Polenergia S.A.

DIRECTORS' REPORT
ON THE OPERATIONS
OF POLENERGIA S.A.
FOR THE YEAR
ENDED DECEMBER 31ST 2015

Zbigniew Prokopowicz – *President of the Management Board*	*Jacek Głowacki –* *Vice-President of the Management Board*
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Warsaw, February 17th 2016

Table of contents

1. Combined statement of profit or loss for the 12 months ended December 31st 2015

Presented below is the combined statement of profit or loss for 2015. The presented comparative data for 2014 have been prepared to present the Group's financial performance assuming that the merger of the assets of Polish Energy Partners S.A. and Neutron Sp. z o.o. had taken place on January 1st 2014.

In comparative data, the purchase price allocation effect was recognised for the period of 12 months of 2014.

For a description of individual Neutron Group assets contributed to the Polenergia Group, see Note 8 to the consolidated financial statements.

The presented performance data can serve as a basis for a complete analysis of the economic effects of the Transaction and give a full picture of the scale of the combined entities' operations, together with comparative data.

For Q4 2015, the Polenergia Group recorded **adjusted EBITDA and net profit of PLN 59.4m and PLN 17.6m, respectively.**

For the full year, combined adjusted EBITDA and net profit reached PLN 222.9m and PLN 79.2m respectively, having grown significantly year on year, by PLN 53.9m (32%) in the case of EBITDA and PLN 24.8m (46%) in the case of net profit.

Polenergia Group's performance (assuming that the acquisition date is the beginning of the full-year reporting period) (PLN '000)	2015	2014	Change y/y	Change y/y [%]	Q4 2015	Q4 2014	Change y/y	
Revenue	2,640,918	2,566,553	74,365		687,336	618,106	69,230	
Revenue from certificates of origin	131,518	92,485	39,033		52,779	27,217	25,562	
Revenue	**2,772,436**	**2,659,038**	**113,398**		**740,115**	**645,323**	**94,792**	
including trading segment	2,072,439	2,001,767	70,672		554,772	462,559	92,213	
Cost of sales	(2,599,123)	(2,541,397)	(57,726)		(685,310)	(605,019)	(80,291)	
including trading segment	(2,056,288)	(1,992,662)	(63,626)		(549,871)	(459,403)	(90,468)	
Gross profit	173,313	117,641	55,672	47%	54,805	40,304	14,501	
Other income	7,549	7,149	400		1,223	1,603	(380)	
Administrative expenses	(34,476)	(28,364)	(6,112)		(10,767)	(5,047)	(5,720)	
Other expenses	(13,739)	(9,121)	(4,618)		(10,954)	(6,597)	(4,357)	
Operating profit	132,647	87,305	45,342		34,307	30,263	4,044	
Depreciation and amortisation	87,660	86,081	1,579		24,486	23,729	757	
EBITDA	220,307	173,386	46,921	27%	58,793	53,992	4,801	
Elimination of purchase price allocation effect	2,412	(4,388)	6,800		603	603	-	A
Cost of corporate financing	176		176		3	-	3	E
Adjusted EBITDA*	222,895	168,998	53,897	32%	59,399	54,595	4,804	
Finance income	7,432	10,055	(2,623)		1,604	2,132	(528)	
Finance costs	(49,037)	(40,167)	(8,870)		(14,812)	(9,900)	(4,912)	
Profit (loss) before tax	**91,042**	**57,193**	**33,849**		**21,099**	**22,495**	**(1,396)**	
Income tax expense	(23,667)	(7,625)	(16,042)		(6,461)	(6,018)	(443)	
Net profit (loss)	67,375	49,569	17,806	36%	14,638	16,478	(1,840)	
Elimination of purchase price allocation effect	10,149	3,352	6,797		2,535	2,538	(3)	A
Elimination of unrealised exchange differences effect	4	928	(924)		266	650	(384)	B
Elimination of discount income effect	-	(519)	519		-	(134)	134	C
Elimination of loan valuation effect	1,535	1,106	429		140	65	75	D
Cost of corporate financing	143	-	143		3	-	3	E
Adjusted net profit *	79,206	54,436	24,770	46%	17,582	19,597	(2,015)	
Adjusted EBITDA (excluding trading segment)	216,436	162,085	54,351		58,001	49,505	8,496	
Adjusted EBITDA margin (excluding trading segment)	30.9%	24.7%	6.3%		31.3%	27.1%	4.2%	

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

- A Elimination of purchase price allocation effect (assuming the acquisition had been accounted for on January 1st 2014)
- B Unrealised foreign exchange differences on a foreign currency-denominated loan
- C Elimination of income from settlement of non-current receivable discount
- D AMC loan valuation
- E Cost of corporate financing

As regards the Group's EBITDA, a major increase in the **wind power segment** should be highlighted (up by PLN 57.3m, including by PLN 12.8m in Q4 alone), resulting mainly from the launch of new wind farms (Gawłowice and Rajgród) in the second half of 2014 (the effect of the full year 2015) and the Skurpie project in 2015, and to better wind conditions on other wind farms.

The **conventional energy** segment's EBITDA met the expectations and in Q4 was slightly higher year on year, while the full-year result was slightly below the 2014 figure.

The **distribution** segment's EBITDA in Q4 2015 was higher than in Q4 2014. Its full-year EBITDA was similar to that recorded in 2014 (the improved result on the core business was offset by the positive outcome of final settlements with customers in Q1 2014).

Full-year EBITDA of the **trading segment** decreased in 2015 year on year, which was attributable to a year-on-year decline in Q4 EBITDA, driven down primarily by a worse result on trade in certificates, partially offset by better results on trade in electricity and gaseous fuel. Quarter to quarter volatility is characteristic of trading activity on the wholesale market, as it reflects changes in supply and demand on the market.

The **biomass segment's** EBITDA for the 12 months of 2015 was PLN 3.1m higher year on year. The segment's performance in Q4 2015 improved by PLN 0.3m, mostly due to lower cost of purchase of straw (the effect seen mainly in the first three quarters of the year) and optimisation measures which translated into a lower unit production cost of pellets.

In Q4 2015, the development segment's EBITDA was affected by impairment losses on projects. An impairment loss was in particular recognised for the Wojcieszyn project, where, following the repeal of the Local Zoning Plan, there are no grounds to locate the project on the properties held by the Company under a lease.

An analysis of performance data as at the end of Q4 2015 shows a significant increase in profitability (at the EBITDA margin level). As a result of the developments described above, **the adjusted EBITDA margin** (excluding trading operations, which are characterised by minimum unit margins and very high transaction volumes, accounting for approximately 75% of the Group's revenue in the 12 months of 2015) grew by over 6pp in the reporting period, **from 24.7% to 30.9%**, which was mainly attributable to the launch of new wind farms.

