

Polenergia Group

**DIRECTORS' REPORT ON THE OPERATIONS OF THE POLENERGIA GROUP
FOR THE YEAR ENDED DECEMBER 31ST 2017**

***Jacek Głowacki – Vice President of the
Management Board***

***Bartłomiej Dujczyński – Member of the
Management Board***

***Michał Michalski – Member of the
Management Board***

Warsaw, February 20th 2018

Table of contents

1. Combined statement of profit or loss for the 12 months ended December 31st 2017	4
2. Legal environment.....	9
3. The Group's organisational structure	9
4. Discussion of key financial and economic data contained in the interim financial statements, in particular factors and events, including non-recurring ones, with a material effect on the issuer's operations and profits earned or losses incurred in the financial year; discussion of development prospects in a period covering at least the next financial year.....	9
5. Brief description of significant achievements or failures in the reporting period, including identification of key events.....	11
6. Factors and events, especially of non-recurring nature, with a material bearing on financial performance.....	14
7. Shareholders holding, directly or indirectly through subsidiaries, 5% or more of total voting rights at the General Meeting of the issuer as at the date of issue of the quarterly report, including information on the number of shares held by those shareholders, their interests in the share capital, the resulting number of votes at the General Meeting and their share in total voting rights at the General Meeting, and any changes in the ownership structure of major holdings of the issuer shares after the issue of the previous quarterly report	14
8. Effects of changes in the Group's structure, including changes resulting from mergers, acquisitions or disposals of Group entities, long-term investments, demergers, restructuring or discontinuation of operations.....	14
9. General information.....	15
10. The Group, consolidated entities, as well as changes in the Group's organisation and reasons for such changes	15
11. Structure of assets, equity and liabilities in the consolidated statement of financial position, including from the perspective of the Group's liquidity	16
12. Description of material risk factors and threats, including information on the degree of the issuer's exposure to such risks or threats.....	16
Risk factors related to the Polenergia Group's business environment	16
13. Statement of compliance with corporate governance rules	31
14. Proceedings pending before common courts of law, arbitration courts or public administration authorities, including information concerning:	38
15. Key products, merchandise and services, their values and volumes, and the respective shares of individual products, merchandise and services (if material) or their groups in the Group's total revenue, as well as the changes of the above in the financial year	40
16. Information on the issuer's markets, broken down into domestic and foreign markets, on the issuer's supply sources for production materials, goods and services, including information on dependence, if any, on any single customer or supplier, or a group of customers or suppliers, and where the share of a single customer or supplier in total revenue equals or exceeds 10% of total revenue – the name of such supplier or customer, its share in total sales or purchases, and its formal links with the issuer	40
17. Agreements significant for the issuer's business, including agreements between shareholders (partners), insurance contracts, collaboration or cooperation agreements, of which the issuer is aware.....	41
18. Issuer's organisational or equity links with other entities and main domestic and foreign investments (securities, financial instruments, intangible assets and property), including equity investments outside the group of related entities, and a description of the methods of financing thereof, and structure of main equity deposits or major investments within the issuer's group in the financial year	41
19. Significant transactions concluded by the issuer or the issuer's subsidiaries with related parties on non-arms' length terms, including the amounts and other details of such transactions	42
20. Loan agreements concluded and terminated in the financial year, including at least the amounts, types, interest rates, currencies and maturity dates of the loans.....	42
21. Loans granted in the financial year, in particular loans granted to the issuer's related entities, including at least the amounts, types, interest rates, currencies and maturity dates of the loans.....	42
22. Sureties and guarantees issued and obtained in the financial year, including without limitation sureties and guarantees issued for the benefit of the issuer's related entities	42
23. For issues of securities in the period covered by the report - description of the issue proceeds use until the date of preparation of the report on operations.....	46
24. Description of differences between the financial results presented in the full-year report and the financial forecasts for the year, published earlier	46
25. Assessment (and grounds for the assessment) of financial resources management, including in particular an assessment of the ability to repay liabilities, as well as an identification of threats, if any, and measures used or intended to be used to mitigate such threats	46

26.	Evaluation of feasibility of investment plans, including equity investments, in the context of available funds, taking into consideration possible changes in the investment financing structure	46
27.	Assessment of factors and non-recurring events with a bearing on results for the financial year, along with the extent to which such factors or non-recurring events affected the results, and an overview of events which had a material effect on the issuer group's operations and results in the financial year, or which may have a material effect on its operations and results in future years.....	46
28.	Overview of external and internal factors significant to the development of the issuer's business and description of the development prospects until at least the end of the financial year following the financial year for which the financial statements included in the full-year report have been prepared, taking into consideration the issuer's market strategy, and an overview of the development policy of the issuer's group.....	47
29.	Changes in basic management policies of the issuer and its group	47
30.	Agreements concluded between the issuer and its management staff, providing for compensation in the event of resignation or removal from office without a good reason, or when resignation or removal from office is caused by acquisition of the issuer by another company	47
31.	Value of remuneration, bonuses or benefits, including those under incentive or bonus schemes based on the issuer's equity, including schemes based on bonds with pre-emptive rights, convertible bonds, subscription warrants (in cash, in kind or in any other form), paid, payable or potentially payable, separately for each member of the issuer's Management and Supervisory Boards, recognised as costs or resulting from distribution of profit; if the issuer is the parent, shareholder in a jointly-controlled entity or significant investor - separate information on the value of remuneration and bonuses received for the performance of functions in the governing bodies of subsidiaries; if relevant information is presented in the financial statements - the obligation is deemed fulfilled by including a reference to the part of the financial statements in which such information is provided	48
32.	Total number and nominal value of all shares of the issuer and shares in the issuer's related entities, held by members of the issuer's Management and Supervisory Boards (separately for each person).....	48
33.	Agreements known to the issuer (including those concluded after the end of the reporting period) which may result in changes in the proportions of shares held by the current shareholders and bondholders.....	48
34.	Employee stock ownership plan control system.....	48
35.	Information on:	48
36.	Material off-balance-sheet items by entity, type and value.....	49

1. Combined statement of profit or loss for the 12 months ended December 31st 2017

In 2017, the Polenergia Group generated an adjusted EBITDA of PLN 181.6m and net profit of PLN 20.1m, down by PLN 46.4m (-20%) and PLN 29.6m (-60%), respectively, year on year.

Polenergia Group's results (PLNm)	12M 2017	12M 2016	Change y/y	Change y/y [%]	Q4 2017	Q4 2016	Change y/y	Change y/y [%]
Revenue	2,762.4	2,996.8	(234.4)	-8%	751.5	840.5	(89.1)	-11%
including Trading segment	2,225.9	2,398.3	(172.5)		607.1	693.2	(86.1)	
Cost of sales	(2,647.1)	(2,854.8)	207.8	-7%	(717.0)	(791.4)	74.4	-9%
including Trading segment	(2,202.4)	(2,385.9)	183.5		(599.7)	(682.4)	82.7	
including operating expenses	(412.3)	(405.2)	(7.1)		(108.3)	(98.3)	(10.0)	
Gross profit	115.3	141.9	(26.6)	-19%	34.5	49.1	(14.6)	-30%
Distribution costs and administrative expenses	(36.4)	(33.7)	(2.7)	8%	(12.1)	(8.6)	(3.5)	40%
Other income/(expenses)	(91.8)	(169.4)	77.6	-46%	(1.4)	(71.4)	70.0	-98%
A Operating profit (EBIT)	(12.9)	(61.2)	48.3	79%	21.0	(30.9)	52.0	168%
Depreciation and amortisation	97.1	115.4	(18.3)		24.0	29.8	(5.8)	
Impairment losses	100.1	177.4	(77.2)		1.1	74.5	(73.4)	
EBITDA	184.3	231.5	(47.2)	-20%	46.1	73.4	(27.2)	-37%
Elimination of purchase price allocation effect	(2.7)	(2.7)	0.0		(0.7)	(0.7)	0.0	
Elimination of effect of sale of Zakrzów CHP plant	-	(0.8)	0.8		-	-	-	
Adjusted EBITDA*	181.6	228.0	(46.4)	-20%	45.4	72.7	(27.2)	-37%
B Finance income	6.4	8.0	(1.6)		0.3	1.0	(0.8)	
C Finance costs	(60.8)	(65.2)	4.4		(13.4)	(17.1)	3.7	
A+B+C Profit/(loss) before tax	(67.3)	(118.3)	51.0		7.9	(47.0)	54.9	
Income tax	(20.4)	6.8	(27.2)		(11.4)	9.7	(21.0)	
Net profit/(loss)	(87.7)	(111.6)	23.9	21%	(3.5)	(37.4)	33.9	91%
Elimination of purchase price allocation effect	6.0	6.0	0.0		1.5	1.5	0.0	
Elimination of unrealised exchange differences effect	(1.0)	1.2	(2.2)		(0.3)	0.7	(1.0)	
Elimination of the effect of loan valuation using AMC method	2.7	2.7	0.1		0.7	1.0	(0.3)	
Elimination of impairment loss related to biomass business	9.5	-	9.5		(0.2)	-	(0.2)	
Elimination of impairment loss related to development business	90.6	96.1	(5.5)		1.3	(0.4)	1.7	
Elimination of impairment loss on wind farms in operation	-	60.7	(60.7)		-	60.7	(60.7)	
Elimination of effect of sale of Zakrzów CHP plant	-	(5.3)	5.3		-	-	-	
Adjusted net profit*	20.1	49.7	(29.6)	-60%	(0.5)	26.0	(26.5)	-102%
Adjusted EBITDA margin	6.6%	7.6%	-1.0%		6.0%	8.6%	-2.6%	
Trading segment revenue	2,225.9	2,398.3	(172.5)		607.1	693.2	(86.1)	
Trading segment costs of sale	(2,202.4)	(2,385.9)	183.5		(5,999.7)	(682.4)	82.7	
Adjusted EBITDA (excluding Trading segment)	168.4	224.6	(56.2)	-25%	41.5	64.4	(22.9)	-36%
Adjusted EBITDA margin (excluding Trading segment)	31.4%	37.5%	-6.1%		28.8%	43.7%	-15.0%	

*) Adjusted for non-cash/one-off income (expenses) recognised in the financial year.

Last year, the Polenergia Group took optimisation measures and managed to keep its margins relatively flat despite very challenging market conditions. This was achieved even in the face of certain adverse events beyond the Group's control, in particular the persisting unfavourable market trends with a heavy bearing on the Group's performance in the Wind Energy segment (falling prices of green certificates, uncertainty regarding the property tax) and in the Conventional Energy segment (lower compensation for stranded costs and higher gas costs). The margins were kept relatively flat thanks to further cost cuts and the Group's focus on the optimisation of operating margins.

Revenue fell by 8% year on year, with revenue reported for Q4 2017 down 11% year on year, mainly owing to lower revenue from electricity sales in the Trading segment (with a simultaneous increase in margins, as reflected in the higher EBITDA figure), lower revenue in the Wind Energy segment driven by falling prices of green certificates (largely offset by very high Load Factor), discontinuation of gas sales to one of the customers in the Distribution segment (with no significant impact on the margin) as well as reduced sales of pellets in the Biomass segment (due to, inter alia, discontinuation of production at the Biomasa Południe plant, intended to optimise the Polenergia Group's performance in today's market reality).

The Polenergia Group's operating costs (described in more detail in Note 32 to the consolidated financial statements) remained largely stable. There was a further noticeable decline in salaries and wages as a result of the ongoing optimisation programme. At the same time, cost of services also fell, despite numerous restructuring and strategic projects carried out in the period. On the other hand, the Polenergia Group reported higher taxes and charges (due to higher cost of property tax resulting from the RES Act, which had a negative bearing on certain projects, as well as the new tax burden related to the first year of tax payable on the Mycielín project), and higher costs of raw materials and consumables (due to higher gas costs in the Conventional Energy segment).

Adjusted EBITDA margin was down 1 pp year on year, coming in at 6.6%. The relatively minor decline in margins was made possible by the ongoing operating cost optimisation programme, remarkably high Load Factor of the wind farms, and very solid margins in the Trading segment. In Q4, adjusted EBITDA margin stood at 6.0%, which also represented a year-on-year decline, caused mainly by the low prices of green certificates and the performance of the Conventional Energy segment (described above).

Adjusted EBITDA margin excluding Trading operations (which are characterised by relatively low unit margins and very high transaction volumes) fell in the reporting period from 37.5% to 31.4%, and in Q4 alone – to 28.8%.

The Wind Energy segment reported a year-on-year decline in EBITDA of PLN 17.7m YTD and PLN 3.8m in Q4, mainly due to falling prices of green certificates and higher cost of property tax (described in more detail later in the report), whose impact was partially offset by higher production volumes driven by better wind conditions. With the Load Factor at 35%, productivity of the Group's wind farms once again significantly exceeded Poland's average. Moreover, technical operating costs, excluding unplanned outages, are at optimally low levels.

EBITDA of the Conventional Energy segment declined by PLN 27.8m year on year (down by PLN 15.4m in Q4). The decline was due to a negative deviation at the level of compensation for stranded costs (impact of the annual adjustment of long-term price curves in 2017 vs 2016), partly offset by higher revenues from gas compensation in 2017 (higher **index rate**).

EBITDA of the Trading segment was up by PLN 9.8m year on year, primarily on the back of better result on **trading services to external customers** (including mainly electricity and green certificates) and improved result on trading in green certificates from the Group's wind farms (in 2016, the Group recognised a loss in the Trading segment due to significant price falls during the year; in 2017, an upward price trend was observed). Those items were partially offset by lower net result on the valuation of **futures and forward** contracts in Q4. Results reported for Q4 decreased by PLN 4.3m due to the lower net result on the valuation of **futures and forward contracts** for 2017-2019, partially offset by the stronger result on **trading services to external customers** and on the Group's wind farm portfolio.

EBITDA of the Distribution segment went down year on year (by PLN 2.8m), mainly because of a one-off event, namely the reversal of a provision for settlements with a trading partner, which was recognised in 2016. In Q4, EBITDA was higher by PLN 0.6m, with the key contributing factor being the entry into force of a new distribution tariff (as of December 1st 2016), and a higher margin on sales of electricity.

EBITDA of the Biomass segment decreased by PLN 5.5m year on year and by PLN 0.8m in Q4, driven mainly by the deteriorating situation on the biomass market and the resulting lower sales volumes and higher feedstock prices.

Net finance income/costs stayed largely flat year on year.

The year-on-year change in income tax was due to a decline in the deferred tax liability (PLN 6.3m) related to impairment losses on the gas pipeline construction project in Q3 2016, impairment losses recognised in the Wind Energy segment, which contributed to an increase in deferred tax assets (PLN 7.8m) recognised in Q4 2016, as well as realised **deferred tax asset for the Amon and Talia projects in**

the Wind Energy segment (PLN 6.0m) and the fact that no deferred tax asset was recognised in the Trading segment (PLN 1.0m) due to adoption of the conservative approach.

Also, net profit was affected by impairment losses on the following projects:

- Wind farm development projects: as announced in Current Report No. 9/2017 of September 26th 2017, a decision was made to abandon the Grabowo wind farm project, which led to the recognition of a non-cash impairment loss.
- Elektrownia Północ Power Plant project: as announced in Current Report No. 10/2017 of October 18th 2017, given the market environment and the project's economics, a decision was made to recognise an impairment loss on fixed assets. The impairment loss was a non-cash charge.
- Grupa PEP Biomasa Energetyczna Południe companies: as announced in Current Report No. 11/2017 of October 18th 2017, the impairment loss is of a non-cash nature and is discussed in more detail in the Biomass segment summary.

With adjusted EBITDA for the last 12 months at PLN 181.6m, and the Group's net debt as at December 31st 2017 at PLN 705.6m, the net debt/EBITDA ratio stood at 3.89x. 2017 saw a reduction in debt, but due to the simultaneous decrease in EBITDA, the net debt/EBITDA ratio actually increased. A significant progress was reported in debt restructuring (which is crucial in the context of the stabilisation needed for further growth/diversification), in particular in the case of Dipol (company reprofiling completed in December 2017), Amon and Talia (company reprofiling conditions agreed in December 2017, documentation is to be closed in Q1 or Q2 2018), Gawłowice, Skurpie, Rajgród and Mycielín (negotiations with banks are under way).

Concurrently with day-to-day operations, work was continued on the development of new projects. In particular, the environmental decision was obtained for the Bałtyk Środkowy II project in March 2017. The decision is final. Work is currently under way to obtain the environmental decision for the offshore transmission infrastructure (wind farm connection). Development work in 2017 also focused on the wind capacity measurement campaign carried out based on the LIDAR system and preliminary geological seabed surveys.

Onshore wind farm projects (185 MW) and a biomass-fired power plant project (31 MW) are also in progress, being prepared for participation in the auction-based system. In the Distribution segment, an investment programme implemented in 2016 is proceeding as planned (the programme targets a 26% increase in the Regulatory Asset Base and a 58% growth in the number of customers connected to the Company's network on a permanent basis), and a new investment plan for 2019-2022 is to be approved in 2018. In the area of electricity sales to customers not connected to the Company's network, 320 contracts to sell 19 GWh of electricity were concluded in 2017. Also, pilot initiatives were being developed in the area of photovoltaics for existing customers and vehicle charging stations as part of the Company's distribution projects.

