecasts do not take account of the expected power demand, merit order, the generation mix nor the interconnector power flows – all of these are necessary assumptions that directly affect professional electricity price projections.

The Letter repeatedly refers to "Energa issuing NTP". Please note that Ostrołęka C project is developed by a special purpose vehicle, i.e. Elektrownia Ostrołęka sp. z o.o., jointly owned by Energa S.A. and Enea S.A. No key decision regarding the project may be made by one shareholder only. Both shareholders must act jointly through their corporate powers to authorise the management board of the SPV to issue an NTP. Please note that Energa SA neither has reported that Ostrołęka C construction phase has been commenced in the light of the EPC contract, nor relies on any corporate authorisations of Enea SA, as suggested in your letter of the 15th of October 2018. The web service article you are referring to clearly states that the NTP under the EPC Contract has not been issued yet. For avoidance of any doubt, we would like to confirm that the NTP has not been issued yet. Energa SA bodies are fully aware of their obligations and always meet the requirements of any corporate procedures. The event on the Ostrołęka C construction, referred to in your letter of October 15, must not be interpreted as the issuance of the NTP. Please bear in mind that Elektrownia Ostrołęka sp. z o.o. is the only entity empowered under the EPC contract to issue the NTP, subject to a prior consent of its general shareholders meeting, which has not
been given so far. Once all corporate approvals have been obtained and the NTP for Ostrołęka C has been actually issued, Energa SA shall communicate this to all stakeholders without delay.

The capacity market scheme for Poland is not perfectly suited for Ostrołęka C project. On the one hand, fixed capacity payments increase the financial safety of the project and make the investment decision easier. On the other hand, the time span between contracting the capacity and the day the capacity must be actually available is shorter than the duration of the construction phase. Moreover, the requirement to reach the so called “financial milestone” is very challenging with regards to the construction schedule. Ostrołęka C project must balance these two opposite factors.

All decisions on project’s time schedule are made with the aim of maximizing its rate of return and thus its value. The contract with the general contractor was signed on 12 July 2018. The contract defines the timeframe when the NTP may be issued. The date of issuance of the NTP is to be directly connected, among others, with:

- schedule of preparatory works and schedule of construction works,
- achievement of the financial close with third-parties providing debt to the project,
- conditions related to the project’s participation in the capacity market scheme

and, most importantly, should enhance the profitability of the project. The decision regarding the date of the issuance of the NTP will be based on comprehensive analyses. So far, the decision has not been made. Once it has been made, it will be announced to all stakeholders.

On the 7th of February 2018 the European Commission approved the capacity market scheme for Poland to ensure security of power supply. Pursuant to this decision 15-year contracts will be available for most new-build coal-fired plants. Therefore, Ostrołęka C unit is expected to benefit from payments under the capacity market scheme until the end of 2037. It should be emphasized that capacity market scheme is only one of several factors and not the most crucial one that impact the financial viability of the project.

We also expect that the ban proposed by the European Commission on capacity market payments for new power plants emitting more than 550 grams CO₂/kWh will not apply to capacity contracts that have been awarded before the proposed regulation comes into force. We presume that support mechanisms for projects such as Ostrołęka C will be grandfathered, however we take into account that currently there is no guarantee of this.

Please be informed that writing our response we exercised our due effort to address all your concerns expressed in the Letter. We hope we managed to convince you that Energa SA, as one of Ostrołęka C shareholders, applies due care in its decision-making process and shall authorise the SPV to issue the NTP to the EPC contractor only if the project demonstrates a profitability level acceptable to Energa SA corporate bodies and its shareholders.

Yours sincerely

Wiceprezes Zarządu
ds. Otwartości
pl. Prezesa Zarządu
Alina Barbara Klimiuk

Wiceprezes Zarządu
ds. Operatorów
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