In Q4 alone, the EBITDA margin was 31.3%, up by more than 4pp on the same period of the previous year.

The lower net finance income is attributable to higher interest expense, partly related to the launch of new projects, partly offset due to lower interest rates and lower debt balance on other projects.

Higher tax expense results from the recognition in the profit/(loss) for 2014 of a reversal of a provision for deferred tax liability related to the income of limited joint-stock partnerships and the fact that a tax asset was not recognised in respect of some tax losses incurred in 2015 (conservative approach). Moreover, in Q4 2015 the deferred tax asset relating to the Amon/Talia project was written off, as a result of a business partner's failure to perform trade agreements.

With the Group's net debt of PLN 785.8m as at December 31st 2015, the net debt/(adjusted) EBITDA ratio was 3.52x. The increase is attributable to further wind-farm projects (financed to a significant extent with debt), whose contribution to EBITDA will be fully reflected in 2016.

It is still the Group's intention to maintain the ratio below 3x in the medium term.

In the following quarters, the Company expects stable operating conditions in the individual segments, with the wind power segment's performance reflecting the launch of the Mycielin Wind Farm (for which the permit to operate was received in February 2016) and the full year of operation of the Skurpie Wind Farm.

Presented on the next pages is a breakdown of the Group's combined performance in Q4 2015 and in the 12 months of 2015 by operating segments.

Q4 2015 (PLNm)	Conventional energy	Development	Biomass	Wind power	Distribution	Trade	Unallocated management costs	Purchase price allocation	TOTAL
Revenue	79.9	-0.3	14.9	52.4	36.3	554.8	1.4	0.7	740.1
Operating expenses	-62.8	0.3	-14.4	-23.3	-32.1	-549.9	0.7	-3.8	-685.3
incl. depreciation and amortisation	-5.2	-0.0	-1.0	-14.6	-1.0	-0.0	-0.2	-2.5	-24.5
Gross profit	**17.1**	**0.0**	**0.6**	**29.1**	**4.2**	**4.9**	**2.0**	**-3.1**	**54.8**
Administrative expenses	-1.9	-0.5	-0.5	-1.0	-2.6	-3.6	-0.8	-	-10.8
Net other income/expenses	-0.3	-9.2	-0.3	0.6	-0.4	0.1	-0.1	-	-9.7
Operating profit	**14.9**	**-9.7**	**-0.2**	**28.7**	**1.3**	**1.4**	**1.1**	**-3.1**	**34.3**
EBITDA	20.1	-9.7	0.8	43.3	2.3	1.4	-1.3	-0.6	58.8
Elimination of costs of financing							0.0		0.0
Elimination of purchase price allocation effect								0.6	0.6
Adjusted EBITDA	20.1	-9.7	0.8	43.3	2.3	1.4	1.3	-	59.4
Net finance income	-1.8	0.1	-0.2	-9.9	-0.4	-0.4	-0.5	-	-13.2
Profit (loss) before tax	**13.1**	**-9.6**	**-0.4**	**18.7**	**1.0**	**1.0**	**0.6**	**-3.1**	**21.1**
Income tax expense									-6.5
Net profit (loss) for period									14.6
Elimination of purchase price allocation effect									2.5
Elimination of discount income effect									-
Elimination of loan valuation effect									0.1
Elimination of costs of financing									0.0
Adjusted net profit									17.6

Q4 2014 (PLNm)	Conventional energy	Development	Biomass	Wind power	Distribution	Trade	Unallocated management costs	Purchase price allocation	TOTAL
Revenue	97.1	-0.6	16.2	35.4	35.3	462.6	-0.1	-0.6	645.3
Operating expenses	-86.4	0.1	-15.3	-14.1	-30.7	-459.4	3.3	-2.5	-605.0
incl. depreciation and amortisation	75.3	0.0	6.5	42.1	6.8	0.0	-	17.7	148.4
Gross profit	**10.7**	**-0.6**	**0.8**	**21.4**	**4.6**	**3.2**	**3.3**	**-3.1**	**40.3**
Administrative expenses	-1.5	0.3	-	-	-1.8	2.8	-4.8	-	-5.0
Net other income/expenses	-0.5	-1.2	-1.3	0.8	-2.7	-0.8	0.7	-	-5.0
Operating profit	**8.7**	**-1.4**	**-0.5**	**22.2**	**0.1**	**5.1**	**-0.8**	**-3.1**	**30.3**
EBITDA	19.8	-1.4	0.5	30.5	1.0	5.1	-0.8	-0.6	54.0
Elimination of purchase price allocation effect								0.6	0.6
Adjusted EBITDA	19.8	-1.4	0.5	30.5	1.0	5.1	-0.8	-	54.6
Net finance income	2.2	-0.1	-0.3	-7.4	-0.7	-0.2	-1.3	-	-7.8
Profit (loss) before tax	**11.0**	**-1.5**	**-0.7**	**14.7**	**-0.6**	**4.9**	**-2.1**	**-3.1**	**22.5**
Income tax expense									-6.0
Net profit (loss) for period									16.5
Elimination of purchase price allocation effect									2.5
Elimination of unrealised exchange differences effect									0.6
Elimination of discount income effect									-0.1
Elimination of loan valuation effect									0.1
Adjusted net profit									19.6
Adjusted EBITDA yoy	0.3	-8.3	0.3	12.8	1.2	-3.7	2.1	0.0	4.8

The development segment's negative revenue is attributable to reclassification of revenue of the wind farms at the commissioning stage, which were disclosed in the development segment as at the end of Q3, to the wind power segment.