The Company is looking into the prospects of strategic development focused on technological and geographical diversification, with the spotlight on renewable energy maintained and addition of energy storage to the business portfolio in partnership with Convergent Energy & Power.

Breakdown of the Group's results for Q4 and full year 2017 by business segment is presented on the following pages.

12M 2017 (PLNm)	Wind Power	Conventional Energy	Trading	Distribution	Biomass	Development	Unallocated Group management costs	Purchase price allocation	TOTAL
Revenue	142.8	271.8	2,225.9	86.4	30.3	0.0	2.4	2.7	2,762.4
Operating expenses	(114.6)	(214.0)	(2,202.4)	(69.3)	(32.4)	(0.4)	(3.7)	(10.1)	(2,647.1)
incl. depreciation and amortisation	(56.9)	(21.5)	(0.0)	(4.3)	(3.4)	-	(0.9)	(10.1)	(97.1)
Gross profit	28.2	57.8	23.4	17.1	(2.1)	(0.4)	(1.3)	(7.4)	115.3
Gross margin	19.8%	21.3%	1.1%	19.7%	n/a	n/a	n/a	n/a	4.2%
Administrative expenses	(4.1)	(6.1)	(10.8)	(6.8)	(1.4)	(0.5)	(6.3)	-	(36.0)
Net other income/expenses	5.1	(0.5)	0.5	1.9	(8.6)	(90.6)	0.0	-	(92.3)
incl. impairment losses	-	-	-	-	(9.5)	(90.6)	-	-	(100.1)
Operating profit	29.2	51.2	13.1	12.1	(12.0)	(91.5)	(7.6)	(7.4)	(12.9)
EBITDA	86.1	72.7	13.1	16.4	0.9	(0.9)	(6.7)	2.7	184.3
EBITDA margin	60.3%	26.8%	0.6%	18.9%	2.9%	n/a	n/a	n/a	6.7%
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	(2.7)	(2.7)
Elimination of effect of sale of Zakrzów CHP plant	-	-	-	-	-	-	-	-	-
Adjusted EBITDA	86.1	72.7	13.1	16.4	0.9	(0.9)	(6.7)	-	181.6
Adjusted EBITDA margin	60.3%	26.8%	0.6%	18.9%	2.9%	n/a	n/a	n/a	6.6%
Net finance income	(51.6)	(2.3)	(3.1)	(1.8)	(0.4)	(0.0)	5.0	-	(54.4)
Profit/(loss) before tax	(22.4)	48.9	10.0	10.2	(12.5)	(91.6)	(2.6)	(7.4)	(67.3)
Income tax	-	-	-	-	-	-	-	-	(20.4)
Net profit/(loss) for period	-	-	-	-	-	-	-	-	(87.7)
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	-	6.0
Elimination of unrealised exchange differences effect	-	-	-	-	-	-	-	-	(1.0)
Elimination of the effect of loan valuation using AMC method	-	-	-	-	-	-	-	-	2.7
Elimination of impairment loss related to biomass business	-	-	-	-	-	-	-	-	9.5
Elimination of impairment loss related to development business	-	-	-	-	-	-	-	-	90.6
Elimination of effect of sale of Zakrzów CHP plant	-	-	-	-	-	-	-	-	-
Adjusted net profit	-	-	-	-	-	-	-	-	20.1

12M 2016 (PLNm)	Wind Power	Conventional Energy	Trading	Distribution	Biomass	Development	Unallocated Group management costs	Purchase price allocation	TOTAL
Revenue	148.0	275.1	2,398.3	121.1	47.1	0.0	4.3	2.7	2,996.8
Operating expenses	(119.7)	(186.9)	(2,385.9)	(100.2)	(43.9)	(0.5)	(7.5)	(10.1)	(2,854.8)
incl. depreciation and amortisation	(75.5)	(20.2)	(0.0)	(4.2)	(4.0)	-	(11.5)	-	(115.4)
Gross profit	28.3	88.2	12.4	20.9	3.2	(0.5)	(3.2)	(7.4)	141.9
Gross margin	19.1%	32.1%	0.5%	17.3%	6.8%	n/a	n/a	n/a	4.7%
Administrative expenses	(4.3)	(6.7)	(9.8)	(5.8)	(1.7)	(0.5)	(4.2)	-	(32.9)
Net other income/expenses	(70.7)	(1.2)	0.7	(0.2)	0.9	(102.4)	2.6	-	(170.2)
incl. impairment losses	(74.9)	-	-	-	0	(102.4)	-	-	(177.4)
Operating profit	(46.6)	80.3	3.3	15.0	2.5	(103.4)	(4.8)	(7.4)	(61.2)
EBITDA	103.8	100.5	3.4	19.2	6.4	(1.0)	6.6	(7.4)	231.5
EBITDA margin	70.2%	36.5%	0.1%	15.8%	13.6%	n/a	n/a	n/a	7.7%
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	(2.7)	(2.7)
Elimination of effect of sale of Zakrzów CHP plant	-	-	-	-	-	(0.8)	-	-	(0.8)
Adjusted EBITDA	103.8	100.5	3.4	19.2	6.4	(1.8)	6.6	(10.1)	228.0
Adjusted EBITDA margin	70.2%	36.5%	0.1%	15.8%	13.6%	n/a	n/a	n/a	7.6%
Net finance income	(55.2)	(6.0)	(1.4)	(1.7)	(0.7)	(0.0)	7.9	-	(57.2)
Profit/(loss) before tax	(101.9)	74.3	1.9	13.3	1.7	(103.4)	3.1	7.4	(118.3)
Income tax	-	-	-	-	-	-	-	-	6.8
Net profit/(loss) for period	-	-	-	-	-	-	-	-	111.6
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	-	6.0
Elimination of unrealised exchange differences effect	-	-	-	-	-	-	-	-	1.2
Elimination of effect of loan valuation using AMC method	-	-	-	-	-	-	-	-	2.7
Elimination of impairment losses	-	-	-	-	-	-	-	-	156.8
Effect of sale of Zakrzów CHP plant	-	-	-	-	-	-	-	-	(5.3)

Adjusted net profit										49.7
Adjusted EBITDA yoy	17.7	(27.8)	9.8	(2.8)	(5.5)	0.8	(13.4)	10.1	(46.4)	

Q4 2017 (PLNm)	Wind Power	Conventional Energy	Trading	Distribution	Biomass	Development	Unallocated Group management costs	Purchase price allocation	TOTAL
Revenue	50.3	63.7	607.1	22.4	7.2	0.0	0.0	0.7	751.5
Operating expenses	(32.1)	(58.3)	(599.7)	(18.0)	(7.9)	(0.2)	1.6	(2.5)	(717.0)
incl. depreciation and amortisation	(14.2)	(5.4)	(0.0)	(1.0)	(0.6)	-	(0.2)	(2.5)	(24.0)
Gross profit	18.3	5.4	7.4	4.5	(0.7)	(0.2)	1.6	(1.9)	34.5
Gross margin	36.3%	8.5%	1.2%	20.0%	n/a	n/a	n/a	n/a	4.6%
Administrative expenses	(1.4)	(1.7)	(3.8)	(2.2)	(0.5)	(0.2)	(2.3)	-	(12.1)
Net other income/expenses	(0.3)	(0.3)	0.3	0.0	0.3	(1.3)	(0.1)	-	(1.3)
Operating profit	16.6	3.4	3.9	2.3	(0.8)	(1.7)	(0.8)	(1.9)	21.0
EBITDA	30.8	8.9	3.9	3.4	(0.5)	(0.4)	(0.6)	0.7	46.1
EBITDA margin	61.2%	13.9%	0.6%	15.0%	-6.6%	n/a	n/a	n/a	6.1%
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	(0.7)	(0.7)
Elimination of effect of sale of Zakrzów CHP plant	-	-	-	-	-	-	-	-	-
Adjusted EBITDA	30.8	8.9	3.9	3.4	(0.5)	(0.4)	(0.6)	-	45.4
Adjusted EBITDA margin	61.2%	13.9%	0.6%	15.0%	-6.6%	n/a	n/a	n/a	6.0%
Net finance income	(12.3)	(0.6)	(1.1)	(0.5)	(0.1)	(0.0)	1.4	-	(13.1)
Profit/(loss) before tax	4.3	2.9	2.8	1.9	(0.9)	(1.8)	0.6	(1.9)	7.9
Income tax	-	-	-	-	-	-	-	-	(11.4)
Net profit/(loss) for period									(3.5)
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	-	1.5
Elimination of unrealised exchange differences effect	-	-	-	-	-	-	-	-	(0.3)
Elimination of effect of loan valuation using AMC method	-	-	-	-	-	-	-	-	0.7
Elimination of impairment loss related to biomass business	-	-	-	-	-	-	-	-	(0.2)
Elimination of impairment loss related to development business	-	-	-	-	-	-	-	-	1.3
Elimination of effect of sale of Zakrzów CHP plant	-	-	-	-	-	-	-	-	-
Adjusted net profit									(0.5)

Q4 2016 (PLNm)	Wind Power	Conventional Energy	Trading	Distribution	Biomass	Development	Unallocated Group management costs	Purchase price allocation	TOTAL
Revenue	47.1	67.4	693.2	22.0	9.6	0.0	0.6	0.7	840.5
Operating expenses	(31.6)	(46.5)	(682.4)	(18.1)	(10.1)	(0.1)	(0.1)	(2.5)	(791.4)
incl. depreciation and amortisation	(19.6)	(5.4)	(0.0)	(1.1)	(1.0)	-	(10.4)	7.6	(29.8)
Gross profit	15.5	20.9	10.8	3.9	(0.5)	(0.1)	0.6	(1.8)	49.1
Gross margin	32.9%	31.0%	1.6%	17.5%	-5.6%	n/a	90.9%	n/a	5.8%
Administrative expenses	(1.5)	(1.6)	(2.6)	(2.0)	(0.5)	(0.2)	0.1	-	(8.4)
Net other income/expenses	(73.9)	(0.4)	0.1	(0.2)	0.4	0.6	1.8	-	(71.6)
incl. impairment losses	(74.9)	-	-	-	-	0.4	-	-	(74.5)
Operating profit	(60.0)	18.8	8.2	1.7	(0.7)	0.3	2.5	(1.8)	(30.9)
EBITDA	34.5	24.2	8.2	2.8	0.3	(0.1)	12.8	(9.4)	73.4
EBITDA margin	73.4%	36.0%	n/a	12.6%	3.2%	n/a	2055.8%	n/a	8.7%
Elimination of effect of sale of Zakrzów CHP plant	-	-	-	-	-	-	-	-	-
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	(0.7)	(0.7)
Adjusted EBITDA	34.5	24.2	8.2	2.8	0.3	(0.1)	12.8	(10.1)	72.7
Adjusted EBITDA margin	73.4%	36.0%	n/a	12.6%	3.2%	n/a	n/a	n/a	8.6%
Net finance income	(14.9)	(1.2)	(0.3)	(0.5)	(0.1)	0.0	1.0	-	(16.1)
Profit/(loss) before tax	(74.9)	17.6	7.9	1.2	(0.8)	0.3	3.4	(1.8)	(47.0)
Income tax	-	-	-	-	-	-	-	-	9.7
Net profit/(loss) for period									(37.4)
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	-	1.5
Elimination of unrealised exchange differences effect	-	-	-	-	-	-	-	-	0.7
Elimination of effect of loan valuation using AMC method	-	-	-	-	-	-	-	-	1.0
Elimination of impairment losses	-	-	-	-	-	-	-	-	60.3
Effect of sale of Zakrzów CHP plant	-	-	-	-	-	-	-	-	-
Adjusted net profit									26.0
Adjusted EBITDA yoy	(3.8)	(15.4)	(4.3)	0.6	0.8	(0.3)	(13.4)	10.1	(27.2)

2. Legal environment

For details on legislative acts that are relevant to the Polenergia Group's business, see 'Description of material risk factors and threats'.

3. The Group's organisational structure

For the Group's organisational structure, refer to Note 7 to the consolidated financial statements.

4. Discussion of key financial and economic data contained in the interim financial statements, in particular factors and events, including non-recurring ones, with a material effect on the issuer's operations and profits earned or losses incurred in the financial year; discussion of development prospects in a period covering at least the next financial year

Key economic and financial data concerning the Company's performance:

Key economic and financial data [PLNm]	12M 2017	12M 2016	Change
Revenue	2,762.4	2,996.8	(234.4)
EBITDA	184.3	231.5	(47.2)
Adjusted EBITDA	181.6	228.0	(46.4)
Net profit/(loss)	(87.7)	(111.6)	(23.9)
Adjusted net profit after elimination of purchase price allocation effect, unrealised exchange differences, impairment losses, loan valuation and discount valuation	20.1	49.7	(29.6)

In comparison with 2016, performance in 2017 was driven by the following factors:

a) EBITDA (down by PLN 47.2m):

- Weaker performance of the Wind Energy segment (down by PLN 17.7m) due to lower prices of green certificates and higher cost of property tax, partially offset by higher production;
- Weaker performance of the Conventional Energy segment (down by PLN 27.8m), primarily due to a negative deviation at the level of compensation for stranded costs (impact of the annual adjustment of long-term price curves in 2017 vs 2016), partly offset by higher revenues from gas compensation in 2017 (higher index rate);
- Better performance of the Trading segment (up by PLN 9.8m) on the back of higher results generated by electricity trade and an upward trend in the prices of green certificates (after a significant drop in certificate prices a year before);
- Weaker performance of the Distribution segment (down by 2.8m) vs a high base in 2016 (reversal of a provision for settlements with a trading partner – gas distribution) and lower electricity distribution margins in 2017 (a decline in WACC);
- Weaker performance of the Biomass segment (down by PLN 5.5m) due to negative trends in the biomass market and the resulting lower sales volumes and higher feedstock prices;
- Lower expenses in the Development segment (down by PLN 0.8m) allocated to profit or loss, resulting from tighter cost discipline;
- Higher unallocated management costs (up by PLN 3.2m) driven by, inter alia, a higher 2016 base (impact of the sale of the Zakrzów project);

b) Adjusted EBITDA (down by PLN 46.4m):

- The EBITDA effect described above (down by PLN 47.2m);

- Elimination of the effect of sale of the Zakrzów CHP plant (down by PLN 0.8m yoy);

c) Net profit (up by PLN 23.9m):

- The EBITDA effect (down by PLN 47.2m);
- Lower depreciation and amortisation (down by PLN 18.3m), primarily due to a change in the policy concerning the useful lives of wind farm projects (extension of the economic useful lives of turbines to 25 years after taking into account certain technical factors identified in the course of a dialogue with turbine manufacturers);
- Lower impact of write-downs (down by PLN 77.2m year on year) resulting from an impairment loss recognised on wind farm projects under development, and discontinuation of development work in the Elektrownia Północ project and operation of the Biomasa Południe project (which had a bearing on the Biomass segment's performance);
- Lower finance costs (down by PLN 4.4m) on lower interest expense (down by PLN 2.0m), lower foreign exchange losses (down by PLN 0.8m) and lower commissions and fees (down by PLN 1.6m);
- Lower finance income (down by PLN 1.6m) due to the one-off event recognised in Q3 2016, i.e. the disposal of shares in a subsidiary (PLN 3.2m), partially offset by higher foreign exchange gains (PLN 1.6m);
- Higher income tax (up by PLN 17.2m) due to a decline in the deferred tax liability (down by PLN 6.3m) related to impairment losses on the gas pipeline construction project recognised in Q3 2016, impairment losses in the Wind Energy segment, which contributed to an increase in the deferred tax assets (PLN 7.8m) recognised in Q4 2016, as well as a realised deferred tax asset for the Amon and Talia projects in the Wind Energy segment (PLN 6.0m) and the fact that no deferred tax assets were recognised in the Trading segment (PLN 1.0m).

d) Adjusted net profit after elimination of the purchase price allocation effect, unrealised exchange differences, impairment losses, loan valuation and discount valuation (down by PLN 29.6m):

- Effect of net profit (up by PLN 23.9m);
- Reversal of the effect of impairment losses (positive effect of PLN 56.7m following recognition of a deferred tax asset);
- Elimination of the effect of unrealised exchange differences (down by PLN 2.2m);
- Elimination of the effect of loan valuation (up by PLN 0.1m);
- Elimination of the effect of sale of the Zakrzów CHP plant (down by PLN 5.3m after tax shield).

5. Brief description of significant achievements or failures in the reporting period, including identification of key events

CONVENTIONAL ENERGY

NOWA SARZYNA CHP PLANT (ENS)

Since the beginning of 2017, the plant has operated as planned.

The decline in operating profit/loss compared with 2016 and quarter on quarter was due to a negative deviation at the level of stranded costs compensation (impact of the annual adjustment of long-term price curves in 2017 vs 2016), partly offset by higher revenues from gas compensation in 2017 (higher **index rate**).

Mercury Power Plant

The operating results of the Mercury Power Plant both YTD and in Q4 improved significantly on the previous year, reflecting a rise in electricity sales volumes resulting from higher supply of coking gas from WZK Victoria.

