



Warsaw, 20 January 2017

European Investment Bank

Board of Directors

98-100, boulevard Konrad Adenauer
L-2950 Luxembourg
Luxembourg

Dear EIB Directors,

The EIB is currently in the process of appraising the Energa Hybrid Bond project under which the Bank could provide financing in the amount of EUR 250 million for the modernisation and extension of Energa's electricity distribution network during the period 2017 – 2019 (project reference: 20160349).

From 2009 until the end of 2015, Energa invested between PLN 7.76 and 8 billion in the modernisation and expansion of its distribution system, and an additional PLN 2.56 billion in the construction, maintenance and purchase of renewable energy sources, i.e. between PLN 10.3 and 10.6 billion for both sectors.

During the same period, the EIB together with the EBRD and the NIB provided loans worth 40% of the above mentioned joint expenditure on RES and distribution grid expansion and modernisation. Moreover, Energa Operator received EU subsidies from the Infrastructure and Environment Operational Programme in the amount of PLN 9.6 million for the reduction of grid losses and 40 mln PLN for the construction of a biomass unit. Recently Energa

obtained another EU grant for grid modernisation and expansion worth PLN 37 million and expects to receive another PLN 170 million from the 2014-2020 EU budget. This is not including grants from different EU and national sources for research on RES and smart grid development.

In the period between 2012 (when the company declared that it was abandoning its plans to construct a 1000 MW hard-coal unit in Rzekuń, usually referred to as the Ostrołęka C) and mid-2015, when these plans were revived, the loans granted to Energa for the modernisation of grids and enhancement of grid access for RES were applauded by the civil society while the company was gradually diversifying its energy generation mix and becoming a leader in grid innovation and modernisation and RES electricity production (expanding its RES capacity from 201.5 MW in 2009 to 505 MW in 2016).

However, Energa's current plans to construct the 1000 MW hard-coal Ostrołęka C unit worth approx. PLN 6 billion, which are laid down in the company's new investment strategy adopted in mid-November 2016 and have begun to materialise with the opening of the tender for the construction of the unit in December 2016,¹ will waste Energa's previous climate, health and environmental gains and push its percentage of coal-generated electricity way over the current 57% (2015 data). Moreover, those plans, as well as Energa's recent investment in the Polish Mining Group (2016), run counter to the provisions of the Paris Climate Agreement ratified by the EU and undermine the Europe's climate objectives.

In this context, the EIB's purchase of Energa's hybrid bonds is highly questionable. In the civil society's opinion it will do more harm than good because it will free up the company's resources, which could go into investments in grid and RES development or repayment of existing financial obligations (loans and bonds from previous years), thus benefitting the climate, health and the environment, but **will instead enable Energa to proceed with the harmful coal power plant construction project.**

As of the end of 2015, Energa S.A. had PLN 1.658 billion of available cash and cash equivalents as well as more than PLN 935 million of funds available from previous loan agreement with the EIB and the EBRD. It was thus fully able to implement its planned investments in the distribution segment for 2016. Moreover, the Energa Capital Group had obtained EUR 500 million from the eurobond issue programme in 2013 and 1 bln PLN from domestic bond issuance. The company also has agreements with private banks enabling it to launch both additional eurobonds and domestic bonds.

Given all the above sources of finance we seriously doubt that there is any additionality in the EIB involvement, or indeed any need for the EIB to provide money to the company on better than market terms. Energa Operator can obtain financing from other public (EU funds) and private sources. The company is not at risk, has access to the domestic and eurobond markets, could raise capital through the Warsaw Stock Exchange or its Swedish

¹ <http://www.ir.energa.pl/en/pr/335301/adoption-of-the-strategy-for-2016-2025-of-the-energa-group>

subsidiary and is state-owned, which means that its risk of lack of liquidity is close to zero. The company's grid development and modernisation plans could also be financed with the money raised by the Polish Ministry of Finance through the issue of green bonds worth EUR 750 million in December 2016. **What is the EIB additionality in this transaction then?**

Energa S.A. also plans to develop a new hydro dam on the Vistula, one of Europe's last near-natural rivers, and admits that the project is part of the government's wider strategy to develop inland waterways in Poland, which has been slammed by environmentalists as threatening to destroy Poland's invaluable natural sites and habitats. The same argument applies here: we are concerned that EIB financing would provide the financial means for the Energa Group to construct infrastructures related to this unsustainable project which should not get any EIB backing.

Energa has been quite non-transparent about the details of its investment plans. Its Press Office has explicitly refused to disclose the list of specific projects the company intends to implement thanks to EIB financing, and the Energa SA headquarters has yet to reply to our official request for public information concerning its investment plans. By withholding this information the company has made it impossible for us to ascertain that the EIB funding will not be used to build infrastructures servicing the planned coal power plant or the unsustainable hydro project.

We therefore believe that the EIB, in the course of the appraisal process, should pay adequate attention to making sure that no coal-related or unsustainable hydro investments get financial support from EIB, whether directly or indirectly.

Such scrutiny is all the more important given the fact that no measures financed under the EIB's two previous loans to Energa (EUR 250 million in 2009 and PLN 1 billion in 2013) have been classified as climate action expenditure. As explained above, in the present case there is a serious risk that the money could again go to projects that run counter to Europe's climate objectives.

EIB should not grant the financing in the present situation. We call on the Board of Directors to examine Energa's figures for 2016, which most likely are available to the EIB staff, before the Board of Directors vote, or otherwise postpone the vote until the publication of Energa's 2016 Financial Report and Management Board report for 2016, which are due in the second week of March 2017, in order to **carefully check if EIB financing would meet the additionality criterion.**

Neither should financing be granted without the EIB first obtaining clear evidence that the support will result in an increase in the share of renewables in Energa's electricity generation.

In any case **we call on the EIB Directors not to sign the hybrid bond agreement with Energa Operator until its mother company Energa S.A. officially abandons its plans to build the new Ostrołęka C coal unit.**

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