12 months 2015 (PLNm)	Conventional energy	Development	Biomass	Wind power	Distribution	Trade	Unallocated management costs	Purchase price allocation	TOTAL
Revenue	327.5	0.0	60.5	150.9	155.4	2,072.4	3.0	2.7	2,772.4
Operating expenses	-251.3	-0.5	-54.8	-79.0	-137.7	-2,056.3	-4.4	-15.3	-2,599.1
incl. depreciation and amortisation	-18.9	-0.0	-4.0	-49.6	-3.9	-0.0	-1.2	-10.1	-87.7
Gross profit	**76.2**	**-0.4**	**5.7**	**72.0**	**17.7**	**16.2**	**-1.4**	**-12.5**	**173.3**
Administrative expenses	-7.1	-1.0	-1.2	-2.6	-6.1	-10.0	-6.5	-	-34.5
Net other income/expenses	-1.2	-9.5	0.6	4.3	-0.3	0.3	-0.3	-	-6.2
Operating profit	**67.9**	**-10.9**	**5.1**	**73.7**	**11.3**	**6.4**	**-8.3**	**-12.5**	**132.6**
EBITDA	86.8	-10.9	9.1	123.2	15.1	6.5	-7.1	-2.4	220.3
Elimination of costs of financing							0.2		0.2
Elimination of purchase price allocation effect								2.4	2.4
Adjusted EBITDA	86.8	-10.9	9.1	123.2	15.1	6.5	-6.9	-	222.9
Net finance income	-8.4	0.1	-1.0	-32.5	-1.7	-1.4	3.4	-	-41.6
Profit (loss) before tax	**59.5**	**-10.8**	**4.1**	**41.1**	**9.6**	**5.0**	**-4.9**	**-12.5**	**91.0**
Income tax expense									-23.7
Net profit (loss) for period									67.4
Elimination of purchase price allocation effect									10.1
Elimination of discount income effect									-
Elimination of loan valuation effect									1.5
Elimination of costs of financing									0.1
Adjusted net profit									79.2

12 months 2014 (PLNm)	Conventional energy	Development	Biomass	Wind power	Distribution	Trade	Unallocated management costs	Purchase price allocation	TOTAL
Revenue	365.5	0.1	67.0	80.7	139.7	2,001.8	0.0	4.4	2,659.0
Operating expenses	-314.2	-0.5	-63.0	-44.0	-120.2	-1,992.7	3.3	-10.1	-2,541.4
incl. depreciation and amortisation	43.1	0.0	3.7	25.2	3.9	0.0	-	10.1	86.1
Gross profit	**51.3**	**-0.5**	**4.0**	**36.7**	**19.5**	**9.1**	**3.3**	**-5.7**	**117.6**
Administrative expenses	-6.0	-0.4	-	-	-6.3	-1.4	-14.3	-	-28.4
Net other income/expenses	-0.7	-0.8	-1.7	4.1	-2.1	-0.8	0.1	-	-2.0
Operating profit	**44.6**	**-1.7**	**2.2**	**40.8**	**11.1**	**6.9**	**-10.8**	**-5.7**	**87.3**
EBITDA	87.7	-1.7	6.0	66.0	15.0	6.9	-10.8	4.4	173.4
Elimination of purchase price allocation effect								-4.4	-4.4
Adjusted EBITDA	87.7	-1.7	6.0	66.0	15.0	6.9	-10.8	-	169.0
Net finance income	-0.4	0.8	-1.5	-21.4	-2.1	-1.0	-4.7	-	-30.1
Profit (loss) before tax	**44.2**	**-0.9**	**0.8**	**19.4**	**9.1**	**5.9**	**-15.5**	**-5.7**	**57.2**
Income tax expense									-7.6
Net profit (loss) for period									49.6
Elimination of purchase price allocation effect									3.4
Elimination of unrealised exchange differences effect									0.9
Elimination of discount income effect									-0.5
Elimination of loan valuation effect									1.1
Adjusted net profit									54.4
Adjusted EBITDA yoy	-0.9	-9.2	3.1	57.3	0.1	-0.5	4.0	0.0	53.9

2. Legal environment

For details on legislative acts that are relevant to Polenergia S.A.'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 8 to the consolidated financial statements.

On August 27th 2014, the Company and Capedia Holdings Limited of Nicosia, Cyprus (the "Investor") finalised ("Closing") the transaction provided for in their investment agreement of July 18th 2014 (the "Agreement").

As part of the Closing:

1) the Investor subscribed for 7,266,122 new shares in the Company at an issue price of PLN 33.03 per share, for a total of PLN 240,000,009.66 paid in cash;

2) Elektron Sp. z o.o. of Warsaw subscribed for 16,863,458 new shares in the Company at an issue price of PLN 33.03 per share, in exchange for a non-cash contribution in the form of 100% of shares in Neutron Sp. z o.o. of Warsaw (a subsidiary of Polenergia Holding S.a.r.l. of Luxembourg, which is controlled by Kulczyk Investments S.A.) with a total value of PLN 557,000,017.74 ("Contribution").

The Contribution made in exchange for the shares ("Contribution") comprised 100% of shares in Neutron Sp. z o.o., a holding company with the following shareholdings in the following companies:

- 100% of shares in Elektrociepłownia Nowa Sarzyna Sp. z o.o. – operator of the Nowa Sarzyna gas-fired CHP plant with a capacity of 116 MWe and 70 MWt;
- 100% of shares in Polenergia Kogeneracja Sp. z o.o. – a company whose business consists in natural gas distribution and trading; in the past it was engaged in cogeneration activities;
- 100% of shares in Polenergia Elektrownia Północ Sp. z o.o. (previously: Elektrownia Północ Sp. z o.o.) – a company responsible for the development of a base-load coal-fired power plant with a target capacity of approximately 1,600 (2*800) MWe;
- 100% of shares in Polenergia Dystrybucja Sp. z o.o. – a company whose business consists in distribution and sale of electricity;
- 100% of shares in Polenergia Obrót S.A. – a company whose business consists in trading in electricity, gas and certificates;
- 100% of shares in Natural Power Association Sp. z o.o., a sole shareholder of: Polenergia Bałtyk I S.A. (previously Bałtyk Północny S.A.), Polenergia Bałtyk Sp. z o.o. (previously Bałtyk Środkowy II Sp. z o.o.), Polenergia Bałtyk III Sp. z o.o. (previously Bałtyk Środkowy III Sp. z o.o.) – companies responsible for the development of offshore wind farms with a total capacity of up to 1,200 MWe, including 600 MWe by 2022, (the "Green Group")
- 100% of shares in PPG Pipeline Projektgesselschaft mbH;
- 100% of shares in PPG Polska Sp. z o.o. – a company responsible for the construction of a pipeline connecting gas systems of Poland and Germany;
- 20% of shares in GEO Kletnia Sp. z o.o. – a company responsible for the construction of a wind farm with a capacity of approximately 40 MW.

4. Discussion of key financial and economic data contained in the full-year financial statements, in particular factors and events, including non-recurring ones, with a material effect on the Company'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.

The Company's separate financial statements do not give a full picture of the Group's operations. In the Company's separate financial statements, the effect of intra-Group transactions has not been excluded. Therefore, an analysis of key financials and economic data included in the separate financial statements is not sufficient to inform reliable conclusions as to the entire Group. A detailed analysis of financial and economic data reflecting actual performance of the Group is included in the Directors' Report on the Group's Operations.