WIND POWER

The overall performance of the Wind Energy segment was weaker year on year due to falling prices of green certificates and higher cost of property tax, whose impact was partially offset by higher production driven by better wind conditions. With the Load Factor at 35%, productivity of the Group's wind farms once again significantly exceeded Poland's average. Moreover, technical operating costs, excluding unplanned outages, are at optimally low levels.

Below is presented detailed information on individual wind farms:

Puck Wind Farm

In 2017, the 22MW farm produced more electricity than last year, but the increased output was offset by lower prices of green certificates, which depressed overall operating performance. In Q4 2017, the farm's performance slightly deteriorated year on year, reflecting lower prices of energy and falling prices of green certificates. The project's financial performance was not affected by changes in property tax, and the tax amount in the property tax return remained unchanged.

Łukaszów and Modlikowice Wind Farms

In Q4 2017 and in the whole of 2017, electricity output at these two wind farms (34 MW and 24 MW, respectively) was higher than that recorded in the corresponding periods of the previous year, which lifted revenue despite a drop in the prices of green certificates and electricity. Financial performance of both farms was adversely affected by a moderate increase in property tax.

Gawłowice, Rajgród, and Skurpie Wind Farms

The operating performance of the Gawłowice (48.3 MW), Rajgród (25.3MW) and Skurpie (43.7 MW) wind farms deteriorated compared with 2016 due to lower market prices of green certificates and higher costs of property tax, although output rose year on year at all three farms. In Q4 2017, generation volumes rose year on year, and the poorer operating performance was attributable to lower prices of green certificates. Performance was also adversely affected by the corrected property tax return, particularly in Rajgród, where we settled the increased tax amount for the whole of 2017, as per the new tax return.

Mycielin Wind Farm

The operating result of the Mycielín wind farm with a capacity of 48 MW (46 MW from 2018) deteriorated year on year, mainly due to low prices of green certificates (despite higher generation volumes) and a higher real estate tax. In the fourth quarter alone, the operating result improved year on year, driven by higher output and rising market prices of green certificates, despite the lingering effect a higher real estate tax. One of the turbines was damaged in 2017, with a relevant impairment loss recognised in December, but the negative implications of the incident will be cancelled out by compensation from the supplier (with its effect recognised in the 2017 financial statements). The project's results were also adversely affected by an increase in property tax.

DISTRIBUTION

The Distribution segment delivered poorer operating results than last year, reflecting a high base in 2016 (reversed provision for settlements with a trading partner – gas distribution) and lower margins on electricity distribution in 2017 (lower WACC). Stronger margins on electricity sales and distribution had a positive impact on performance in the fourth quarter (a new tariff for large DSOs entered into force in December 2016 and Distribution continued to apply an old tariff, which was why the result for December 2016 was significantly lower than for other months in 2016).

In the Distribution segment, an investment programme implemented in 2016 is progressing as planned (the programme targets a 26% increase in the Regulatory Asset Base and a 58% growth in the number of customers connected to the Company's network on a permanent basis). In the area of electricity sales to customers not connected to the Company's network, 320 contracts to sell 19 GWh of electricity were concluded in 2017.

Also in the distribution area, pilot initiatives were being developed in the area of photovoltaics for existing customers and vehicle charging stations as part of the Company's distribution projects.

ELECTRICITY SALES AND TRADING

The segment's operations went on without any disruptions. The segment's overall performance improved on the back of the better result on **trading services to external customers** (including mainly electricity and green certificates) and on trading in green certificates from the Group's wind farms (in 2016, the Group recognised a loss in the Trading segment due to significant price falls during the year; in 2017, an upward price trend was observed). The poorer Q4 performance came as an effect of a lower net result on the valuation of futures/forward contracts maturing in 2017–2019, which was partly offset by an improved net result on **trading services to external customers** and on the Group's portfolio of wind farms.

BIOMASS

The segment's aggregated performance worsened year on year. Below is presented detailed information on individual companies.

Biomasa Energetyczna Północ

In the 12 months of 2017 and in Q4 2017, the sales volume of pellets fell year on year. As a result of lower sales volumes and higher feedstock prices, partly offset by lower technical maintenance and transport costs, the plant's operating margin fell year on year.

Biomasa Energetyczna Południe

Pellet sales volumes fell markedly in 2017, reflecting expiry of the contract for the supply of pellets to EDF and failed efforts to secure new supply contracts. Consequently, in the third quarter of the year the Company resolved to discontinue these operations, which led to the recognition of a PLN

9.5m impairment loss on property, plant and equipment, as reported in Current Report No. 11/2017 of October 18th 2017. The impairment loss was a non-cash charge.

In the third quarter, Biomasa Energetyczna Południe Sp. z o.o. repaid in full the investment credit facility contracted under the credit facility agreement with MBANK S.A. of December 23rd 2009.

Biomasa Energetyczna Wschód

In the 12 months of 2017 and in Q4 2017, the sales volume of pellets fell year on year. The adverse effect of the lower average selling prices, lower production volumes and higher feedstock prices was partly offset by lower cost of technical maintenance. Overall, the plant reported poorer operating results than last year.

DEVELOPMENT AND IMPLEMENTATION

Onshore wind farms

At present, the Company's portfolio includes projects with an aggregate capacity of approximately 185 MW which are in the final phase of development, for which building permits have been issued, and which have been prequalified to participate in the auction process.

As regards the portfolio of projects in an early development phase (with a capacity of approximately 280 MW), a decision was made to decelerate the development work in connection with the Act on Wind Farm Projects. Provisions of the Act regulating the minimum distance between wind farms and residential buildings make it impossible to complete their development and obtain building permits. Therefore, development of these projects was halted, and spending on their maintenance was cut to the necessary minimum in case the lawmakers change their standpoint. These projects were presented as impaired in full as at December 31st 2016 and December 31st 2017 and carried at a net value of nil. The Group informed the public about the impairment in its current reports.

A decision was made to replace some of the projects in an early development phase (with a capacity of 26 MW) with photovoltaic projects, using the existing grid connection conditions and leases. The development of these projects will continue in 2018.

In 2017, the Company resolved to recognise an impairment loss of approximately PLN 8.2m on the 40 MW Grabowo project, as announced in Current Report No. 9/2017 of September 26th 2017. This helped the Company to recover approximately PLN 6.2m of the advance payment made towards grid connection fees and reduce the relatively high costs of the project maintenance.

The impairment losses were non-cash charges. disclosed in the Company's consolidated financial statements under other expenses. In line with the adopted definition, they are charged against the Group's operating profit but do not affect its EBITDA.

Since the environmental decisions for the projects implemented by the Company's subsidiary Polenergia-Farma Wiatrowa Bądecz Sp. z o.o. were reversed, the final building permits for the projects may be challenged. The Company will take measures provided for by law to maintain the building permits. The case is discussed in more detail further on in this Report.

Development of offshore wind farms

The Group continues the development of two offshore wind farm projects (Polenergia Bałtyk II and Polenergia Bałtyk III) in the Baltic Sea with a total capacity of up to 1,200 MW. The Group also plans to implement a third project, Polenergia Bałtyk I, provided that grid connection conditions are obtained.

In July 2016, the environmental decision was issued by the Regional Director for Environmental Protection in Gdańsk with respect to the Polenergia Bałtyk III project. The decision is final. In March 2017, the environmental decision was secured for Polenergia Bałtyk II. The decision is final. Work is currently under way to obtain the environmental decision for the offshore transmission infrastructure (wind farm connection). Development work in 2017 also focused on the wind capacity measurement campaign carried out based on the LIDAR system and preliminary geological seabed surveys.

The offshore wind farm project is of a long-term nature: the first wind farm is planned to be placed in service in 2022. The Group plans to develop offshore wind farm projects in partnership with another entity and, if applicable, sell equity interests with a view to maximising the value for shareholders.

Development of the Elektrownia Pólnoc Power Plant project

As announced in Current Report No. 10/2017 of October 18th 2017, given the market environment and the project's economics, a decision was made to recognise an impairment loss on fixed assets. The impairment loss was a non-cash charge.

Biomass-fired power plant

The Group is working on a project to construct and operate a 31 MW biomass-fired power plant connected to the power grid. In 2017, the final building permit, which also covers a line for the evacuation of power into Tauron's grid, was issued for the project. The Group intends to secure a decision on admission to an auction (prequalification) from the URE in the first quarter of 2018.

It is possible that the Company will look for an investor interested in purchasing the project prior to the auction or after it wins the auction.

6. Factors and events, especially of non-recurring nature, with a material bearing on financial performance

For more information on factors with a material bearing on financial performance, see Sections 4 and 5 of this report.

7. Shareholders holding, directly or indirectly through subsidiaries, 5% or more of total voting rights at the General Meeting of the issuer as at the date of issue of the quarterly report, including information on the number of shares held by those shareholders, their interests in the share capital, the resulting number of votes at the General Meeting and their share in total voting rights at the General Meeting, and any changes in the ownership structure of major holdings of the issuer shares after the issue of the previous quarterly report

No.	Shareholder	Number of shares	Number of voting rights	% interest
1	Kulczyk Investment S.A.*	22,811,757	22,811,757	50.20%
2	China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF**	7,266,122	7,266,122	15.99%
3	Nationale-Nederlanden	2,576,969	2,576,969	5.67%
4	Generali OFE	2,943,731	2,943,731	6.48%
5	Aviva OFE	3,560,000	3,560,000	7.83%
6	Other	6,284,968	6,284,968	13.83%
Total		45,443,547	45,443,547	100.00%

* Through Mansa Investments Sp. z o.o., a subsidiary.

** Through Capedia Holdings Limited of Nicosia, Cyprus, a subsidiary.

8. Effects of changes in the Group's structure, including changes resulting from mergers, acquisitions or disposals of Group entities, long-term investments, demergers, restructuring or discontinuation of operations

No changes

9. General information

The Polenergia Group (the "Group") comprises Polenergia S.A. (formerly Polish Energy Partners S.A., with the company name change entered in the National Court Register on September 11th 2014) (the "Company", the "parent") and its subsidiaries. The Company was established under a notarial deed of July 17th 1997. The Company is entered in the National Court Register maintained by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, under KRS No. 0000026545. The Company's Industry Identification Number (REGON) is 012693488. The Company's registered office is at ul. Krucza 24/26 in Warsaw.

According to the entry in the National Court Register, the Company's business comprises:

- production and distribution of electricity (PKD 40.10),
- production and distribution of heat (steam and hot water) (PKD 40.30),
- construction and civil engineering (PKD 45.21),
- construction installation activities (PKD 45.3),
- other credit granting, excluding licensed activities and activities reserved for banks (PKD 65.22),
- research and development of natural sciences and engineering (PKD 73.10),
- development and sale of own real estate (PKD 70.11),
- operating of real estate on a fee or contract basis (PKD 70.32),
- accounting and bookkeeping activities (PKD 74.12),
- construction and process design, urban planning (PKD 74.20),
- business and management consultancy activities (PKD 74.14),
- other commercial activities n.e.c. (PKD 74.84),
- other education n.e.c. (PKD 80.42),
- wholesale of solid, liquid and gaseous fuels and related products (PKD 51.51).

The scope of activities of the subsidiaries is related to the operations of the parent.

10. The Group, consolidated entities, as well as changes in the Group's organisation and reasons for such changes

For a description of the Group, refer to Note 7 to the consolidated financial statements. All companies presented in Note 7 are consolidated with the full method. There were no changes in the organisational structure of the Group in 2017.

11. Structure of assets, equity and liabilities in the consolidated statement of financial position, including from the perspective of the Group's liquidity

Item	Description	Value
1 Return on equity – ROE	net profit/loss	-7.2%
	average annual equity	
2 Net margin	net profit/loss	-3.2%
	revenue	
3 Liquidity – liquidity ratio I (current ratio)	total current assets	1.05
	current liabilities	
4 Average collection period (days)	average annual trade receivables x 365 days	18
	revenue from sale of products and merchandise	
5 Debt to assets	$\frac{(\text{total equity and liabilities} - \text{equity}) * 100}{\text{total assets}}$	55.6%

The financial ratios as at the end of 2017 remained broadly unchanged relative to the levels reported at the end of last year.

12. Description of material risk factors and threats, including information on the degree of the issuer's exposure to such risks or threats
Risk factors related to the Polenergia Group's business environment
Competition risk

Given the current legal environment resulting in a steady increase in demand for energy from RES and the implementation of an auction system for new and existing RES capacities, competition in this market segment is expected to intensify. As part of its business, the Polenergia Group operates wind farms and currently has new projects under development.

The location of a RES project is extremely important for its future profitability. This is why in recent years the Group has invested in the project portfolio and in strengthening its in-house wind project development team.

With respect to the production of pellets and generation of electricity from biomass, the Group may be forced to compete with other entities for the raw agricultural and forestry materials used in these operations. As the supply of agricultural and forestry raw materials is limited, an increase in their prices or a shortage of supply cannot be ruled out. The turmoil on biomass markets associated with the implementation of the new RES bill and regulations may also adversely affect the profitability of processing biomass for the purpose of pellets production and thus reduce its supply. Moreover, the Group's pellets will have to be made from biomass sourced locally (to meet the criteria laid down in the new regulations), which may limit the territory from which the Company will be able to source the raw material. Additionally, they will have to compete with other types of local biomass, including agricultural biomass sourced from the so-called 'close' import markets.

As regards electricity and natural gas sales, the Polenergia Group is exposed to the risk of losing business to competitors which, by operation of law, have access to power and gas infrastructure on the TPA basis. This results in stronger competition among suppliers of electricity and natural gas to end users.

Risk related to the economic situation in Poland

The achievement of the Polenergia Group's strategic goals and financial performance of the Group are subject to macroeconomic factors, which remain beyond the control of the Group companies. These factors include the GDP level, inflation rate, general economic conditions in Poland, and legislative changes. Any unfavourable changes in macroeconomic variables or legal regulations

may contribute to lower than expected revenue of the Polenergia Group or higher costs of operations.

Risk of foreign exchange rate movements

As at the date of this report, the Group was not party to any significant sale contracts providing for payments in the euro.

The Group's currency risk involves, among other things, the risk related to its currency position under investment commitments and an investment credit facility for the Puck Wind Farm.

Moreover, Polenergia Obrót is exposed to currency risk on account of its electricity trading on foreign markets and participation in the CO2 emission allowance market. The company's exposure to currency risk is largely mitigated by means of natural hedging, as revenue and corresponding costs of purchase, as well as receivables and liabilities, are all generated in foreign currencies. Risk management at Polenergia Obrót is governed by its 'Risk Management Policy', in accordance with the rules prescribed by that document.

Part of the Development segment's liabilities are denominated in the euro. The Group monitors the currency market on an ongoing basis and settles positions at the most favourable exchange rates.

Companies of the Polenergia Group do not hedge against non-monetary differences resulting from the fair value measurement of their non-monetary assets and liabilities denominated in foreign currencies as at the reporting date. Sensitivity of the Group's profit/loss before tax (due to changes in the fair value of monetary assets and liabilities) to reasonably possible movements in the euro exchange rate, all other factors being equal, is presented in Note 39 to the consolidated financial statements.

Interest rate risk

The proportion of debt in the Group's financing structure is substantial. In line with the Polenergia Group's strategy of maximising its return on equity, more than 50% of the costs of projects pursued by the Group were financed with debt. In accordance with the credit facility agreements entered into by Group companies, interest on credit facilities provided to them is based on variable rates. Any significant increase in market interest rates above the values forecast by the Polenergia Group and factored into its project budgets may have a negative effect on the Group's financial performance. The Polenergia Group is aware of the existence of that risk and takes measures to mitigate it and prevent its potential negative consequences by constantly monitoring the situation on the money market and effectively managing its finances.

On August 12th 2011, subsidiary Polenergia Elektrociepłownia Nowa Sarzyna sp. z o.o. entered into an Interest Rate Swap transaction with ING Bank Śląski S.A. to hedge against the volatility of a part of cash flows related to interest payments on an investment credit facility resulting from interest rate changes. The instrument hedges 80% of its interest-related cash flows.

On June 19th 2015, subsidiary Polenergia Farma Wiatrowa Mycielin Sp. z o.o. and Alior Bank S.A. executed a transaction to hedge interest rate risk. The instrument hedging 60% of interest-related cash flows took effect in Q2 2016.

At the same time, the Group monitors market interest rates on an ongoing basis and may hedge against interest rate movements in order to reduce the costs of servicing its financial liabilities under other projects, provided that such solution guarantees the expected return on its investment projects.

Sensitivity of the Group's profit/loss before tax (due to changes in the fair value of monetary assets and liabilities) to reasonably possible interest rate movements, all other factors being equal, is presented in Note 39 to the consolidated financial statements.

Raw materials price risk

At present, companies of the Polenergia Group use natural gas and coke gas for the generation of electricity and heat. Moreover, agricultural biomass is used for the production of pellets.

The Polenergia Group uses natural gas for the generation of heat and electricity at the Nowa Sarzyna CHP Plant. In Poland, the PGNiG Group companies are the main suppliers of gas fuel,

which is primarily imported from Russia and, to a lesser extent, produced by PGNiG. Any potential problems on the part of PGNiG with supplying the amount of gas fuel necessary to satisfy the existing demand may lead to limitations on its supply to customers. In such cases, the Polenergia Group may fail to fulfil its obligation to supply heat to its own customers.