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

Key economic and financial data	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014	Change
Revenue	32.1	20.6	11.5
EBITDA	-6.4	-7.9	1.5
Net profit	-20.7	-16.1	(4.6)
Net profit after elimination of the effect of exchange differences	-20.7	-16.1	(4.6)

In comparison with 2014, performance in the year ended December 31st 2015 was driven by the following factors:

a) At the EBITDA level (up PLN 1.5m year on year)

- Higher allocation of the Company's operating expenses to individual Group companies,
- Partially offset by a loss on sale of a wind farm project to a subsidiary charged to the 2015 net profit/loss,

b) At the net profit level (down PLN 4.6m year on year):

- Effect of EBITDA (up PLN 1.5m year on year),
- Higher depreciation and amortisation (up PLN 0.2m),
- Lower dividends received from subsidiaries (down PLN 13.3m),
- Higher interest income and income from sureties and guarantees (intra-Group only, up PLN 0.1m),
- Lower interest, fee and commission expense (to related entities, down PLN 2.4m),
- Lower impairment losses on shares (down PLN 6.7m),
- Negative effect of corporate income tax (down PLN 1.7m),
- Other (minus PLN 0.1m).

GROWTH PROSPECTS

DEVELOPMENT AND IMPLEMENTATION

Onshore wind farms

In Q3 2015, as well as in previous periods, the Company continued the efforts to expand its portfolio of wind farms.

The construction of a total wind farm capacity of ca. 98.6 MW was completed (extension of the Gawłowice Wind Farm and Skurpie Wind Farm, construction of the Mycielin Wind Farm)

The projects currently under development have a combined capacity of approximately 690 MW. The following documents have been obtained for the projects: local land development plans, environmental permits, grid connection conditions and building permits for projects with an aggregate capacity of 105.32 MW; local land developments plans, environmental permits and grid connection conditions for projects with a total capacity of 314 MW; a local land development plan and grid connection conditions for a project with a capacity of 69 MW; grid connection conditions and an environmental permit for a 9 MW project; and grid connection conditions for an 18 MW project.

The likelihood of successful completion of development was assessed for the portfolio of wind farm projects. Based on the assessment results, a PLN 9.1m impairment loss was recognised on the projects. The impairment loss related principally to the Wojcieszyn project (PLN 7.7m), where, following the repeal of the Local Zoning Plan, there are no grounds to locate the project on the properties held by the Company under a lease.

Development of off-shore wind farms

The Group plans to construct two off-shore wind farms on the Baltic Sea (Bałtyk Środkowy II and Bałtyk Środkowy III) with an aggregate capacity of up to 1,200 MWe, including 600 MWe by 2022 and 600 MWe by 2026.
The off-shore wind farm project is of a long-term nature: the first wind farm is planned to be placed in service in 2022. The Group assumes that the project will be implemented in cooperation with a partner that will acquire a 50% interest in the project after all necessary approvals and permits are obtained (i.e. when the project is ready for construction). The Group does not exclude the option of selling the 100% interest in the project to increase dividend distributions to the shareholders.

Construction of the Bernau-Szczecin gas pipeline

The Group is considering construction of the Bernau-Szczecin gas pipeline, which would connect the Polish and German transmission systems. With a planned annual throughput capacity of 3-5 billion cubic metres, it would help diversify gas supplies to Poland, enabling gas imports from Germany, as well as exports of gas imported to Poland through the LNG terminal which is now under construction in Świnoujście.

The pipeline would be placed in service in 2020.

Development of the Elektrownia Północ Power Plant project

The Group is developing a hard-coal fired power plant in northern Poland. Ultimately, the Elektrownia Północ power plant project will comprise two 800 MWe power generating units.
The Group's plans provide for the sale of the coal-fired power plant in 2018. However, if appropriate signals come from the market, the Group could continue the project, subject to the shareholders' prior consent.

Biomass-fired power plant

As regards the development of outsourcing and generation of energy from biomass, the Polenergia Group is working on a project providing for the construction and operation of a 30 MW biomass-fired power plant connected to the power grid. The location of the facility has already been selected, and the Group has obtained an environmental permit, grid connection conditions and a final building permit. Negotiations concerning a grid connection agreement are under way.

The project will be implemented if the auction is won in a new support system in accordance with the provisions of the RES Act.

5. Structure of assets, equity and liabilities in the statement of financial position, including from the perspective of the Company's liquidity

	Item	Description	Value
1	Return on equity – ROE	Net profit/loss / Average annual equity	-1.7%
2	Net margin	Net profit/loss / Revenue	-64.4%
3	Liquidity − Liquidity ratio I (current ratio)	Total current assets / Current liabilities	0.35
4	Average collection period (days)	average annual trade receivables x 365 days / revenue from sale of finished goods and merchandise	242 days
5	Debt to assets	(total equity and liabilities - equity) / total assets	19.1%

6. Description of material risk factors and threats, including information on the degree of the Company's exposure to such risks or threats

Risk factors related to the Polenergia Group's business environment

Risk of competition

Given the current legal environment resulting in a steady increase in demand for energy from RES and the expected implementation of an auction system for new 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 wind farm projects under development and construction. Owing to certain weather and environmental constraints in Poland, wind farms are considered to be, in addition to biomass combustion, an energy source providing the best opportunities for green energy generation in Poland. It is likely that West European and US companies, which have gathered relevant experience on other markets, will seek to invest in the construction of new wind farms in Poland.

Proper location of a wind power project is extremely important for its future profitability. This is why in recent years the Group has invested in the project portfolio and enhanced its wind farm project development team.

On the Polish market, the Polenergia Group has unique experience in the execution of outsourcing projects, including preparation and implementation of optimally customised technological solutions, as well as development of appropriate legal, tax and financial structures, which gives the Group a significant competitive edge. The Polenergia Group is also committed to ensuring the highest quality of its services, consistent improvement of qualifications in the field of state-of-the-art technologies and enhancement of management methods.

With respect to its operations in 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 forest 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 may also decrease the profitability of processing biomass for the purpose of pellet production and reduce its supply. Furthermore, the Group's pellets have to compete with other types of agricultural biomass, also from imports.

As regards electricity and natural gas distribution, 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 strengthens the competition among suppliers of electricity and natural gas to end users.

<u>Risk related to the economic situation in Poland</u>

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's 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 planned revenue of the Polenergia Group or higher costs of operations.

<u>Risk of foreign exchange rate movements</u>

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

The Group's currency risk involves primarily the risk of changes in the euro exchange rate with respect to its short currency position under bank deposits, investment commitments, and investment credit facilities.

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.

<u>Interest rate risk</u>

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 value of projects pursued by the Group is financed with debt. In accordance with the credit facility agreements entered into by Group companies, interest under 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 this risk and takes measures to mitigate it and prevent its potential negative consequences by constantly monitoring the situation on the money market, effectively managing its finances, and introducing into its agreements with clients provisions on the client's participation in the interest rate risk.