The risk of supply limitations is negligible, but in connection with the liberalisation of gas prices, PGNiG is expected to be exempted from the requirement to apply tariff prices for customers purchasing more than 2.5m cubic metres of gas. The exemption will apply to purchases made by the Nowa Sarzyna CHP Plant. Thanks to the introduction of the TPA (third party access) rule, the Group companies are able to procure natural gas from sources other than PGNiG. The deregulation of gas prices is bound to result in a fall of prices for industrial users, mirroring developments on the electricity market. In the case of changes in gas prices, there is a time lag of at least 30-45 days before heat tariffs are appropriately adjusted.

The Group uses coke gas to generate electricity at the Mercury Power Plant. The coke gas is supplied by WZK Victoria. Given possible fluctuations in the amount of coke gas supplied, caused by technical constraints (coke gas output is proportional to coke production), the Group is exposed to the risk that the available amounts of this feedstock may vary, which would affect the amount of electricity generated and thus the Group's performance.

Polenergia Biomasa Energetyczna Północ and Polenergia Biomasa Energetyczna Wschód, subsidiaries of Polenergia S.A., use agricultural biomass to produce pellets for the energy sector. Pellets are made from cereal, maize and rape straw. The main suppliers of straw for pellet production are agricultural farms in the vicinity of the production facilities. The prices and supply of straw may be negatively affected by poor crops of cereal, maize and rape, as well as adverse weather conditions.

The Polenergia Group mitigates that risk by conducting thorough research and analyses of the availability of straw on local agricultural markets and diversifying its supply sources.

Polenergia S.A. and the Group companies use mechanisms which protect them against adverse effects of raw material price fluctuations. In principle, the sale prices of electricity and heat are related to the prices of natural gas. However, it cannot be ruled out that in spite of the protection mechanisms used, raw material price fluctuations may adversely affect the financial performance of Polenergia S.A. and the Group.

Risk related to the Polish energy market

While the heat market is fully regulated, the electricity and gas markets are only partly controlled by the appropriate authorities. One of them is the President of the Energy Regulatory Office (Urząd Regulacji Energetyki, "URE") – a central government authority appointed by the Prime Minister. By operation of the Energy Law, the President of URE is competent for fuel and energy market regulation and for promotion of competition in the energy sector. The scope of competence of the President of URE includes granting, changing and revoking licences for production, storage, transmission, trade in and distribution of fuels and electricity, as well as oversight of entities regulated under the Energy Law in terms of fulfilment of duties resulting from the Energy Law and secondary legislation. The President of URE also has the power to agree to the development plans of energy enterprises, resolve disputes between energy enterprises as well as between them and end users, as well as approve and oversee tariffs applied by energy enterprises in terms of their compliance with applicable regulations, including the rule of protection of consumers against unreasonable price levels. The President of URE is also entitled to impose penalties, including significant fines, on licensed enterprises. Therefore, the Company cannot conclusively rule out the risk of the President of URE exercising his powers with respect to Polenergia and the Group in a manner unfavourable to them. However, the Company mitigates the risk by making every effort to fulfil its obligations under the Energy Law and secondary legislation.

Given the advanced stage of implementation of competitive market mechanisms in the power generation sector, enterprises licensed to generate electricity are exempted from the requirement to submit their tariff prices for approval; nonetheless, tariffs are still mandatory for electricity supplied to households. It should be stressed, however, that tariffs for electricity generated by the Polenergia Group are not subject to approval by the President of URE, given that the electricity is supplied to trading companies and industrial users. The provisions of the Energy Law, as currently applicable, provide in principle for the coverage of reasonable costs of operations.

Any possible legislative changes may prove unfavourable to the Group; however, Polenergia has very limited ability to influence decisions taken in this respect at the EU and national levels.

Risk related to tariff approval by the President of URE

The Polenergia Group companies which generate heat or distribute gas and electricity are required to submit their tariffs (listing the prices of heat or of tgas and electricity distribution service) for approval by the President of URE. Pursuant to the applicable laws, a tariff should cover the expected reasonable costs of heat generation in a particular tariff period, while ensuring a return on capital. Approval of tariffs by the President of URE is aimed to protect consumers against unreasonable rises in heat prices. In practice, tariffs are calculated by the President of URE based on certain assumptions, which may diverge from real costs of operations incurred by the Polenergia Group companies.

Therefore, there is a risk that the President of URE approves a tariff which is insufficient to ensure an adequate return on capital or even to cover the costs incurred by a company.

There is also a risk of delay in approval of a tariff for a new tariff period, which in consequence means that the producer/distributor is forced to apply the tariff applicable in the previous tariff period, which may not ensure the expected return on capital. If such risk materialises, the financial performance of the Polenergia Group may be worse than expected.

The risk related to the heat tariff affects only the Nowa Sarzyna CHP Plant. The risk associated with the natural gas sale and distribution tariff relates to Polenergia Kogeneracja, while the risk associated with the electricity sale and distribution tariff – to Polenergia Dystrybucja.

The potential impact of these risks on performance of the Polenergia Group is limited, given the relatively small contribution of EBITDA margin of the business areas referred to above to the Group's overall performance.

Risk of changes in the legal and regulatory environment of the energy sector

The operations of the Group companies are subject to numerous Polish, EU and international regulations. Laws, regulations, decisions, positions, opinions, interpretations, guidelines, etc., applicable to the Group's business, are subject to frequent changes (the Energy Law, with secondary legislation, has been substantially amended several dozen times since its enactment in 1997). A number of the regulations applicable to the Group's business are relatively recent enactments, and therefore there is no established practice of their application (which may lead to their being improperly interpreted and applied).

Factors relevant to the Group's operations also include decisions issued by competent authorities, in particular the President of URE, which are characterised by a high level of arbitrariness and thus are often subject to legal disputes. The Group is exposed to the risk of failure to align its business with changing laws and regulations, with all the resulting consequences, and of enactment of new regulations that would curtail the support system for the technologies developed in Poland.

The changes, in particular those pertaining to the redemption requirements, should be viewed as unfavourable to the Company in 2017. Furthermore, it remains uncertain whether the Ministry of Energy will decide to revise its policy concerning the RES sector.

Under the new (auction-based) scheme, to receive support for energy generation from RES a producer will have to win an auction, the results of which will also determine the extent of the support. Thus a risk exists that the Group's wind farm projects ready for construction will receive insufficient support or no support at all. On the other hand, support granted under the auction-based scheme will protect the producer against market risk for 15 years.

It should also be noted that, pursuant to the EU regulations, the target share of renewable energy in the energy mix should be no less than 19.13%, while currently it is close to 13%. In the Group's opinion, this requires further investment in RES, and thus also implementation of relevant legal regulations.

Mandatory purchases of energy by the so-called obliged suppliers (utilities supplying energy to end users) have important implications for RES installations commissioned before July 1st 2016. The obligation arises on condition that a renewable energy producer offers all electricity produced and fed into the grid over a period of at least 90 consecutive calendar days. From January 1st 2018,

medium-sized and large RES installations (with an installed capacity of 500 kW or more) will no longer enjoy the right to sell energy to the obliged supplier at a regulated price under the mandatory purchase obligation. The change will have a major impact on RES producers, because after January 1st 2018 they will be left unprotected against fluctuations in energy prices. The removal of the mandatory purchase obligation will have serious implications for medium-sized and large renewable energy producers, including the vast majority of domestic wind energy producers.

The legislative changes may, in certain areas, contribute to a lower than expected return on investment in renewable energy sources.

Risk of oversupply of green certificates on the market and the level of their market prices

In relation to renewable energy installations which came on stream before July 1st 2016, the RES Act has upheld the support system which has been in place since October 1st 2005. Under the tradable green certificates system, support will continue to be provided for technologies which pursuant to the RES Act are classified as renewable energy sources. In principle, the amount of support is the same for all sources, regardless of the technology or the connected load of the source. The support mechanism is based on a guarantee that electricity generated from RES will be offtaken at a price set in the Act. In addition, producers are entitled to obtain certificates of origin of renewable energy, or 'green certificates', for each MWh of their electricity output. These certificates are tradable on the market. Therefore, in addition to 'black energy' sales, the owner of a renewable energy installation can, as a form of support, earn revenue from sales of green certificates. With regard to renewable energy installations which are already on stream, the tradable green certificates system will continue to operate unchanged.

Demand for green certificates comes from entities (mainly those supplying electricity to end users) which, under the Energy Law, are required to redeem a specified number of green certificates or else pay a relevant emission charge. In principle, redemption of green certificates is a better option as it carries the entitlement to an excise duty deduction, from which renewable energy is exempted (the deductible amount currently stands at PLN 20/MWh). If the number of outstanding green certificates is lower than implied by the requirement to redeem certificates or pay an emission charge, the market price of green certificates will be close to the amount of the emission charge, or may even be higher.

On September 25th 2017, the Act of July 20th 2017 amending the RES Act entered into force (Dz.U. of 2017, item 1593), whereby the method for calculating the unit emission charge was linked to averaged annual market prices of property rights incorporated in certificates of origin, as published by the Polish Power Exchange pursuant to Art. 47.3.2 of the amended Act. Under Art. 56.1 of the amended RES Act, the unit emission charge for green certificates is equal to 125% of the annual weighted average price of property rights incorporated in certificates of origin other than certificates issued in respect of energy generated from agricultural biogas on or after July 1st 2016, but may not exceed PLN 300.03 per MWh.

In line with our earlier expectations, the oversupply of green certificates continued into 2017, keeping their market price at all-time low, below the set emission charge. Currently, the market price of green certificates ranges from PLN 40/MWh to PLN 50/MWh.

In addition, on August 30th 2017, the Minister of Energy's regulation of August 11th 2017 on changing the quantitative share of total electricity under redeemed certificates of origin certifying electricity generation from renewable energy sources in 2018–2019 came into force. Pursuant to the regulation, in 2018 the requirement to redeem certificates of origin for energy generated from agricultural biogas will be 0.5% of electricity sales to end users and 17.50% in the case of certificates of origin for energy generated from other renewable energy sources. In 2019, the requirement will be set at 0.5% and 18.5% respectively. These provisions will not contribute to solving the oversupply issue.

Accordingly, if the prices of green certificates remain at their current level in the short run, then a risk exists for some of the wind farm projects that the financial ratios defined in the agreements under which financing has been secured for individual projects are not met. The Group is monitoring the situation and keeping in touch with the financing institutions.

If the prices of green certificates stay as they are now for a long time, there may be temporary problems with the performance of certain credit facility agreements, which in the case of some

projects may trigger payment under guarantees issued by Polenergia S.A. For details on the guarantees, see Note 29 to the separate financial statements.

The Group is monitoring the green certificate trading market and makes decisions to secure customer base for green certificates from the Wind Energy segment on an ongoing basis.

Regulatory risk from delayed enactment of the amended RES Act and delayed promulgation of regulations concerning biomass and auction systems for power and CHP plants co-firing biomass.

Part of the Group's business consists in the purchase and processing of biomass for resale. Demand for biomass sold by the Group is driven by the current system of support for renewable energy sources, which promotes, among other things, technologies for co-firing coal and biomass. Under the system, power utilities generating electricity based on such technologies are allocated a specified number of green certificates (property rights incorporated in certificates of origin). The Group companies' trading partners are electricity producers. Effective as of January 1st 2016, the amended support system covers 'biomass of local origin' (a new category), i.e. agricultural biomass generated within a distance of up to 300 km from the installation. As at the date of issue of this report, no regulations were promulgated which would specify the share of such biomass in the total biomass volume or the method for documenting it (old regulations continue to be applied). Currently, legislative process is under way to once again amend the RES Act, whereby existing biomass plants will likely be permitted to migrate to the auction system (promulgation is expected mid-2018). The amendments are also expected to clarify issues related to biomass of local origin.

Risk associated with Polish biomass market

Polenergia Biomasa Energetyczna Północ and Polenergia Biomasa Energetyczna Wschód, subsidiaries of Polenergia S.A., use agricultural biomass to produce pellets for the energy sector. Demand for pellets is largely driven by legal regulations concerning the use of biomass in RES. The planned amendments to the RES Act are expected to enable existing biomass plants to migrate to the auction system (currently, they operate under the tradable certificate system and, given the market prices of certificates, are unable to make profit on production of electricity from biomass). With their migration to the auction system, the profitability of biomass plants will improve. In addition, it is expected that legislative measures will be taken to reduce biomass imports (mainly through certification requirements and other constraints imposed on importers). These changes should push biomass prices up and, as a consequence, have a positive impact on Group companies. However, until the aforementioned proposals are passed into law, developments in the biomass market cannot be foreseen with precision, and thus neither can be the outlook for production plants of Grupa Polenergia S.A.'s Biomass segment.

Risk of proposed regulatory changes under which a support system for conventional generation sources would be created – 'capacity market'

In Poland, investment in conventional generation capacities is hampered, mainly on account of high capital expenditure associated with coal-fired units, low margins on electricity generation (in particular, natural gas and hard coal-based generation), and increasingly lower capacity utilisation in large commercial generation units. Measures implemented by PSE in recent years (supplemental non-spinning reserve) and several investment decisions made by energy companies controlled by the Polish State Treasury have forestalled the risk of insufficient reserve capacities for several years. However, there is a need to implement long-term measures to mitigate the risk of disruptions on the capacity market after 2020 by stimulating investment in the construction of new generation capacities and retaining the existing sources in operation. On December 8th 2017, the Polish Parliament enacted the Capacity Market Act, which was signed by Polish President on December 28th 2017. The first capacity auctions have been scheduled for H2 2018. Depending on specific solutions and auction parameters to be adopted, the attractiveness of new conventional projects, such as the Elektrownia Północ and Elektrownia Wińsko Power Plants, as well as the economic viability of existing facilities, such as the Nowa Sarzyna CHP Plant and Mercury Power Plant, may change significantly. Furthermore, it cannot be ruled out that the capacity market will exert an adverse impact on electricity prices on the market, which can potentially affect projects whose economic viability rests on revenue from sale of electricity (wind farms).

Regulatory risk

Polenergia S.A. believes that certain threats may be posed by frequently changing legal regulations and their varied, often contradictory, interpretations. Any potential legislative changes, in particular where they concern business activity, taxes, labour matters, commercial law, including commercial companies and capital markets, as well as environmental protection, may have an adverse effect on the operations of Polenergia S.A. and its Group. It should be noted that Polish laws are at the final stage of being harmonised with the requirements of EU laws, which affects the legal environment in which the Polenergia Group operates. In addition, changes to Polish legislation are made to reflect newly adopted EU laws. In particular, the implementation of new business regulations may entail problems with their interpretation, inconsistent court rulings or unfavourable interpretations adopted by public authorities.

It should also be stressed that, in addition to general laws regulating each business, the operations conducted by the Polenergia Group are governed by specific regulations under the Polish Energy Law, the Act on Renewable Energy Sources and the related secondary legislation. These regulations are not formulated precisely, and so in many cases they do not lend themselves to straightforward interpretation, which may cause problems with their application. They are subject to frequent changes, which makes the Polenergia Group's legal environment not entirely stable. Consequently, there is a risk that future changes in the state policy and related changes in legal regulations may have an adverse effect on the operations of Polenergia S.A. and Polenergia Group companies.

Effects of the Act on Wind Farm Projects coming into force

On July 15th 2016, the Act on Wind Farm Projects came into force.

Under the Act, the distance between a wind farm and residential buildings or a nature conservation area may not be shorter than ten times the height of the wind power plant, from the ground surface to its highest point (including the rotor and blades),

Except for projects with respect to which, as at the date of the Act's entry into force, a building permit had been issued or building permit procedure had been initiated (185 MW held by the Group).

Additionally, under the Act, a new wind farm may only be constructed pursuant to such permit within three years of the Act's entry into force, in which period, i.e. by July 2019, an operation permit must be secured.

Considering the above provisions of the Act, the Company was unable to continue the development of a number of wind farm projects (282 MW), and had to recognise relevant impairment losses. Furthermore, the said provisions may impede the implementation (construction) of other wind farm projects.

Given the very unclear wording of the Act, uncertainty arose as to the calculation of wind farm property tax. Although, according to expert reports held by the Group, the Act should not affect the amount of property tax paid by the Group companies, nevertheless most Group companies received adverse interpretations confirming that the property tax base had increased as of the beginning of 2017. The cases will be resolved by the Supreme Administrative Court. The administrative courts' adverse decisions (if any) in these cases may have an adverse effect on the business of the Group companies operating wind farms.

To resolve the uncertainty, the Group companies requested that the competent authorities (i.e. municipal authorities) issue interpretations concerning calculation of the property tax applicable from 2017. By the date of this report, the Group received one positive and six negative replies to these requests. As part of concurrent efforts, two projects received a positive interpretation allowing the Group to use the current market value of a wind farm as the tax base.

According to the negative interpretations, as of 2017 the property tax on wind farms should be calculated based on new rules. In the Group's opinion, legal grounds for the negative interpretations are incorrect, based on which it filed an appeal against them to the Provincial Administrative Court and, subsequently, to the Supreme Administrative Court. It must be noted that numerous positive interpretations have been obtained by other market participants, including one for a farm from the Group's portfolio, all evidencing that the Group's position is justified.