On June 19th 2015, Polenergia Farma Wiatrowa Mycielin Sp. z o.o. and Alior Bank S.A. executed a transaction hedging interest rate risk. The instrument will hedge 60% of interest flows and will take effect in the first interest period after the credit facility becomes available, i.e. in Q3 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 of 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.

Risk related to volatility of raw material prices and availability of raw materials used in the production process

At present, Polenergia and companies of its 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 and heat at the Zakrzów CHP plant. In Poland, the PGNiG Group companies are the main suppliers of gaseous 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 gaseous 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 customers.

The risk of supply limitations is negligible, but in connection with the announced liberalisation of gas prices, PGNiG is expected to be exempted from the requirement to apply tariffs to prices for customers purchasing more than 2.5m cubic metres of gas. This will be the case of 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, similar to the developments on the electricity market. Changes in prices are followed by at least 30-45 days before heat tariffs are appropriately adjusted.

Moreover, through Polenergia Kogeneracja, the Group distributes and sells natural gas to the Ceramika Paradyż and Paradyż facilities in Tomaszów Mazowiecki. Hence, any changes in prices of natural gas affect the margin on these sales in the short term. However, volatility of the margin realised by Polenergia Kogeneracja is effectively mitigated by the requirement to submit tariffs for the distribution and sales of natural gas. The announced exemption of PGNIG from the obligation to sell gas at tariff prices to customers consuming more than 2.5m cubic metres of the fuel will also liberalise prices for Polenergia Kogeneracja and increase the volatility of prices paid by end users.

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 production 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 (PBE), Polenergia Biomasa Energetyczna Południe (PBEP) and Polenergia Biomasa Energetyczna Wschód (GPBEW), 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 production purposes are agricultural farms in the vicinity of the production facilities. The prices and supply of straw may be negatively affected by the amount of cereal, maize and rape crops, as well as adverse weather conditions.

The Polenergia Group mitigates this risk by conducting thorough research and analyses of the availability of straw on local agricultural markets and diversifying its supply sources. Additionally, the companies apply pricing formulas for the supplies of pellets to their customers, under which the price of pellets depends both on the price of straw and the inflation rate.

Polenergia S.A. and the Group companies use mechanisms which protect them against adverse effects of raw material price fluctuations. In principle, their sale prices of electricity, heat and fuel produced from agricultural biomass are related to the prices of natural gas and straw. 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 price tariffs 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, generally provide 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 level.

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, as well as gas 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 an unreasonable increase 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 appropriate 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 Zakrzów CHP plant. The risk associated with the natural gas distribution tariff relates to Polenergia Kogeneracja, while the risk associated with the electricity tariff − to Polenergia Dystrybucja.

The potential impact of these risks on the performance of the Polenergia Group is limited, given the relatively small contribution of the EBITDA margin of the entities listed above to the Group's total revenue.

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 for 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 (Energy Regulatory Office), 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 its consequences, and of enactment of new regulations that would curtail the support system for the technologies developed in Poland.

The new Act on Renewable Energy Sources introduces a number of changes to the support system for renewable energy sources, relative to the currently applicable regulations with respect to both existing and planned RES. The principal part of the new regulations was originally expected to take effect as of January 1st 2016, but under an amendment passed at the end of 2015, their effective date (with certain exceptions) was postponed until July 1st 2016. The proposed changes may have an adverse effect on entities (including the Group) which are pursuing projects related to renewable energy sources.

With respect to existing renewable energy sources, the changes include:

- setting of the maximum support period under the green certificates scheme to 15 years, counted from the date on which energy for which a certificate of origin was granted is generated for the first time;
- removal of the mechanism under which the emission charge (determining the market value of green certificates) is indexed by the inflation rate; this will result in lower revenue from the sale of green certificates;
- possible ongoing control of the RES requirement (which creates the demand for green certificates) based on, among other things, the current share of electricity and fuels generated from renewable energy sources in the power sector and transport, as well as on energy prices on the competitive market.

Under the RES Act, the following regulations will be applicable to new RES sources built after July 1st 2016:

- the requirement to participate in auctions, where the support level granted will largely depend on competition on the RES market;
- as much as 25% of energy generated from RES eligible for support will have to originate from small sources of up to 1 MW;
- the drafted provisions may discriminate against sources using less than 4,000 MWh/MW/year of the installed capacity, in particular wind sources.

It should be stressed here that the enactment of the RES Act generally has a positive effect on the Company's business, especially as a result of the fact that the period of regulatory uncertainty is over. However, given that the RES Act includes the above mentioned regulations, the Company will need to undertake a number of steps to adjust to the new regulatory environment. It cannot be ruled out that the legislative changes may, in certain areas, contribute to a lower than expected return on investment in renewable energy sources.

The regulations which are to take effect as of July 1st 2016 relate to the introduction of a new type of support for energy generation from RES. 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.

Signals from politicians point to the risk that the RES Act provisions relating to the auction-based scheme may not take effect when expected. On the other hand, 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 (which in Polish conditions means investment in wind farms), and thus also prompt implementation of relevant legal regulations.

If support is not available, implementation of the Polenergia Group's investment plans will be delayed in the coming years.

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

The system of support for renewable energy sources in Poland is chiefly based on a mechanism involving green certificates, i.e. tradable property rights allocated to producers for generating electricity from a renewable energy source. Demand for green certificates comes from entities (mainly those selling 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 the 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. In line with our earlier expectations, the oversupply of green certificates continued in 2015, which kept their market price much below the emission charge set by the President of URE at PLN 300.03/MWh. Currently, the market price of green certificates stabilised at around PLN 105/MWh, which represents our estimated average lowest price of green certificates that would ensure economic viability of burning and co-burning of biomass. In connection with the mechanisms designed to limit the supply of green certificates, as provided for in the RES Act, the prices of green certificates are expected to rise gradually to around 75% of the emission charge, or PLN 225.00/MWh. Given the delay in the full entry into force of the new regulations (as described above), this effect may also be delayed.

Accordingly, if the prices of green certificates remain at the current level for a long time, then a risk exists that, in the short term, the financial ratios defined in the agreements under which financing has been secured for individual wind farm projects are not met. The Group is monitoring the situation and maintaining day-to-day contact with the financing institutions.

Also, it cannot be excluded that the effective date of the new regulations is further delayed or that the regulations are significantly modified.