Moreover, in a letter dated December 28th 2016, the Ministry of Infrastructure and Construction expressed an opinion that the amendment to the definition of a structure introduced pursuant to the Act on Wind Farm Projects of May 20th 2016 was not designed to change the tax base for the purposes of wind farm property tax.

Also, in a letter dated December 29th 2016 to the Minister of Development and Finance, the Minister of Energy asserted that the purpose of the Act on Wind Farm Projects was to regulate the operation of wind farms with respect to building regulations (accordingly, it was not designed to make any changes in respect of property tax), the Act had been adopted on the initiative of a group of MPs and fell within the scope of competence of the Ministers of Infrastructure (construction process), Finance (taxes), Development (business development) and Energy (RES). In the letter, the Minister of Energy stated that all RES technologies should be afforded equal treatment and pointed out obvious doubts regarding the property tax.

The Minister of Energy has taken steps to abolish discriminatory tax treatment of wind farms in connection with a formal notification by foreign investors against the Republic of Poland concerning investment disputes arising from the Act on Wind Farm Projects taking effect. The case is also being considered by the European Commission, which received complaint No. SA.48045 (2017/FC) on a number of issues, including in particular state aid being allegedly incompatible with the internal market due to discriminatory treatment consisting in imposition of more stringent property taxation rules on wind farms than on other electricity producers.

Risk related to unstable tax system

Regulations of the Polish tax system are frequently changed, the wording of many tax regulations is not sufficiently clear and there is no unequivocal interpretation of some of them. The interpretation of tax regulations is subject to frequent changes, and the practices of tax authorities and judicial decisions concerning the application of tax regulations still lack consistency. One of the aspects of insufficient clarity of tax regulations is the fact that there are no legally prescribed procedures of final verification whether tax liabilities for a given period have been correctly calculated. Tax returns and actually paid amounts of tax may be inspected by tax authorities for five years from the end of the year in which the tax was due.

Following Poland's accession to the European Union, Polish regulations, including the tax legal framework, have been adjusted to EU standards and aligned with the regulations applicable in other EU Member States. The process is still ongoing and is likely to further stabilise the Polish tax regime, which may significantly reduce the risk of instability of the tax system.

On account of the unclear tax provisions and in an effort to protect itself against negative tax consequences, the Company sought private letting rulings. However, the tax authorities' tendency to question the protective effect of private letter rulings issued to taxpayers is a factor with a potentially adverse impact on the Group's tax security.

The risk related to the unstable tax system, and in particular the risk of tax authorities adopting a different interpretation of tax laws than that assumed by the Polenergia Group, exists and may have an adverse effect on the Group's operations, financial standing, performance or growth prospects.

The Group is monitoring the impact of changes in its regulatory environment on an ongoing basis, including changes in corporate income tax, VAT, and social contributions, and takes measures to ensure full compliance with applicable laws and regulations.

Risk related to the necessity of meeting environmental requirements

The business operations of Polenergia S.A. and individual Group companies are subject to a number of environmental regulations. In particular, the Company and the Group may be required to obtain integrated permits or sectoral permits (for air emissions of gases and particulate matter or for generation of waste, as required under the water law), and to timely submit properly structured reports on their use of the environment or other matters. Ensuring compliance with environmental regulations may require expenditure to prepare the relevant documents and adjust the Group's installations to the applicable requirements. At the date of authorisation of this report, Polenergia S.A. and its subsidiaries secured all relevant environmental permits.

Further, under the EU Emissions Trading Scheme, participation permits had to be obtained for installations used in the course of the operations of Polenergia and other Group companies.

Trade in emission allowances is an environmental policy instrument designed to reduce pollutant emissions. Both EU membership and the Kyoto protocol require Poland to participate in the Emissions Trading Scheme. The emissions trading mechanism was introduced on January 1st 2005 upon the entry into force of Directive 2003/87/EC of the European Parliament and of the Council, transposed into Polish legislation by virtue of the Act on Trading in Allowances for Emissions of Greenhouse Gases and Other Substances of December 22nd 2004. The Act was superseded by the Act on Trading in Greenhouse Gas Emission Allowances, dated April 28th 2011. On July 17th 2015, the Act on Trading in Greenhouse Gas Emission Allowances of June 12th 2015, regulating trading mechanisms applicable in 2013–2020 (ETS III) and implementing in the Polish system the mechanisms introduced by Directive 2009/29/EC, was enacted.

Plants owned by the Polenergia Group:

- a. Mercury Power Plant (KPRU No.: PL 0879 05) and
- b. Nowa Sarzyna CHP Plant (KPRU No.: PL 0472 05)

They are combustion installations with a rated thermal input in excess of 20 MW participating in the EU Emissions Trading Scheme.

a. In accordance with the derogation under Art. 10c of Directive 2003/87/EC, the Mercury Power Plant, as an electricity producer, was provisionally allocated 22,344 emission allowances for 2013, with the allocation gradually decreasing to 0 in 2020.

Under the Regulation of the Council of Ministers of April 8th 2014 listing electricity generating installations covered by the greenhouse gas emissions trading scheme in the trading period beginning on January 1st 2013, along with the number of allowances allocated to them, the number of free emission allowances allocated to the Mercury Power Plant (modified by a correction factor) was as follows:

- 2013: 17,763
- 2014: 16,420
- 2015: 14,272
- 2016: 10,859
- 2017: 8,217
- 2018: 6,548
- 2019: 4,869
- 2020: 0

The Mercury Power Plant was not allocated any emission allowances for 2013–2017 as no Investments specified in the National Investment Plan were carried out.

b. the Nowa Sarzyna CHP Plant was allocated free emission allowances pursuant to Art. 10a and Art. 10c of Directive 2003/87/EC of the European Parliament and of the Council.

Under the Regulation of the Council of Ministers of March 31st 2014 listing installations other than those for electricity generation covered by the greenhouse gas emissions trading scheme in the trading period beginning on January 1st 2013, along with the number of allowances allocated to them, the number of free emission allowances allocated to the Nowa Sarzyna CHP Plant, modified by a correction factor, was as follows:

- 2013: 34,256
- 2014: 32,448
- 2015: 30,681
- 2016: 28,959
- 2017: 27,278
- 2018: 25,642
- 2019: 24,046
- 2020: 22,495

The emission allowances allocated for 2017 were transferred to the operator's account in April 2017.

Under the Regulation of the Council of Ministers of April 8th 2014 listing electricity generating installations covered by the greenhouse gas emissions trading scheme in the trading period beginning on January 1st 2013, along with the number of allowances allocated to them, the number of free emission allowances allocated to the Nowa Sarzyna CHP Plant was as follows:

- 2013: 145,048
- 2014: 134,082
- 2015: 116,082
- 2016: 88,676
- 2017: 67,103
- 2018: 53,468
- 2019: 39,758
- 2020: 0

Given that no Investments specified in the National Investment Plan were carried out, no free allowances were transferred to the operator's account.

The installations listed above submit annual reports to the electronic National Database for Emissions of Greenhouse Gases and Other Substances and verified annual reports on CO₂ emissions. As of January 1st 2013, all the installations are also subject to new CO₂ emissions monitoring plans, approved by competent authorities and compliant with the requirements of: Commission Regulation (EU) No. 601/2012 of June 21st 2012 on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council and Commission Regulation (EU) No 600/2012 of 21 June 2012 on the verification of greenhouse gas emission reports and tonne-kilometre reports and the accreditation of verifiers pursuant to Directive 2003/87/EC of the European Parliament and of the Council. Pursuant to the Act on Trading in Greenhouse Gas Emission Allowances of June 12th 2015 (effective as of September 2016), installations covered by the scheme are obligated to apply for emissions trading permits, which are to replace the existing permits and monitoring plans, within 12 months from the effective date of the Act. Both installations were granted new permits in 2016.

Risk related to Polenergia's business

Risk related to difficulties in obtaining financing for investment projects

Polenergia S.A. seeks to finance projects under a project finance model which assumes partial reliance on externally sourced funds. In the case of difficulties with finding potential share buyers, unsuccessful issue of shares or problems with borrowing funds from banks, the Polenergia Group is able to postpone the execution of some of its projects. In such circumstances, Polenergia S.A. will consider other forms of financing its project pipeline.

Risk of new projects failing

The Polenergia Group is pursuing an intensive development plan, which involves a significant number of investment projects in energy generation outsourcing, development of wind farms and production of pellets from agricultural biomass. Projects pursued by the Polenergia Group require significant capital expenditure. It is particularly high in the case of development and construction of wind farms – the area in which the Group is planning to expand its business and is currently running a number of projects. Polenergia makes decisions to commence the development stage of a project on the basis of detailed financial models, technical analyses and expert reports prepared by its dedicated Development Department. Such analyses include a series of assumptions, related to power generation volume, revenue, production costs, required investment amount and costs of financing. There is a risk that Polenergia S.A. may adopt assumptions more favourable than actual conditions, which would cause the Polenergia Group to achieve a lower than expected return on investment in a specific project. Moreover, the costs of preparing a project, even before the development stage, are also significant, especially in the Wind Farm segment. A project's failure would prevent the Group from recovering such costs.

The Development Department has extensive experience in all aspects of project preparation and implementation, such as development, plant operation and financing. Polenergia S.A. consistently improves its project management methods and is extremely careful in selecting the locations for wind farm projects in order to minimise the risk of achieving an unsatisfactory return on investment and the risk of incurring significant costs of project preparation without ascertaining the feasibility of the project.

Risk that investment plans are not executed or are delayed

One of the key elements of the Polenergia Group's development strategy are investment projects related to generation of energy from renewable sources, gas and electricity distribution, and conventional power generation.

Delays in carrying out its investment projects or their abandonment involve a risk of failing to achieve the assumed business objectives in the expected time frame, which in turn might lead to the Polenergia Group's achievement of worse financial results than those it would have posted if such projects had been completed as planned.

Intending to meet its investment plans, the Group takes steps to minimise this risk (such as precise planning and analysing factors which may affect the achievement of objectives, ongoing monitoring of results and immediate response to any signals showing that the achievement of objectives is at risk). The Management Board is particularly diligent in preparing individual projects, working on each and every technological detail and ensuring appropriate financing.

The Company's portfolio includes wind farm projects under development, with a total capacity of 185 MW, and it is the Company's intention for them to participate in auctions held under the amended RES Act.

The chances of winning an auction will depend on the number of participating projects and the prices offered by the other bidders.

The Company thinks its projects to date have the advantage of competitive development costs and good performance parameters, which should enable competitive pricing.

Moreover, as far as procedural matters are concerned, the projects are characterised by the long validity periods of relevant permits, which would enable them to repeatedly participate in later auctions.

However, details regarding the auction schedule for 2018 have not yet been made available. Considering that the Act on Wind Farm Projects stipulates that wind power plants may only be built (under a building permit already obtained) within three years of the Act's entry into force, there is a risk that such projects will not be successfully completed within the prescribed period. On the other hand, an amending bill to the Act on Wind Farm Projects has been put to public consultation by the Ministry of Energy, proposing to abolish the three-year period for obtaining an operation permit. The bill should be passed into law in Q1-Q2 2018.

Risk related to dependence on key customers

Each power generation project developed and implemented by Polenergia S.A. is, in practice, prepared for one or more customers, i.e. manufacturing companies. With the expansion of the Group's operations, its foothold on the market of RES power generation and the Group's electricity trading company, the share of industrial customers in its total revenue will decrease.

Risk of default on covenants

As the Group's investment projects rely to a large extent on debt financing, there is significant debt concentration at the Group. The contracted credit facilities provide for a number of financial covenants which have to be met by individual projects.

Given the current market environment, possible consequences of the Act on Wind Farm Projects and situation prevailing on the market of green certificates, there is a risk that the Group may default on certain project covenants.

The Group monitors the debt ratios and compliance with covenants at individual companies, remaining in contact with the financing institutions.

In particular, as one of the Group's counterparties defaulted on its contractual obligations (as discussed in more detail under 'Counterparty risk'), Amon and Talia failed to meet the expected debt service coverage ratio, debt service coverage ratio and debt ratio as at the end of 2017.

In addition, due to the market situation, the Mycielin project did not generate the assumed levels of financial ratios. The banks waived the covenant relating to the financial ratios for the company running the project; therefore, the failure to meet them does not necessitate reclassification of this facility from non-current to current liabilities.

In addition, due to the deteriorated market situation, the Biomasa Wschód project failed to comply with the debt coverage ratio covenant in the period ended December 31st 2017. The non-compliance was accepted by the bank, and was not considered an event of default under the credit facility agreement.

For details of the default on covenants, see Note 27 to the consolidated financial statements.

Risk of termination of credit facility agreement

As one of the Group's counterparties defaulted on its contractual obligations (as discussed in more detail under 'Counterparty risks'), Amon and Talia failed to meet certain contractual covenants as at the end of 2016, while the financing syndicate was forced to draw down part of the funds standing to the credit of the debt service reserve account to service the credit facility, which constitutes an event of default under the credit facilities agreement.

As at the date of the financial statements, the syndicate refrained from exercising any of the rights available to it in the case of occurrence of an event of default under the credit facilities agreement. In addition, Amon and Talia have been released by the syndicate from the obligation to top up the debt service reserve account.

Under Annex No. 5 to the credit facilities agreement of November 20th 2015, the Companies and the syndicate agreed to enter into negotiations in good faith with a view to making long-term arrangements that would comprehensively govern the mutual relations between the Companies and the syndicate in connection with the non-performance of the PPA Agreements and the CPA Agreements by PKH, which will ultimately lead to executing a relevant annex to the credit facilities agreement. The Companies are currently negotiating possible restructuring of that debt.

If the negotiations fail, there is a risk that the syndicate may terminate the credit facilities agreement. As security interest has been granted to the syndicate, in the event that the credit facilities agreement is terminated, Amon's and Talia's assets may be at risk of seizure, which, if effected, may render the Company unable to realise/recover the full value of property, plant and equipment reported in the financial statements.

As at the time of preparing the financial statements, the companies agreed on key conditions for debt reprofiling with the banks. The amended credit facilities agreement is expected to be signed towards the end of Q1 or beginning of Q2 2018.

The Company issued no surety for Amon's and Talia's liabilities under the credit facilities agreement, save for a surety limited to approximately PLN 6.7m. The Company's Management Board is uncertain about the enforceability of the surety. However, as no explicit decision had been issued in that matter, it found it prudent to consider the Company potentially liable.

The Companies' control of the funds was restricted in favour of the Banks, in accordance with the provisions of the credit facilities agreement.

The situation discussed above has no direct effect on any other credit facility agreement to which any of the Polenergia Group companies are party; in particular, it does not trigger an event of default under any other credit facility agreement.

Risk related to financial standing of customers

In the segment of industrial energy generation outsourcing, the Polenergia Group generates revenue based on long-term power and heat supply agreements concluded with one or several customers. The financial standing of customers and their ability to settle liabilities towards companies of the Polenergia Group is, therefore, of key significance for the success of the Group's projects, its financial results and financial standing. A sudden drop in energy consumption by a customer may also affect energy production efficiency.

Prior to concluding a contract and launching a project, Polenergia S.A. thoroughly verifies its potential customers, sometimes with the support of external consultants, checking their ability to settle liabilities towards Polenergia S.A., and prospects for the industries they operate in. The Polenergia Group is very careful in selecting customers, making sure they represent industries with good market prospects. The Company analyses in detail a prospective customer's industrial processes, as well as its power and heat demand. Both parties work together for several months before the launch of a project.

Risk related to customers' actions

According to information held by the Company, on July 2nd 2014 the general meeting of Polska Energia-Pierwsza Kompania Handlowa sp. z o.o. ("PKH"), the sole customer for electricity and green certificates generated by the Modlikowice Wind Farm (operated by Talia) and the Łukaszów Wind Farm (operated by Amon), passed a resolution to dissolve and wind up the company.

Furthermore, in accordance with information published by the Company in Current Report No. 14/2015 on March 23rd 2015, the Company's subsidiaries – Amon Spółka z ograniczoną odpowiedzialnością and Talia Spółka z ograniczoną odpowiedzialnością (the 'Companies') – received from Polska Energia – Polska Kompania Handlowa Spółka z ograniczoną odpowiedzialnością w likwidacji (in liquidation) a notice on the termination by PKH of:

- 1) the Agreement on Sale of Property Rights Incorporated in Certificates of Origin for Electricity Generated in a Renewable Energy Source – the Łukaszów Wind Farm of December 23rd 2009 and the Agreement on Sale of Electricity Generated in a Renewable Energy Source – the Łukaszów Wind Farm of December 23rd 2009, in respect of Amon;
- 2) the Agreement on Sale of Property Rights Incorporated in Certificates of Origin for Electricity Generated in a Renewable Energy Source – the Modlikowice Wind Farm of December 23rd 2009 and the Agreement on Sale of Electricity Generated in a Renewable Energy Source – the Modlikowice Wind Farm of December 23rd 2009, in respect of Talia;

PKH's termination notices have no grounds in law or fact and are therefore invalid. Amon and Talia took legal measures to protect their interests from PKH's unlawful actions. In particular, legal action was brought to declare PKH's termination notices invalid and without legal effect.

Even if Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. w likwidacji is declared bankrupt or wound up, or if the termination notices are declared valid, Talia and Amon will still be able to sell electricity and certificates.

All electricity produced by the Modlikowice Wind Farm and Łukaszów Wind Farm can be sold to an obligated supplier at a price announced by the President of URE, while green certificates can be sold on a commodity exchange or otherwise to entities other than Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. w likwidacji.

Accordingly, the Modlikowice Wind Farm and Łukaszów Wind Farm are able to sell their electricity and green certificates even if their current customer is declared insolvent or liquidated.

While the price of electricity sold to an obligated supplier is slightly higher than the price paid under contracts with Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. w likwidacji, the current market price of green certificates is significantly lower than the price paid by Polska Energia. Also, market prices may be volatile. As it is not possible to foresee future market prices, the consequences of the change of the customer for electricity and green certificates sold by Talia and Amon cannot be reliably predicted. Although the contracts with Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. w likwidacji were concluded for a fixed period until March 1st 2027, it is equally impossible to predict the period when the two companies will suffer a decline in earnings without knowing what the prices of electricity sold to an obligated supplier and market prices of green certificates will be in the period.

The companies are of the opinion that Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. w likwidacji may not unilaterally avoid performing the contracts in a legal way as part of its liquidation procedure or close the winding-up process before it terminates the contracts with the consent of the other party (Amon or Talia). But if this is the case, Amon and Talia may still sell their electricity and green certificates as discussed earlier and may pursue claims for damages.

It is possible that, irrespective of the outcome of the court proceedings, Amon's and Talia's resulting losses will not be fully compensated, owing to PKH's lack of funds.

If damages received by the Company's subsidiaries from PKH do not fully compensate them for damage suffered as a result of PKH's unlawful termination of the contracts, the subsidiaries will consider bringing an action against PKH's sole shareholder, Tauron Polska Energia.

Eolos Polska Sp. z o.o. filed for joint and several payment by the Company's subsidiaries, Certyfikaty Sp. z o.o. and Polenergia Obrót S.A., of contractual penalties and amounts due totalling PLN 27,895,009 under alleged breach of contracts which expired on January 5th 2016. It should be noted that in the statement of claim the plaintiff indicated that its claim could be higher due to the fact that the claimed contractual penalties would increase in subsequent years. The subsidiaries denied the claim in its entirety. Moreover, Polenergia Obrót S.A. maintains that the allegation of Polenergia Obrót's joint responsibility for Certyfikaty Sp. z o.o.'s liabilities is groundless.

The Company's subsidiary, Grupa PEP – Biomasa Energetyczna Północ Sp. z o.o., is seeking receivables of approximately PLN 420,000.00. The above amount is not reflected in the company's statement of financial position.

Due to the nature of its business which involves supplying electricity to end consumers, the Company's subsidiary Polenergia Dystrybucja Sp. z o.o. is enforcing claims against a number of customers in relation to sale and distribution of electricity, for a total amount of approximately PLN 360,000. The above amount is not reflected in the company's statement of financial position. Furthermore, Polenergia Dystrybucja Sp. z o.o. filed a claim against one of its electricity suppliers, demanding a refund of overpayments for delivered electricity. The amount of the claim is approximately PLN 550 thousand. The defendant recognised the claim, but also filed for a set-off of receivables for energy supplied in a different period. Polenergia Dystrybucja Sp. z o.o. regards the defendant's counterclaim as groundless and believes to have paid the supplier all amounts due from it for the energy supplied.

The Company's subsidiary Polenergia Obrót S.A. has secured an enforceable title against one customer for the amount of PLN 5,000,000, with respect to which enforcement proceedings are pending. The above amount is not reflected in the company's statement of financial position.

Moreover, the Company's subsidiary Elektrownia Północ Sp. z o.o. is in dispute with the other party to a preliminary property sale agreement, seeking to oblige that party to execute the final sale agreement. Elektrownia Północ Sp. z o.o. has initiated proceedings against the same party, for payment of penalty for breach of contract. The amount in dispute is PLN 100,000.

The Złotoryja County Head issued two decisions for Amon Sp. z o.o. and one decision for Talia Sp. z o.o. allowing them to exclude arable land which is to accommodate wind farms and access roads from agricultural production. The decisions also determined the amounts due for the exclusion of the arable land from agricultural production, totalling PLN 1,705,653.36 to be paid by Amon Sp. z o.o. and PLN 831,062.20 to be paid by Talia Sp. z o.o. Both Amon Sp. z o.o. and Talia Sp. z o.o. filed petitions for declaration of invalidity of the decisions along with requests to stay their enforcement with the Local Government Board of Appeals of Legnica. The Board declared the decisions invalid. According to Amon Sp. z o.o. and Talia Sp. z o.o., the Złotoryja County Head has no right to apply for a review of the case. As the Local Government Board of Appeals of Legnica declared the decisions invalid, there are no grounds for charging the amounts for exclusion of the arable land from agricultural production, and the case may need to be re-considered based on its merits.

The Company's subsidiary Energopep Sp. z o.o. Sp. k. has brought a claim for payment of PLN 100 thousand against a member of a contractor's management board for a delay in filing for bankruptcy. The case has been resolved by the court of first instance in the company's favour, and the company expects the defendant to appeal against the judgment.

On August 1st 2017, two hearings were held before the Supreme Administrative Court connected with the cassation complaints of Dariusz Mantaj (II OSK 3042/15) and Andrzej Bator (II OSK 2943/15) against the judgments of the Provincial Administrative Court in Poznań of August 27th 2015 (II SA/Po 188/15 and II SA/Po 189/15) concerning environmental decisions issued on January 24th 2014 by the Mayor of Wysoka Town and Municipality for:

1) Bądecz I WF project consisting in the construction of a wind farm (up to 11 turbines) with internal auxiliary infrastructure in the municipality of Wysoka, in the area of Bądecz, Gmurowo, Nowa Rudna, Rudna, Sędziniec and Stare;

2) Bądecz II WF project consisting in the construction of a wind farm (up to 3 turbines) with internal auxiliary infrastructure in the municipality of Wysoka, in the area of Tłukomy and Czajcze;

The Supreme Administrative Court examined the appeals on their merits, citing Art. 188 of the Law on Proceedings Before Administrative Courts, and reversed the environmental decisions issued by the Mayor of Wysoka Town and Municipality.

Since the environmental decisions for the abovementioned projects, both of which are implemented by the Company's subsidiary, Polenergia – Farma Wiatrowa Bądecz Sp. z o.o., were reversed, the final building permits for the projects may be challenged. The Company will take measures provided for by law to maintain the building permits. However, if these efforts fail, the projects may not be able to join the auction. Currently, implementation of the project depends on the entry into force of an amendment to the Act on Wind Farm Projects, as envisaged in the amending bill. The amendment provides for the possibility of obtaining a replacement building permit and new environmental decisions without having to meet the 10h condition and obtain new connection conditions for the project from Enea. An analysis of the feasibility of a favourable resolution of the case, performed in cooperation with a law office, showed no indication of impairment. The expenditure incurred on the project is approximately PLN 15m.

Seasonality risk

Wind conditions, which determine the output of wind farms, are uneven during the year: in autumn and winter they are significantly better than in spring and summer. The wind farm sites were selected by Polenergia S.A. based on professional wind measurements confirmed by independent and reputable specialists. That said, there can be no assurance that the actual wind conditions will not be different than those used in the Group's models for specific investment projects.

Risk of production stoppages due to malfunction, damage or loss of property, plant and equipment

A serious malfunction, damage, partial or total loss of the Group's property, plant and equipment may result in temporary suspension of operations. In such cases, the Group may find it difficult to perform its agreements in a timely manner, which may result in enforcement of contractual penalties. Such situations may not only impair the quality of customer service, but may also lead to significant deterioration of financial performance.

The Group has insurance coverage against loss of gross margin and also holds property insurance so that any malfunction, damage or loss of property is at least partly compensated.

Polenergia S.A. and the members of its Group believe that they have insurance policies that provide sufficient protection against risks inherent in respective business activities. However, there can be no assurance that the amount of losses caused by events against which the Group is insured will not exceed the sums insured. Further, the occurrence of events beyond the existing insurance coverage cannot be ruled out, which may force the Company to spend significant amounts to cover the resulting losses.

Risk of adverse weather conditions affecting electricity generation at the wind farms operated by the Group

The volume of electricity generated by a wind farm depends primarily on local wind characteristics. These may prove less favourable than expected and result in the actual volume of electricity generated falling below the projected volume.

These circumstances can have a material adverse effect on the Group's operations, performance, financial standing or growth prospects

Risk related to loss of key personnel

The business operations of Polenergia S.A. and other Group companies rely chiefly on the knowledge and experience of highly qualified personnel. In connection with the shortage of renewable energy experts on the market and given that specialists employed at the Group may receive attractive job and pay offers from its existing or future competitors, there exists a risk of loss

of staff of key importance to Polenergia S.A.'s development. If the risk materialised, this could adversely affect Polenergia S.A.'s performance and execution of its strategy.

The risk of loss of key personnel is mitigated through:

- a very strong corporate culture ensuring employee loyalty,
- a remuneration system that serves to incentivise staff and reward loyalty, and
- knowledge management and extensive training programmes.

Operating risk

In operating industrial facilities and distribution networks, there is the risk of failing to achieve the target efficiency and availability or to meet the terms of relevant power and gas supply contracts. Polenergia S.A.'s past experience suggests that the risk of unexpected accidents resulting in the operating budget of a facility being exceeded is low. In an effort to mitigate this risk, Group companies continually hone their operating procedures and maintain insurance coverage or use clauses in their contracts allowing them to pass any additional costs and expenses onto subcontractors.

Risk related to cash flow hedging

Interest rate risk hedging

As at December 31st 2017, the Group held the following hedging instruments for cash flow hedge accounting purposes:

Maturity date of the hedging instrument	Value of the hedge (PLN '000)	Interest rate hedged	Instrument
Apr 29 2019	38,456.00	4.95%	IRS
Jun 15 2021	133,572.60	3.07%	IRS

The fair value of the hedges as at the reporting date was PLN 4,534 thousand, disclosed in liabilities.

The purpose of the hedging transactions is to mitigate the effect of interest rate movements on future interest payments under credit facility agreements.

Hedge accounting seeks to eliminate the risk of an accounting mismatch between the time when gains or losses on a hedging instrument and those on the hedged item are recognised. The result on a hedging transaction will be taken to profit or loss on exercise of the hedge.

As at December 31st 2017, the Group recognised PLN 2,311 thousand (2016: PLN 4,077 thousand) in total other expenses being a component of equity, on account of the effective portion of the hedging instrument's fair value as at the reporting date.

13. Statement of compliance with corporate governance rules

- a) The corporate governance rules applicable to the Company and the place where the rules are publicly available

Code of Best Practice for WSE Listed Companies, available at: <http://corp-gov.gpw.pl/>

- b) Degree of the Company's non-compliance with the corporate governance rules referred to in Section 16.a), specification of the rules not complied with, and reasons for the non-compliance

Defining the composition of the Supervisory Board's Audit Committee is an independent decision of the Supervisory Board, which appointed its independent member as Chairperson of the Committee.

The Company does not have in place any remuneration or diversity policy. The Company does not broadcast its General Meetings as this is not justified by the shareholding structure or expectations of shareholders notified to the Company. The Company's Articles of Association

do not provide for the option to cast votes at the General Meeting by post, nor is it possible to vote by means of remote communication.

- c) Key features of the issuer's internal control and risk management systems used in the preparation of separate financial statements of the Group companies and the Group's consolidated financial statements

The Management Board is responsible for the Company's internal control and risk management systems applied in the preparation of financial statements. Periodic financial statements and management reports are prepared by the Accounting Department and the Controlling Department, under the supervision of the Chief Financial and Administration Officer, who is also a Management Board member.

All financial data contained in the financial statements is sourced from the financial and accounting system, in which all business events are recorded in accordance with the accounting policy approved by the Management Board, based on the International Financial Reporting Standards or the Polish Accounting Standards. The documents are reviewed by authorised persons in terms of their formal, accounting and factual correctness.

The effectiveness of the internal control system is protected through a number of measures and internal procedures adopted by the Company's Management Board. Such measures concern, for instance, the flow of accounting documents, description of accounting evidence, purchases made on behalf of the Company, assuming obligations by the Company, stock-taking, disposal of the Company's fixed assets and other items, decision-making and budgeting.

Data security is ensured by continuous review and update of access right restrictions and the strength of the password system protecting the financial and accounting records, as well as by the Company's procedures for data backup and storage.

Full-year and half-year (consolidated and separate) financial statements are subject to audit (full-year reports) or review (half-year reports) by an independent auditor appointed by the Supervisory Board under the authorisation provided for in the Articles of Association.

Prior to publication, audited full-year financial statements of the Company are approved by the Management and Supervisory Boards.

After the accounting closing of each calendar month, the Company prepares management reports including an analysis of key financial data and ratios and a comparison of current financial performance with the adopted budget, along with an explanation of deviations from the budget, if any. Each month, management reports are distributed among the members of the Management and Supervisory Boards.

The Company's internal control mechanisms enable early risk identification, assessment and mitigation and ensure accuracy of information presented in financial statements.

Thanks to these controls, the Company's financial statements are reliable, correct and clear, as confirmed by the auditor's opinions.

- d) Shareholders holding directly or indirectly major holdings of shares, along with an indication of the numbers of shares and percentages of the Company's share capital held by such shareholders, and the numbers of votes and percentages of the total vote that such shares represent at the General Meeting

Detailed information on major holdings of shares:

No.	Shareholder	Number of shares	Number of voting rights	% interest
1	Kulczyk Investment S.A.*	22,811,757	22,811,757	50.2%
2	China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF**	7,266,122	7,266,122	16.0%
3	ING OFE	2,576,969	2,576,969	5.7%
4	Generali OFE	2,943,731	2,943,731	6.5%
5	Aviva OFE	3,060,872	3,060,872	6.7%
6	Others	6,784,096	6,784,096	14.9%
	Total	45,443,547	45,443,547	100%

No.	Shareholder	Number of shares	Number of voting rights	% interest
1	Kulczyk Investment S.A.*	22,811,757	22,811,757	50.20%
2	China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF**	7,266,122	7,266,122	15.99%
3	ING OFE	2,576,969	2,576,969	5.67%
4	Generali OFE	2,943,731	2,943,731	6.48%
5	Aviva OFE	3,560,000	3,560,000	7.83%
6	Other	6,284,968	6,284,968	13.83%
	Total	45,443,547	45,443,547	100.00%

* Through Mansa Investments Sp. z o.o., a subsidiary.

** Through Capedia Holdings Limited of Nicosia, Cyprus, a subsidiary.

e) Holders of any securities conferring special control powers, and description of those powers

The Company has not issued any securities conferring special control powers.

f) Any restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of securities

The Company is aware of no restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, deadlines for exercising voting rights, or systems whereby, with the Company's cooperation, the financial rights attaching to securities are separated from the holding of securities.

g) Any restrictions on transfer of ownership rights to the Company's securities

There are no restrictions on transfer of ownership rights to the Company's securities

h) Rules governing the appointment and removal of the Company's management personnel and such personnel's powers, particularly the power to make decisions to issue or buy back shares

The Management Board consists of one to five members, including the President and Vice President of the Management Board. The Management Board is appointed for a three-year term of office. The Management Board members are not appointed for a joint term of office.

The Supervisory Board appoints and determines the number of members of the Management Board.

The Management Board manages the Company's business and represents it before third parties.

Any matters related to the management of the Company which do not fall within the exclusive scope of competence of the General Meeting or the Supervisory Board under the law or the Articles of Association fall within the scope of powers and responsibilities of the Management Board.

The Management Board is not authorised to make decisions on share issue.

i) Rules governing amendments to the Articles of Association

Any amendment to the Articles of Association requires a resolution of the General Meeting adopted by a three-fourths majority of votes.

j) Manner of operation of the General Meeting and its key powers; shareholders' rights and the manner of exercising those rights, including in particular the rules stipulated in the rules of procedure of the General Meeting if such rules have been adopted, unless the relevant information follows directly from legal regulations

Manner of operation of the General Meeting

The General Meeting operates pursuant to (i) the Commercial Companies Code, (ii) other generally applicable laws, (iii) the Articles of Association and (iv) the Rules of Procedure of the General Meeting.

Certificates of deposit confer the right to participate in the General Meeting. A certificate of deposit should specify the number of shares held and contain a clause prohibiting the delivery of such shares until the General Meeting is closed. A shareholder may attend the General Meeting provided that they submit a certificate of deposit at the Company's registered office at least one week prior to the date of the Meeting. Shareholders may participate in the General Meeting in person or by proxy. The power of proxy to participate in the General Meeting should be made in writing. Furthermore, in the case of powers of proxy granted by legal persons or partnerships, a document confirming authorisation of the persons granting the power of proxy to represent the shareholder should be attached.

Resolutions of the General Meeting are voted on in an open ballot. Resolutions are voted on in a secret ballot if the law so requires (e.g. in personnel matters) or upon a shareholder's request.