Risk of regulatory changes under which the support system for cofiring technologies would be limited

Part of the Group's business consists in the purchase and processing of biomass for resale. Demand for the 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 and entities supplying biomass to electricity producers co-firing coal and biomass. The changes to the support system, in effect since January 1st 2016, provide for significant limitation of the support for such technologies. The changes may result in decreased demand for biomass (pellets) produced by the Group companies.

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 low margins on electricity generation (especially for generation based on natural gas and hard coal). 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 reduced the risk of insufficient reserve capacities. 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. Depending on the adopted solutions and their implementation timeline (e.g. CFDs (contracts for difference), payments for new capacities, payments for reserve capacities, a decentralised or centralised capacity market), the attractiveness of new conventional projects, such as Elektrownia Północ, may change significantly.

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

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 the laws regulating business activity, tax laws, labour laws, commercial laws, including commercial companies and capital markets laws, as well as environmental protection laws, 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 the European Communities laws, which affects the legal environment in which the Polenergia Group operates. In addition, changes made to Polish laws result from legal acts that are introduced to the Polish legal system under the Community regulations. In particular, the implementation of new business regulations may entail problems with their interpretation, inconsistent court rulings or unfavourable interpretations adopted by public authorities.

A provision regulating the minimum distance between a wind farm and buildings may serve as a case in point, because the government and the Sejm majority are expected to opt for such regulation. However, since no detailed draft is currently known, it is impossible to assess the effect of such regulations being enacted on the Group.

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 and the related secondary legislation. These regulations are not formulated precisely, and so in many cases they do no lend themselves to straightforward interpretation, which may cause problems with their application. They are also 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 individual Polenergia Group companies.

Risk related to unstable tax system

The regulations in 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 tax provisions. 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 provisions regulating formal 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 the EU standards and aligned with the regulations applicable in other EU Member States. The process is still continued and may result in further stabilisation of the Polish tax regime, which may significantly reduce the risk of instability of the tax system.

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.

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 carry out proper and timely reporting of their use of the environment or other matters. Ensuring compliance with environmental protection regulations may require expenditure to prepare the relevant documents and adjust the Group's installations to the applicable requirements. At the date of approval of the annual 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 aforementioned Act was superseded by the Act on Trading System for 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. Zakrzów CHP plant (National Allocation Plan (KPRU) No.: PL 0075 05),
b. Mercury Power Plant (KPRU No.: PL 0879 05),
c. Nowa Sarzyna CHP plant (KPRU No.: PL 0472 05).

All three are combustion installations with a rated thermal input in excess of 20 MW participating in the EU emissions trading scheme.

a. In the current trading period 2013-2020, pursuant to Directive 2003/87/EC of the European Parliament and of the Council, amended by Directive 2009/29/EC of the European Parliament and of the Council of April 23rd 2009: Zakrzów CHP plant was provisionally allocated 8,439 full-year free allowances pursuant to Art. 10a (2013-2020). 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 Zakrzów plant, modified by a correction factor, was as follows:

- 2013- 7,956
- 2014- 7,817
- 2015- 7,678
- 2016- 7,536
- 2017- 7,394

- 2018- 7,249
- 2019- 7,103
- 2020- 6,957

It should be noted that in 2013−2016, the number of allocated allowances was reduced by half given the lower heat volume generated by the plant in 2012−2015 (with the plant's annual output at 25%−50% of the initial level). Should production increase to over 50%, the number of EUA allowances allocated in future trading periods will be adjusted back to 100% of the initial amount.
The emission allowances allocated for 2015 were transferred to the operator's account on April 24th 2015.

b. 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 2013−2015 as no Investments specified in the National Investment Plan were carried out.

c. 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 2015 were transferred to the operator's account in April 2015.

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 reviewed 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 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 June 21st 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. The Act on Trading in Greenhouse Gas Emission Allowances of June 12th 2015 having taken effect, the plants covered by the trading system are obligated to apply − within 12 months − for emissions trading permits, which are to replace the existing permits and monitoring plans.

Risk related to Polenergia's business

Risk related to difficulties in obtaining financing for investment projects

Polenergia S.A. seeks to finance individual projects under a project finance model which assumes a 70% share of external financing and 30% of its own contribution. The construction of more wind farms or biomass-fired power plants, upgrade of existing plants and development of projects related to the outsourcing of heat and power generation will require considerable funds. New projects will be financed with bank borrowings, own funds, issue of shares (provided that the share price reflects the company's fair value) and disposal of shares in selected projects.

Polenergia's experience in preparing investment projects and securing their financing proves that professionally prepared project business plans and good relations with financial institutions make it possible to ensure appropriate financing of individual projects.

In the case of difficulties with finding potential share buyers, unsuccessful issue of shares or problems with obtaining bank borrowings, the Polenergia Group is able to postpone the execution of individual investment projects. If such circumstances occur, Polenergia S.A. will consider other forms of financing its planned projects, including temporary reversal of the proportions between sold and kept shares.

Risk of new projects failing

The Polenergia Group is pursuing an intensive development plan, which involves a significant number of investment projects in power generation outsourcing, development and construction 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 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 Wind Farm Development Department. Such analyses include a series of assumptions, related to power generation volume, revenue, production costs, required investment amount and costs of its 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 construction segment. A project's failure would prevent the Group from recovering such costs.

The Wind Farm 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 project implementation. Furthermore, in January 2013, Polenergia S.A. took over a team of employees experienced in the process of developing wind farms from EPA Wind Sp. z o.o, a leading developer of wind farm projects in Poland. Consequently, the Company gained access to information on the best locations of wind farms, the results of wind measurements and practical experience in building wind farms in Poland.

Risk that investment plans are not executed or 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 operating 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 ended 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 responding 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 already introduced (and a possible further) delay in the effective date of the new RES support system may force the Group to delay the implementation of its RES projects.

The Company's portfolio includes wind farm projects under development, with a total capacity of 279 MW, and it is the Company's intention for them to participate in the first auction held under the amended RES Act. It is also planned that any further project, once its development is completed, will participate in subsequent auctions.

The chances of winning an auction will depend on the number of participating projects and the prices offered by 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 long validity periods of relevant permits, which would enable them to repeatedly participate in later auctions.

Further, with respect to the Elektrownia Północ power plant, there is the risk of failure to obtain a building permit, because of protests voiced by some external stakeholders (residents and pro-environmental organisations). In its operations, the Group follows the regulatory guidance, including administrative decisions and court rulings governing the procedure involved in obtaining a building permit.

There also exists an additional risk of losing the right to land for development, and thus of the inability to obtain the required administrative permits.

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 related to the financial standing of customers

In the industrial power generation outsourcing segment, 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 an outsourcing 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 meticulously analyses a prospective customer's industrial processes, as well as power and heat demand. Both parties work together for several months before the launch of a project.

Risk related to customers' actions

According to the 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 WF (operated by Talia) and the Łukaszów WF (operated by Amon), passed a resolution to dissolve and wind up the company.

Furthermore, in accordance with the 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 their energy and certificates.

All electricity produced by the Modlikowice WF and Łukaszów WF can be sold to a supplier of last resort 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 WF and Łukaszów WF 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 a last-resort 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 change of the customer for electricity and green certificates sold by Talia and Amon cannot be reliably predicted. Although 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 last-resort prices of electricity 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.

Risk relating to a possible dispute

On January 4th 2016, two frame agreements on sale of property rights incorporated in certificates of origin for electricity generated in renewable energy sources ("Agreements") between the Company's subsidiary Certyfikaty Sp. z o.o. ("Certyfikaty") and Eolos Polska Sp. z o.o. were terminated (expired). The Agreements were terminated under their respective provisions. Although the termination will have no financial consequences for Certyfikaty, the Group does not exclude entering into a dispute over that matter.

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 property damage, loss or failure 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 value 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 restore 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

Polenergia S.A.'s and other Group companies' business operations are chiefly based on the knowledge and experience of highly qualified personnel. In connection with the shortage of industrial energy outsourcing specialists on the market and given that the specialists employed at the Group may receive job and pay offers from the existing or future competitors, there exists a risk of loss of staff of fundamental importance to Polenergia S.A.'s and its Group's development. If the risk materialised, this could adversely affect the Group's performance and execution of its strategy.

The risk of loss of key personnel is mitigated through:

- 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 an industrial facility, there exists the risk of the facility not being able to achieve the target efficiency and availability parameters and failing to meet the terms of relevant power supply contracts. Polenergia S.A.'s past experience suggests that the risk of unexpected accidents resulting in the facilities' operating budgets 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 unplanned costs and expenses onto subcontractors.

7. 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. The Code is 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 failed to appoint its independent member as Chairperson of the Committee.

c) Key features of the Company's internal control and risk management systems used in the preparation of separate and 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 Internal Control, Reporting, Modelling and Analysis Department, under supervision of Chief Financial and Administration Director, who is also a Management Board member.

All financial data contained in the financial statements are 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 substantive 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, circulation of accounting records, purchases made on behalf of the Company, assuming obligations by the Company, stock-taking, disposal of the Company's non-current assets and items, decision-making and budgeting.

Data security is ensured by continuous review and update of access rights 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 (annual 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 budget deviations, 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 identification, assessment and mitigation of risk and ensure accuracy of information presented in financial statements.

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

d) Shareholders directly or indirectly holding significant 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

For detailed information on shareholders directly or indirectly holding significant holdings of shares, see Note 23.2 to the consolidated financial statements.

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

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 ¾ 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 issue 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, a document confirming authorisation of the persons granting the power of proxy to represent a shareholder should be attached to the powers of proxy granted by legal persons or partnerships.

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

General Meetings are convened by placing 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 an 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;

ł) 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.

m) disposing of the Company's business or a substantial part thereof;

n) 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 the voting right 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.	Rafał Andrzejewski	Member of the Supervisory Board
6.	Orest Nazaruk	Member of the Supervisory Board
7.	Dawid Jakubowicz	Member of the Supervisory Board

On November 5th 2015, Mr Marek Gabryjelski resigned from his membership in the Company's Supervisory Board for personal reasons.

On December 15th 201, the General Meeting appointed Mr Orest Nazaruk and Mr Dawid Jakubowicz to 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 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 the representation by Kulczyk Investment S.A. ("KI") submitted to the Company, any economic, family or other links with Kulczyk Investment S.A. which may influence the position of a Supervisory Board member with regard to any matters discussed 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.	Rafał Andrzejewski	Member of the Audit Committee
2.	Dawid Jakubowicz	Member of the Audit Committee
3.	Orest Nazaruk	Member of the Audit Committee

After Mr Marek Gabryjelski resigned from membership of the Supervisory Board, he also ceased to be a member of the Audit Committee. On February 17th 2016, Mr Mariusz Nowak resigned from his position on the Audit Committee, and the Supervisory Board appointed Mr Dawid Jakubowicz and Mr Orest Nazaruk as members 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, comprising the following members: (i) Mariusz Nowak – Chairman, (ii) Rafał Andrzejewski – Member.

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 the 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;

c^1) 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 mid-exchange rate announced by the National Bank of Poland for the transaction date ('Exchange Rate'), on a company, business or venture that is not a Project;

d) review and approval of the Company's strategic growth plans;

e) submission to the General Meeting of written reports on findings of the assessments referred to in item a) and b) above;

f) appointment, removal from office and suspension from duties of Management Board members, including the President, Vice-President or the entire Management Board;

g) determination of the number of Management Board members for the next term of office;

h) determination of the amount of remuneration and other benefits for Management Board members;

i) 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;

j) 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 mid rate announced by the National Bank of Poland for the transaction date ('Exchange Rate');

k) 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 Exchange Rate;

l) granting consent to the Company for incurring expenditure in an amount exceeding the PLN equivalent of USD 250,000 (two hundred and fifty thousand US dollars), as translated at the 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 construed as expenditure incurred in the Company's ordinary course of business;

m) granting consent to the Company for participation 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;

n) granting consent to the Company for entering 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;

o) 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;

p) 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 Exchange Rate, unless such sureties, guarantees or other encumbrances are provided for in the Company's approved budget;

r) selection or change of the Company's auditor;

s) granting consent for the appointment of commercial proxies and approving the amount of remuneration of the commercial proxies;

t) 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 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;

u) approving the terms and conditions of Project financing and any material amendments to such terms and conditions;

v) granting consent for a material change in the accounting policies applied by the Company;

w) 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

	Name and surname	Position
1.	Zbigniew Prokopowicz	President of the Management Board
2.	Jacek Głowacki	Vice-President of the Management Board.
3.	Anna Kwarcińska	Vice-President of the Management Board.
4.	Michał Kozłowski	Vice-President of the Management Board.

8. Proceedings pending before common courts of law, arbitration courts or public administration authorities

As at December 31st 2015, the Company was not party to any court proceedings.

Proceedings involving the Company's subsidiaries are discussed in the Directors' Report on the Group's Operations.

9. Key products, merchandise and services, their values and volumes, and the respective shares of individual products, merchandise and services (where relevant) 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 TYPE) (PLNm)	**2015**	**2015**
net revenue from consulting and advisory services	30.1	93.7 %
net rental income	1.9	6.1 %
other	0.1	0.2 %
Total net revenue	**32.1**	**100 %**

10. Information on the Company's markets, broken down into domestic and foreign markets, on the Company'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 Company

Domestic customers accounted for 100% of the production and services sold by the Company in 2015. Given the nature of its business activity (mainly services provided to other Group entities), in the period under analysis the Company was not dependent on any customers or suppliers.