General Meetings are convened by posting a notice on the company's website and in the manner prescribed for disclosure of current information in accordance with the provisions of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies. Such a notice should be published at least twenty-six days prior to the date of the General Meeting.

Key powers of the General Meeting

The powers of the General Meeting are stipulated in Art. 20.1. of the Company's Articles of Association and include:

- a) reviewing and approving the Directors' Report and the Company's financial statements;
- b) approving performance of duties by the Supervisory and Management Board members;
- c) passing resolutions on distribution of profit or coverage of loss;
- d) setting up and releasing special accounts;
- e) determining the rules and amounts of remuneration of Supervisory Board members;
- f) changing the Company's business objects;
- g) amending the Company's Articles of Association;
- h) increasing or reducing the share capital;
- i) merging or transforming the Company;
- j) dissolving and liquidating the Company;
- k) issuing bonds, including convertible bonds;

- l) appointing liquidators;
- m) making all decisions concerning claims for redress of any damage inflicted on formation of the Company, or in the management or supervision of the Company;
- n) disposing of the Company's business or a substantial part thereof;
- o) considering matters put forward by the Supervisory or Management Boards, or by shareholders.

The General Meeting is also authorised to appoint and remove members of the Supervisory Board (pursuant to Art. 10.2 of the Articles of Association). Furthermore, pursuant to Art. 368.1 of the Commercial Companies Code, the General Meeting may remove a member of the Management Board.

Shareholders' rights and the manner of exercising those rights

Shareholders' key rights include the right to participate in and exercise voting rights at the General Meeting.

Moreover, a shareholder or shareholders representing at least 10% of the share capital may request that the General Meeting be convened and that certain matters be placed on the agenda of the General Meeting (Art. 400.1 of the Commercial Companies Code).

Shareholders also have the right to appeal against General Meeting's resolutions or to move for declaring such resolutions null and void.

- k) Composition and activities of the Company's management, supervisory or administrative bodies and of their committees; changes in their composition over the last financial year

Supervisory Board

Composition

No	Name and surname	Position
1.	Tomasz Mikołajczak	Chairman of the Supervisory Board
2.	Łukasz Rędziniak	Deputy Chairman of the Supervisory Board
3.	Arkadiusz Jastrzębski	Member of the Supervisory Board
4.	Mariusz Nowak	Member of the Supervisory Board
5.	Brian Bode	Member of the Supervisory Board
6.	Orest Nazaruk	Member of the Supervisory Board
7.	Dawid Jakubowicz	Member of the Supervisory Board
8.	Dominik Libicki	Member of the Supervisory Board
9.	Dagmara Gorzelana	Member of the Supervisory Board

The Supervisory Board is composed of six to nine members. The number of Supervisory Board members for a given term of office is determined by the General Meeting. The term of office of the Supervisory Board is three years, except for the first term of office of the Supervisory Board, which is one year. The Supervisory Board members are not appointed for a joint term of office.

The Supervisory Board members are appointed and removed in the following manner:

- a) a shareholder holding shares representing at least 33% of the Company's share capital has the right to appoint and remove two members of the Supervisory Board, including the Chairman, by submitting to the Company a relevant written statement. If more than one shareholder holds shares representing at least 33% of the Company's share capital, the Chairman of the

Supervisory Board is appointed by the shareholder holding the largest number of Company shares;

- b) China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF of Luxembourg, the Grand Duchy of Luxembourg, (the 'Fund') has the right to appoint and remove one member of the Supervisory Board by submitting to the Company a relevant written statement;
- c) other members of the Supervisory Board are appointed and removed by the General Meeting;
- d) the right to appoint and remove members of the Supervisory Board referred to in a) and b) above may not be exercised jointly by the same entity or entities which are members of a single group.

At least two members of the Supervisory Board should meet the independence criteria described in the Code of Best Practice for WSE Listed Companies, attached as an Appendix to Resolution No. 19/1307/2012 of the WSE Board of November 21st 2012, or in a document which will replace the Code, and in particular such members may not have, in line with a representation submitted to the Company, any economic, family or other links with Kulczyk Investment S.A. ("KI") which could influence the position of a Supervisory Board member with regard to any matters decided by the Supervisory Board.

An Audit Committee operates within the Supervisory Board. The Audit Committee is composed of three members. The Audit Committee comprises the Supervisory Board member referred to in Art. 10.2.b of the Articles of Association.

Composition of the Audit Committee

No.	Name and surname	Position
1.	Orest Nazaruk	Chairman of the Audit Committee
2.	Brian Bode	Member of the Audit Committee
3.	Dawid Jakubowicz	Member of the Audit Committee

Rules of operation

The Supervisory Board operates pursuant to (i) the Commercial Companies Code, (ii) other generally applicable laws, (iii) the Articles of Association and (iv) the Rules of Procedure for the Supervisory Board.

An Audit Committee has been established within the Supervisory Board.

The powers and responsibilities of the Supervisory Board include, in particular:

- a) assessment of the Company's financial statements for the previous financial year;
- b) issue of opinions on the Directors' Report and Management Board recommendations concerning the distribution of profit (payment of dividend) or coverage of loss, on draft resolutions proposed to the General Meeting, and on other important materials presented to shareholders in connection with the General Meeting;
- c) review and approval of annual operational and financial plans for the Company (company budget) and for individual projects (project budgets) in which the Company invests, and any material changes thereto, as well as requesting the Management Board to present detailed reports on performance of the plans;

(Project means a company, business or venture engaged in the generation, transmission or distribution of electricity or heat, or in the supply, trade in or distribution of fuels, in which the Company is a shareholder, investor, developer or manager);
- d) granting of consent for the Company to incur capital expenditure in an amount exceeding the equivalent of USD 100,000 (one hundred thousand US dollars), as calculated at the middle rate

- quoted by the National Bank of Poland for the transaction date (the “NBP exchange rate”), on a company, business or venture that is not a Project;
- e) review and approval of the Company’s strategic growth plans;
 - f) submission to the General Meeting of written reports on findings of the assessments referred to in item a) and b) above;
 - g) appointment, removal from office and suspension from duties of Management Board members, including the President, Vice President or the entire Management Board;
 - h) determination of the number of Management Board members for the next term of office;
 - i) determination of the amount of remuneration and other benefits for Management Board members;
 - j) when all members of the Management Board have been removed from office or suspended from duties or when the Management Board is unable to operate for other reasons, delegation of one or more Supervisory Board members to temporarily perform the duties of the Management Board;
 - k) granting consent for sale, lease, exchange, or other disposal of the Company’s assets, including the Company’s interest in a Project, as part of a single transaction or a series of related transactions, with a market value exceeding the equivalent of USD 100,000 (one hundred thousand US dollars), as calculated at the middle rate quoted by the National Bank of Poland for the transaction date (the “NBP exchange rate”);
 - l) granting consent to the Company for the taking out of bank loans, taking out or advancing of other loans, and taking on other debt, save for (i) liabilities incurred in the ordinary course of business in respect of the provision of services or the delivery of goods, (ii) taxes not yet due and payable, (iii) other current liabilities, where the portion not provided for in the Company’s approved budget does not exceed the PLN equivalent of USD 250,000 (two hundred and fifty thousand US dollars), as translated at the NBP exchange rate;
 - m) granting consent to the Company for incurring expenditure in an amount exceeding the PLN equivalent of USD 250,000.00 (two hundred and fifty thousand), as translated at the NBP exchange rate, as part of a single transaction or series of related transactions, other than expenditure provided for in the Company’s approved annual budget or arising in the Company’s ordinary course of business, with the proviso that capital expenditure is not treated as expenditure incurred in the Company’s ordinary course of business;
 - o) granting consent to the Company for taking part in legal transactions with any of the following:
 - i) an entity in which the Company holds, directly or indirectly, shares or other equity interests, unless the shares or equity interests represent 100% (one hundred per cent) of the share capital of such entity;
 - ii) a member of the Company’s Management Board;
 - iii) a member of the Company’s Supervisory Board;
 - p) granting consent to the Company for entry into an agreement establishing a partnership under civil law, general partnership, limited partnership, into a profit-sharing or revenue-sharing agreement or any similar agreement whereunder the Company’s revenue or profit is or may be shared with other persons or entities;
 - q) granting consent to the Company for the establishment of branches or subsidiaries, acquisition or subscription for shares or equity interests in other companies, and entry into partnership agreements with entities other than companies in which the Company holds, directly or indirectly, 100% (one hundred per cent) of the share capital;
 - r) granting consent to the Company for the issue of sureties or guarantees or other encumbrance of its assets if the cumulative amount of such sureties, guarantees or other encumbrances exceeds or may exceed the PLN equivalent of USD 100,000.00 (one hundred thousand US dollars), as translated at the NBP exchange rate, unless such sureties, guarantees or other encumbrances are provided for in the Company’s approved budget;
 - s) selection or change of the Company’s auditor;

- t) granting consent for the appointment of commercial proxies and approving the amount of remuneration of the commercial proxies;
- u) granting consent for the execution, material amendment or termination of an agreement with a value exceeding the PLN equivalent of USD 500,000 (five hundred thousand US dollars), as translated at the NBP exchange rate, and which is made for the provision of energy services, purchase of energy, facility management, lease of assets, turn-key procurement and delivery, equipment maintenance and operation, contracting a bank loan or other borrowings or supply of fuel, as well as any other agreements relating to a Project involving the Company, including any changes to orders under turn-key procurement and delivery agreements, unless any of the above is provided for in the Company's approved budget;
- w) approving the terms and conditions of project financing and any material amendments to such terms and conditions;
- x) granting consent for a material change in the accounting policies applied by the Company;
- y) approving any acquisition or disposal by the Company of a property, perpetual usufruct right or interest in a property, unless such acquisition or disposal was provided for in the Company's or a Project's approved budget.

Management Board

Composition

No.	Name and surname	Position
1.	Jacek Głowacki	Vice President of the Management Board
2.	Bartłomiej Dujczyński	Member of the Management Board
3.	Michał Michalski	Member of the Management Board

14. Proceedings pending before common courts of law, arbitration courts or public administration authorities, including information concerning:

- a. proceedings relating to liabilities or receivables of the issuer or its subsidiary with a value equal to at least 10% of the issuer's equity, specifying the subject matter of the proceedings and the issuer's position,

There were no proceedings relating to liabilities or receivables of the Company or its subsidiary with a value equal to at least 10% of the Company's equity.

- b. Information on two or more proceedings relating to liabilities or receivables with a total value of 10% or more of the issuer's equity, specifying the total value of all proceedings involving receivables and all proceedings involving liabilities, together with the issuer's position and – for the proceeding relating to liabilities and receivables of the highest value – their subject matter, value, date of commencement, and parties to the proceedings

There were no proceedings relating to liabilities or receivables with a total value equal to at least 10% of the Company's equity.

- c. other proceedings

The Company's subsidiaries Amon Sp. z o.o. and Talia Sp. z o.o. brought court action to declare invalid the termination notices issued by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. under:

- 1) the agreement on sale of property rights incorporated in certificates of origin for electricity generated in a renewable energy source – the Łukaszów Wind Farm of December 23rd 2009, and the agreement on sale of electricity generated in a renewable energy source – the Łukaszów Wind Farm of December 23rd 2009, in respect of Amon;

- 2) the agreement on sale of property rights incorporated in certificates of origin for electricity generated in a renewable energy source – the Modlikowice Wind Farm of December 23rd 2009, and the agreement on sale of electricity generated in a renewable energy source – the Modlikowice Wind Farm of December 23rd 2009, in respect of Talia;

This did not result in Amon and Talia being unable to sell the electricity and certificates of origin, because electricity can be sold to an obligated supplier at a price determined by the President of URE, and green certificates can be sold through the power exchange or otherwise to other parties. While the price of electricity sold to an obligated supplier is slightly higher than the price paid under contracts with Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. w likwidacji, the current market price of green certificates is significantly lower than the price paid by Polska Energia. Also, market prices may be volatile. As it is not possible to foresee future market prices, the consequences of the change of the customer for electricity and green certificates sold by Talia and Amon cannot be reliably predicted. The proceedings are pending.

Eolos Polska Sp. z o.o. filed for joint and several payment by the Company's subsidiaries, Certyfikaty Sp. z o.o. and Polenergia Obrót S.A., of contractual penalties and amounts due totalling PLN 27,895,009 under alleged breach of contracts which expired on January 5th 2016. It should be noted that in the statement of claim the plaintiff indicated that its claim could be higher due to the fact that the claimed contractual penalties would increase in subsequent years. The subsidiaries denied the claim in its entirety. Moreover, Polenergia Obrót S.A. maintains that the allegation of Polenergia Obrót's joint responsibility for Certyfikaty Sp. z o.o.'s liabilities is groundless.

The Company's subsidiary, Grupa PEP – Biomasa Energetyczna Północ Sp. z o.o., is seeking receivables of approximately PLN 420,000.00. The above amount is not reflected in the company's statement of financial position.

Due to the nature of its business which involves supplying electricity to end consumers, the Company's subsidiary Polenergia Dystrybucja Sp. z o.o. is enforcing claims against a number of customers in relation to sale and distribution of electricity, for a total amount of approximately PLN 360,000. The above amount is not reflected in the company's statement of financial position. Furthermore, Polenergia Dystrybucja Sp. z o.o. filed a claim against one of its electricity suppliers, demanding a refund of overpayments for delivered electricity. The amount of the claim is approximately PLN 550 thousand. The defendant recognised the claim, but also filed for a set-off of receivables for energy supplied in a different period. Polenergia Dystrybucja Sp. z o.o. regards the defendant's counterclaim as groundless and believes to have paid the supplier all amounts due from it for the energy supplied.

The Company's subsidiary Polenergia Obrót S.A. has secured an enforceable title against one customer for the amount of PLN 5,000,000, with respect to which enforcement proceedings are pending. The above amount is not reflected in the company's statement of financial position.

Moreover, the Company's subsidiary Elektrownia Północ Sp. z o.o. is in dispute with the other party to a preliminary property sale agreement, seeking to oblige that party to execute the final sale agreement. Elektrownia Północ Sp. z o.o. has initiated proceedings against the same party, for payment of penalty for breach of contract. The amount in dispute is PLN 100,000.

On August 1st 2017, two hearings were held before the Supreme Administrative Court connected with the cassation complaints of Dariusz Mantaj (II OSK 3042/15) and Andrzej Bator (II OSK 2943/15) against the judgments of the Provincial Administrative Court in Poznań of August 27th 2015 (II SA/Po 188/15 and II SA/Po 189/15) concerning environmental decisions issued on January 24th 2014 by the Mayor of Wysoka Town and Municipality for:

- 1) Bądecz I WF project consisting in the construction of a wind farm (up to 11 turbines) with internal auxiliary infrastructure in the municipality of Wysoka, in the area of Bądecz, Gmurowo, Nowa Rudna, Rudna, Sędziniec and Stare;
- 2) Bądecz II WF project consisting in the construction of a wind farm (up to 3 turbines) with internal auxiliary infrastructure in the municipality of Wysoka, in the area of Tłukomy and Czajcze;

The Supreme Administrative Court examined the appeals on their merits, citing Art. 188 of the Law on Proceedings Before Administrative Courts, and reversed the environmental decisions issued by the Mayor of Wysoka Town and Municipality.

Since the environmental decisions for the abovementioned projects, both of which are implemented by the Company's subsidiary, Polenergia – Farma Wiatrowa Bądecz Sp. z o.o., were reversed, the

final building permits for the projects may be challenged. The Company will take measures provided for by law to maintain the building permits. However, if these efforts fail, the projects may not be able to join the auction. Currently, implementation of the project depends on the entry into force of an amendment to the Act on Wind Farm Projects, as envisaged in the amending bill. The amendment provides for the possibility of obtaining a replacement building permit and new environmental decisions without having to meet the 10h condition and obtain new connection conditions for the project from Enea. An analysis of the feasibility of a favourable resolution of the case, performed in cooperation with a law office, showed no indication of impairment. The expenditure incurred on the project is approximately PLN 15m.

The Group is a party to proceedings related to the determination of the property tax. For more detailed information, see the part describing the consequences of the entry into force of the Act on Wind Farm Projects.