11. 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, the Company publishes information on significant agreements in the form of current reports.

12. 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 Group in the financial year

The Group's equity structure is presented in the financial statements. For the Company's equity links, see Note 10 to the financial statements.

13. 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 - the obligation is deemed fulfilled by referring to the part of the financial statements in which such information is provided

For related-party transactions, see Note 42 to the financial statements.

14. Bank and other borrowing agreements concluded and terminated in the financial year, including at least the amounts, types, interest rates, currencies and maturity dates of the borrowings

For bank and other borrowings, see Notes 27−29 to the financial statements.

15. 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 18 and Note 40.1 to the separate financial statements.

16. 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 loan sureties or guarantees issued by the Company or the Company's subsidiary to a single entity or its subsidiaries, see Note 31.1 to the financial statements.

The sureties and guarantees obtained are presented below:

Responsible entity/issuer of surety or guarantee	Basis	Value	Period
Beta Sp. z o.o. and Alfa Sp. z o.o./Elektrownia Połaniec – GDF Suez Energia Polska S.A.	Rights to the Project Sale Agreement	PLN 10,000,000	Dec 31 2020 (or payment of the total amount for which surety has been issued)

17. 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.

18. Description of differences between the financial performance presented in the annual report and the financial forecasts for the year, published earlier (PLNm)

In 2015, the Company did not publish any financial forecasts on a separate basis. For detailed information on actual performance against forecasts on a consolidated basis, see the Directors' Report on the Polenergia Group's Operations in 2015.

19. 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 without any major delay. In the financial year 2015, there were no threats to the Company's ability to pay its liabilities when due.

20. 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. aims to develop an project financing structure with a 70% share of credit facilities and a 30% share of equity. As at December 31st 2015, the Company planned to spend ca. PLN 38.7m on property, plant and equipment and equity investments in 2016.

Funds received by subsidiaries will represent Polenergia S.A.'s equity contribution to newly implemented projects. In particular, funds contributed by Polenergia S.A. will be applied towards capital expenditure on further wind farm development projects.

21. 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's operations and results in the financial year or which may have a material effect on the issuer's operations in future years

Section 6 includes a detailed analysis of important events with a bearing on the Company's operations and financial performance. All of them are typical for the Company's business.

22. 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 annual 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 factors affecting the Group's growth

RES sector prospects
More information on the Company's growth prospects in the context of changes in its business environment and the new RES Act is available on its website at:
http://www.polenergia.pl/pol/pl/page-prezentacje

Competitive position

The Group's unique experience and competence in the development, financing and management of energy-related projects (both RES and in other market segments) should provide the Group a competitive edge.

Availability of financing for projects under development

The Company seeks to finance individual projects under a project finance scheme which assumes a 70% share of external financing and 30% of its own share. The construction of more wind farms, upgrade of existing plant and development of projects related to the outsourcing of heat and power generation will require considerable funds. New projects will be financed with bank borrowings, own funds, issue of shares (provided that the share price reflects the company's fair value) and disposal of shares in selected projects.

The Company's experience in preparing investment projects and securing their financing proves that professionally-prepared project business plans and good relations with financial institutions make it possible to ensure appropriate financing of individual projects.

In case of difficulties with finding potential share buyers, unsuccessful issue of shares or problems with obtaining bank borrowings, the Polenergia Group is able to postpone the execution of individual investment projects. If such circumstances occur, the Company will consider other forms of financing its planned projects, including temporary reversal of the proportions between sold and retained shares.

Internal factors affecting the Group's growth

Operational efficiency of facilities

Polenergia S.A. monitors the operation of the facilities under its management on an ongoing basis and is therefore able to promptly respond to any threats to the achievement of their planned efficiency and availability, and prevent potential non-compliance with contractual terms of energy supplies. Furthermore, the Group improves the facility operation procedures, enters into insurance contracts, or in the concluded contracts includes provisions enabling transfer any potential additional costs of operation to its subcontractors.

Business development in the area of new projects

Development and management of new projects are key to the ability to compete on the industrial power outsourcing market and the renewable energy market, and thus to the future financial performance. The Polenergia Group employs highly qualified management and engineering staff, committed to the implementation of the Group's strategy. Within almost ten years of operation, Polenergia S.A. has built an experienced Project Development Team, which guarantees continuity of work on new projects and its successful implementation, and has gained experience, unique on the Polish market, enabling it to customize the solutions it offers by applying state-of-the-art energy technologies and legal solutions. Moreover, the Company regularly improves the efficiency of the Group's operations through such measures as application of modern IT solutions for project budgeting and cost monitoring.

Description of the Group's business growth prospects

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

23. Changes in basic management rules of the issuer and its group

In the financial year 2015, there were no changes to the basic management rules of the Company or the Group.

24. 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 Zbigniew Prokopowicz, President of the Management Board, is party to an employment contract concluded with the Company. The contract is for an indefinite term and may be terminated by each of the parties upon a twelve-month notice.

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 a six-month notice.

Ms Anna Kwarcińska is party to an employment contract concluded with the Company. The contract is for an indefinite term. It may be terminated upon a twelve-month notice.

Mr Michał Kozłowski is party to an employment contract concluded with the Company. The contract is for an indefinite term. It may be terminated upon a twelve-month notice.

25. 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 body, recognised as costs or resulting from distribution of profit; if the issuer is the parent, shareholder in a jointly-controlled entity or significant investor - separately, 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 referring to the part of the financial statements in which such information is provided

For the remuneration of members of the management and supervisory bodies, see Note 44 to the financial statements.

26. 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 bodies (separately for each person)

Members of the Company's Management and Supervisory Boards as at the date of release of the annual report had the following holdings of shares in the parent:

Shares	As at Aug 11 2015	Acquisitions	Decreases	As at Feb 17 2016
Management Board	**12,000**	**-**	**-**	**12,000**
Zbigniew Prokopowicz	**12,000**	**-**	**-**	**12,000**
Total	**12,000**	**-**	**-**	**12,000**

27. 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.

28. Employee stock ownership plan control system

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

29. Information on:

a) the date of entering into an agreement with an entity authorised to audit financial statements, on 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. Armii Ludowej 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.

b) Remuneration of entity authorised to audit financial statements, paid or payable for the financial year

The total remuneration resulting from the above agreements is PLN 128 thousand.

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

Off-balance-sheet items by entity, type and value are presented in Note 31 to the financial statements.