15. Key products, merchandise and services, their values and volumes, and the respective shares of individual products, merchandise and services (if material) or their groups in the Group's total revenue, as well as the changes of the above in the financial year

NET REVENUE FROM SALE OF PRODUCTS (BY CATEGORY – TYPES OF BUSINESS) [PLNm]	Dec 31 2017	Dec 31 2017
Net revenue from sale of electricity	2,179.1	78.88%
Electricity sold	[MWh] 13,710,027.3	
Net revenue from distribution of electricity	45.0	1.63%
Electricity distributed	[MWh] 290,462.3	
Net revenue from certificates of origin	62.2	2.25%
Certificates sold (green certificates)	[MWh] 1,149,168.2	
Certificates sold (yellow certificates)	[MWh] 124,091.1	
Net revenue from sale of CO2 emission allowances	23.0	0.83%
Emission allowances sold	[t CO2] 1,076,000.0	
Net revenue from sale of heat	20.3	0.73%
Heat sold	[GJ] 447,411.6	
Net revenue from consulting services	2.2	0.08%
Income from lease and operator services	2.0	0.07%
Revenue from sale of merchandise	4.0	0.14%
Revenue from sale of pellets	26.4	0.96%
Income from compensation for stranded costs and cost of gas	109.1	3.95%
Net revenue from sale of gas	270.7	9.80%
Gaseous fuel sold	[MWh] 3,413,587.5	
Net revenue from distribution of gas	6.5	0.24%
Gas distributed	[MWh] 401,668.0	
Other revenue	11.9	0.43%
Total net revenue from sale of products	2,762.4	100.00%

16. Information on the issuer's markets, broken down into domestic and foreign markets, on the issuer's supply sources for production materials, goods and services, including information on dependence, if any, on any single customer or supplier, or a group of customers or suppliers, and where the share of a single customer or supplier in total revenue equals or exceeds 10% of total revenue – the name of such supplier or customer, its share in total sales or purchases, and its formal links with the issuer

Domestic customers accounted for 100% of the production and services sold by in 2017. Given the specific nature of its business, involving the production and sale of heat and electricity to specific customers, including through the Group's trading company, the shares of individual customers in total revenue will decrease.

However, owing to the nature of its wholesale business, a significant volume of transactions (both sales and purchases) were executed on the Polish Power Exchange and cleared by Izba Rozliczeniowa Giełd Towarowych (the Warsaw Commodity Clearing House).

Customer	Transaction	Type of link with the Group	2017
Warsaw Commodity Clearing House	Electricity, property rights	no link	52%

The main raw materials used by the Group to produce heat, electricity and biomass pellets are currently natural gas and straw.

The Group is not dependent on any single straw supplier. The Group purchases natural gas from PGNiG S.A., but is also able to purchase gas fuel on the free market. The Group is dependent on the transmission networks of the PGNiG Group.

Below are presented other suppliers of goods and services which accounted for 10% or more of the Group's total revenue in 2016.

Supplier	Goods purchased	Type of link with the Group	2017
Warsaw Commodity Clearing House	Electricity, property rights	no link	41%

17. Agreements significant for the issuer's business, including agreements between shareholders (partners), insurance contracts, collaboration or cooperation agreements, of which the issuer is aware

In compliance with the requirements set out in the Minister of Finance's Regulation dated February 19th 2009 on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, information on significant agreements is disclosed by the Company in current reports.

18. Issuer's organisational or equity links with other entities and main domestic and foreign investments (securities, financial instruments, intangible assets and property), including equity investments outside the group of related entities, and a description of the methods of financing thereof, and structure of main equity deposits or major investments within the issuer's group in the financial year

The Group's equity structure is presented in the financial statements. For the Issuer's equity links, see Note 7 to the consolidated financial statements.

19. Significant transactions concluded by the issuer or the issuer's subsidiaries with related parties on non-arms' length terms, including the amounts and other details of such transactions

For related-party transactions, see Note 41 to the separate financial statements.

20. Loan agreements concluded and terminated in the financial year, including at least the amounts, types, interest rates, currencies and maturity dates of the loans

For the Group's bank and other borrowings, see Note 27 to the consolidated financial statements.

21. Loans granted in the financial year, in particular loans granted to the issuer's related entities, including at least the amounts, types, interest rates, currencies and maturity dates of the loans

Loans granted are presented in Note 39.1 to the separate financial statements and Note 22 to the consolidated financial statements.

22. Sureties and guarantees issued and obtained in the financial year, including without limitation sureties and guarantees issued for the benefit of the issuer's related entities

For information on loan sureties or guarantees issued by the Issuer or the Issuer's subsidiary to a single entity or its subsidiaries, see Note 31.1 to the separate financial statements and Note 29.1 to the consolidated financial statements.

The sureties and guarantees obtained are presented below:

Responsible entity/issuer of surety or guarantee	Basis	Value	Period
KSG Agro Polska Sp. z o.o./KSG Agro SA	Licence agreement	-	Dec 31 2025
Consortium of ERBUD SA and PBDI SA/ Sopockie Towarzystwo Ubezpieczeniowe Ergo Hestia	Construction work contract – construction of Gawłowice Wind Farm	PLN 1,648,755.75	Dec 13 2019
Consortium of ERBUD SA and PBDI SA/ Sopockie Towarzystwo Ubezpieczeniowe Ergo Hestia	Construction work contract – extension of Gawłowice Wind Farm	PLN 225,217.87	Dec 9 2020
Electrum sp. z o.o. / PKO Bank Polski SA	Electrical work contract – construction of Gawłowice Wind Farm	PLN 498,281.75	until Mar 31 2018
Electrum sp. z o.o. / PKO Bank Polski SA	Electrical work contract – extension of Gawłowice Wind Farm	PLN 30,743.85	until Apr 16 2019

Responsible entity/issuer of surety or guarantee	Basis	Value	Period
Konsorcjum Electrum sp o.o. and MegaPol SA/ING Bank Śląski S.A.	Warranty and quality guarantee obligations – Electrical work contract – construction of Gawłowice Wind Farm	PLN 458,334.90	until Mar 31 2018
Electrum Sp. z o.o. / Raiffeisen Bank Polska S.A.	Warranty and quality guarantee obligations – Electrical work contract – Gawłowice Wind Farm	PLN 473,390.10	until Mar 31 2018
SGS Polska sp. z o.o./ Societe Generale Corporate & Investment Banking	Contract for contract engineer services – construction of Gawłowice Wind Farm	PLN 49,500.00	until Jan 02 2018
SGS Polska sp. z o.o./ Societe Generale Corporate & Investment Banking	Contract for contract engineer services – extension of Gawłowice Wind Farm	PLN 8,400.00	until Mar 26 2018
Consortium of ERBUD SA and PBDI SA/ Sopockie Towarzystwo Ubezpieczeniowe Ergo Hestia	Construction work contract – construction of Rajgród Wind Farm	PLN 966,407.76	Dec 27 2019
Electrum sp. z o.o. /Raiffeisen Bank Polska SA	Construction work contract – construction of Rajgród Wind Farm	PLN 1,150,050.00	until Jan 31 2018
SGS Polska sp. z o.o./ Societe Generale Corporate & Investment Banking	Contract for contract engineer services - construction of Rajgród Wind Farm	PLN 30,000.00	until Jan 02 2018
Siemens sp. z o.o./ Siemens Aktiengesellschaft	Turbine supply contract – Gawłowice Wind Farm	25% of contract value	Feb 20 2020
Siemens sp. z o.o./ Siemens Aktiengesellschaft	Turbine supply contract – Rajgród Wind Farm	25% of contract value	Dec 29 2019
Siemens sp. z o.o./ Siemens Aktiengesellschaft	Turbine supply contract – Skurpie Wind Farm	25% of contract value	Nov 20 2020
SGS Polska sp. z o.o./ Societe Generale Corporate & Investment Banking	Contract for contract engineer services - construction of Skurpie Wind Farm	PLN 153,750.00	until Jul 24 2018

Responsible entity/issuer of surety or guarantee	Basis	Value	Period
SGS Polska sp. z o.o./ Societe Generale Corporate & Investment Banking	Contract for contract engineer services – extension of Skurpie Wind Farm	PLN 8,400.00	until Feb 9 2018
Electrum sp. z o.o. / PKO Bank Polski SA	Electrical work contract – construction of Skurpie Wind Farm	PLN 1,209,705.00	until Jan 31 2019
Electrum sp. z o.o. / PKO Bank Polski SA	Electrical work contract – extension of Skurpie Wind Farm	PLN 61,856.70	until Jan 15 2019
Consortium of ERBUD SA and PBDI SA/ Sopockie TU Ergo Hestia	Construction work contract – construction of Skurpie Wind Farm	PLN 1,305,296.00	Sep 29 2020
Consortium of ERBUD SA and PBDI SA/ Sopockie TU Ergo Hestia	Construction work contract – extension of Skurpie Wind Farm	PLN 170,532.42	Nov 30 2020
Consortium of ERBUD S.A. and PBDI S.A. / Sopockie Towarzystwo Ubezpieczeniowe Ergo Hestia	Construction work contract – warranty for defects in Mycielina Wind Farm	PLN 3,627,449.50	Jul 10 2021
AECOM Sp. z o.o./ AIG Europe Ltd	Contract for contract engineer services – construction of Mycielina Wind Farm	PLN 43,500.00	until May 9 2018
VESTAS Poland Sp. z o.o. / VESTAS Northern Europe A/S	Turbine supply contract – execution/warranty – Mycielina Wind Farm	-	Apr 30 2018
Polenergia Obrót SA/ Kulczyk Investment	Trade contract sureties	EUR 8,200,000.00	Series of sureties, last one expiring on Jun 30 2019
ENEA Trading Sp. z o.o./ENA S.A.	Surety for liabilities under the Framework Contract for sale of electricity to Polenergia Obrót S.A.	PLN 5,000,000.00	Jun 30 2019

Responsible entity/issuer of surety or guarantee	Basis	Value	Period
Freepoint Commodities Europe LLP / Freepoint Commodities LLC	Trade contract	EUR 5,000,000.00	unspecified
DUON Marketing and Trading SA / Grupa DUON SA	Trade contract	PLN 4,000,000.00	Feb 28 2018
ZPUE S.A./Bank Zachodni WBK	Contract for design and execution – Polenergia Dystrybucja	PLN 187,500.00	Dec 31 2019
ZPUE S.A./Bank Zachodni WBK	Contract for design and execution – Polenergia Dystrybucja	PLN 15,200.00	May 31 2020
PGNiG Obrót Detaliczny Sp. z o.o./Bank Gospodarstwa Krajowego	Contract DPG-POLK-PGNiG-2016 for gaseous fuel distribution - Polenergia Kogeneracja Sp. z o.o.	PLN 1,427,731.00	Nov 30 2017

23. For issues of securities in the period covered by the report - description of the issue proceeds use until the date of preparation of the report on operations

In the period covered by this report, no securities were issued.

24. Description of differences between the financial results presented in the full-year report and the financial forecasts for the year, published earlier

According to information published on July 6th 2016 in its Current Report No. 21/2016, the Company revoked the performance forecast for 2016, published in Current Report No. 4/2016. Until the regulatory environment for renewable energy generation stabilises, the Company does not intend to publish any performance forecasts for the coming years.

The Company monitors the changing regulatory environment on an ongoing basis, including changes resulting from the amended Act on Renewable Energy Sources and from secondary legislation thereto, which has not yet been enacted, as well as the effect of those regulations on the Company's operations and its financial results. At present, as no secondary legislation has yet been enacted, it is impossible to comprehensively assess the effect of these regulations on the Company.

25. Assessment (and grounds for the assessment) of financial resources management, including in particular an assessment of the ability to repay liabilities, as well as an identification of threats, if any, and measures used or intended to be used to mitigate such threats

The most important part of the Company's and the Group's financial liabilities are bank borrowings, described in more detail in the financial statements. All liabilities of the Company and the Group are settled in a timely manner.

However, if the prices of green certificates remain at their current level in the short run, then a risk exists that the financial ratio covenants defined in the agreements under which financing has been secured for individual wind farm projects will not be met.

The Group is monitoring the situation and keeping in touch with the financing institutions. If the prices of green certificates stay as they are now for a long time, there may be temporary problems with the performance of certain credit facility agreements, which may trigger payment under guarantees issued by Polenergia S.A. For details on the guarantees, see Note 29.1 to the separate financial statements.

26. Evaluation of feasibility of investment plans, including equity investments, in the context of available funds, taking into consideration possible changes in the investment financing structure

Polenergia S.A. seeks to finance projects under a project finance model which assumes partial reliance on externally sourced funds.

As at December 31st 2017, the Group planned to spend ca. PLN 46m on property, plant and equipment in 2018. The amount will largely be allocated to an investment programme in the Distribution segment and on project development, including in offshore and onshore wind power generation.

27. Assessment of factors and non-recurring events with a bearing on results for the financial year, along with the extent to which such factors or non-recurring events affected the results, and an overview of events which had a material effect on the issuer group's operations and results in the financial year, or which may have a material effect on its operations and results in future years

Events with a material effect on the Group's business and financial performance are presented in Sections 5 and 6. All of them are typical for the Company's business.

28. Overview of external and internal factors significant to the development of the issuer's business and description of the development prospects until at least the end of the financial year following the financial year for which the financial statements included in the full-year report have been prepared, taking into consideration the issuer's market strategy, and an overview of the development policy of the issuer's group

External and internal factors affecting the Group's growth

More information on the Group's growth prospects in the context of changes in its business environment and the new RES Act is presented in the section concerning risk factors and on its website at:

<http://polenergia.pl/pol/pl/page-prezentacje>

Description of the Group's business growth prospects

The Group keeps exploring potential avenues for further growth, taking into account the changing legal, regulatory and market environments.

Currently, the Group is focused on:

- further optimising its operating costs and improving asset efficiency,
- developing new projects, particularly offshore wind power projects, and preparing its portfolio of onshore wind farms and a biomass project for auctioning,
- pursuing initiatives in photovoltaics for existing customers and vehicle charging stations,
- implementing an investment project in the distribution area (which targets an increase of the Regulatory Assets Base and a growth in the number of customers connected to the Company's network on a permanent basis),
- intensifying efforts to grow energy sales to customers not connected to the Company's network.

More information on the Group's business development policy is available on the Company's website at:

<http://www.polenergia.pl/pol/pl/page-prezentacje>

29. Changes in basic management policies of the issuer and its group

In the financial year 2016, there were no changes to the basic management rules of the Company or the Group.

30. Agreements concluded between the issuer and its management staff, providing for compensation in the event of resignation or removal from office without a good reason, or when resignation or removal from office is caused by acquisition of the issuer by another company

Mr Jacek Głowacki is party to an employment contract concluded with the Company. The contract is for an indefinite term. It may be terminated upon six months' notice. Furthermore, Mr Jacek Głowacki is a party to a non-competition agreement that obliges the Company to pay him an amount equal to 100% of his remuneration for 12 months as compensation for refraining from any activities that would compete with the Company's business.

Mr Bartłomiej Dujczyński is party to an employment contract concluded with the Company. The contract is for an indefinite term. It may be terminated upon twelve months' notice. Furthermore, Mr Bartłomiej Dujczyński is a party to a non-competition agreement that obliges the Company to pay him an amount equal to 100% of his six months' remuneration as compensation for refraining from activities that would compete with the Company's business, with the proviso that the Company may waive the agreement.

Mr Michał Michalski is party to an employment contract concluded with the Company. The contract is for an indefinite term. It may be terminated upon three months' notice. Furthermore, Mr Michał Michalski is a party to a non-competition agreement that obliges the Company to pay him an amount equal to 100% of his 12 months' remuneration as compensation for refraining from activities that would compete with the Company's business, with the proviso that the Company may waive the agreement.

- 31. Value of remuneration, bonuses or benefits, including those under incentive or bonus schemes based on the issuer's equity, including schemes based on bonds with pre-emptive rights, convertible bonds, subscription warrants (in cash, in kind or in any other form), paid, payable or potentially payable, separately for each member of the issuer's Management and Supervisory Boards, recognised as costs or resulting from distribution of profit; if the issuer is the parent, shareholder in a jointly-controlled entity or significant investor - separate information on the value of remuneration and bonuses received for the performance of functions in the governing bodies of subsidiaries; if relevant information is presented in the financial statements - the obligation is deemed fulfilled by including a reference to the part of the financial statements in which such information is provided**

For information on the remuneration of members of the Management and Supervisory Boards, see Note 46 to the consolidated financial statements.

- 32. Total number and nominal value of all shares of the issuer and shares in the issuer's related entities, held by members of the issuer's Management and Supervisory Boards (separately for each person)**

As at the date of issue of the full-year report, members of the Company's Management and Supervisory Boards did not hold any shares in the parent.

- 33. Agreements known to the issuer (including those concluded after the end of the reporting period) which may result in changes in the proportions of shares held by the current shareholders and bondholders**

The Company is not aware of any agreements which may result in a future change to the current shareholder structure.

- 34. Employee stock ownership plan control system**

The Company currently does not have any employee stock ownership plan in place.

- 35. Information on:**

- a) the date of entering into an agreement with an auditor on the audit or review of financial statements or consolidated financial statements, and the term of the agreement**

Agreement of July 15th 2015 between Polenergia S.A. and PricewaterhouseCoopers Sp. z o.o., with its registered office at Al. Lecha Kaczyńskiego 14, Warsaw, Poland, providing for:

- review of the interim separate and consolidated financial statements for the periods ended June 30th 2015, June 30th 2016 and June 30th 2017,
- audit of the separate and consolidated financial statements for the years ended December 31st 2015, December 31st 2016 and December 31st 2017.

Moreover, individual Group companies concluded agreements with PricewaterhouseCoopers Sp. z o.o. with its registered office at Al. Lecha Kaczyńskiego 14, Warsaw, Poland, for the audit of their financial statements for the years ended December 31st 2015, December 31st 2016 and December 31st 2017.

b) remuneration paid or payable to the auditor for the financial year

For detailed information on the auditor's fees, see Note 48 to the consolidated financial statements.

36. Material off-balance-sheet items by entity, type and value

Off-balance sheet items by entity, type and value are presented in Note 30 to the consolidated financial statements.