<u>In case of divergence between the language versions, the Polish version shall prevail.</u>

1.1.1

Polenergia S.A.

DIRECTORS' REPORT ON THE OPERATIONS OF POLENERGIA S.A. FOR THE YEAR ENDED ON 31 DECEMBER 2020

Michał Michalski – President of the Management Board	Iwona Sierżęga – Member of the Management Board
Piotr Maciołek - Member of the Management Board	Tomasz Kietliński - Member of the Management Board
Jarosław Bogacz - Member of the Management Board	

Warsaw, 30 March 2021

Contents

1. Profit and loss account of Polenergia S.A. for a 12-month period ended on 31 December 2020

	Performance Polenergia SA (PLNk)	12M 2020	12M 2019	Difference YOY
	Sales revenues	**20 239**	**29 069**	**(8 830)**
	Cost of goods sold	(14 464)	(24 098)	9 634
	Net sales profit	**5 775**	**4 971**	**804**
	Other operating revenue	361	2 333	(1 972)
	General overheads	(20 550)	(15 324)	(5 226)
	Other operating expense	(137)	(2 166)	2 029
A	**Operating profit (EBIT)**	**(14 551)**	**(10 186)**	**(4 365)**
	Depreciation/Amortization	1 989	1 776	213
	Impairment losses	-	-	-
	EBITDA	**(12 562)**	**(8 410)**	**(4 152)**
B	Financial income	68 116	86 749	(18 633)
	including dividend	49 852	58 657	(8 805)
C	Financial costs	(3 923)	(29 818)	25 895
A+B+C	**Gross profit (loss)**	**49 642**	**46 745**	**2 897**
	Income tax	6 460	(3 204)	9 664
	Net profit (loss)	**56 102**	**43 541**	**12 561**

The drop of revenues in 2020 is predominantly the outcome of a one-off sale transaction of capex for the development of wind farms in the Szymankowo project 10.4m in 2019, partially offset by higher revenues from the provision of services to subsidiaries (by 1.4m).

The cost of goods sold was by 9.6m lower in 2020 than in 2019 mainly as a result of the sale of capex borne for the development of wind farms in the Szymankowo project in the amount of 10.4m in 2019.

Altogether, costs by type dropped by PLN 4.4m. A detailed breakdown of total costs by type is presented in Note 30 to the financial statements.

General overheads were higher by PLN 5.2m due to increased operating costs (wages and employees' benefits, external services, lease amortization) partly offset by lower charges with non-deductible VAT (change in the calculation scheme).

In 2020, the decrease in other operating revenues is noticeable by PLN 2.0m, mainly due to the reversal of the impairment losses on receivables from subsidiaries in the amount of PLN 2.1m in 2019.

In 2020, the decrease in other operating expenses can be noticed, down to the level of PLN -0.1m (by 2.0m compared to 2019). The change results from the PLN 2.1m impairment losses on receivables, including PLN 1.1m from subsidiaries, booked in 2019.

Operating profit (EBIT) dropped by PLN 4.4m to the level of PLN -14.6 m, which was mainly due to the growth of the general overheads and the sales profit before tax.

On the level of EBITDA the Company reported a loss of PLN -12.6 (which is a lower result by PLN 4.2m compared to 2019).

Financial income reached PLN 68.1m and included PLN 49.9m of revenue from dividend distribution from subsidiaries, revenue from interest on deposits and loans (4.2m), surety charges (3.6m) and revenue from the reversal of impairment loss on the shares in related companies (PLN 9.0). Financial income in 2020 were lower by PLN 18.6m compared to 2019, which results predominantly from lower revenues form dividend and the reversal of the impairment loss on the value of shares in 2020 (FW Piekło, FW16 and Amon) offset by the outcome of the sale of subsidiaries in 2019.

The finance costs in 2020 amounted to PLN -3.9m and was higher by PLN25.9m than in 2019. The lower figure in the preceding year resulted mainly from the impairment loss on the shares in the subsidiary

Polenergia Farma Wiatrowa Bądecz Sp. z o.o. amounting to PLN 17.3 m and in the subsidiary Interpep Sp. z o.o. amounting to PLN 7.9 m.

Income tax in 2020 amounted to PLN 6.5m. The change compared to 2019 (PLN 9.7m) is predominantly attributable to the effect of the sale transaction of Wińsko and Biomasa Wschód projects in 2020, as well as to the impairment loss on shares in Energopep company and in FW Bądecz in 2019.

As a result of the abovementioned events, the Company reported a net profit for the period of 12 months ended 31 December 2020 amounting to PLN 56.1m.

2. Legal regime

For details on legislative acts that are relevant to the business of Polenergia S.A., see "Description of material risk factors and threats".

3. Organizational structure of the Group

For a description of the structure of Polenergia S.A.'s Group (the "Group"), refer to Note 7 to the Consolidated financial statements.

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

A detailed analysis of economic and financial data which presents Group's full performance can be found in the Director's Report on the Group's operations.

Key economic and financial data concerning the Issuer's performance is presented in the table below:

Major economic and financial data (PLN m)	Period from 1 January to 31 December		Difference
	2020	2019	
Sales revenues	20,2	29,1	(8,8)
EBITDA	-12,6	-8,4	(4,2)
Net profit (loss)	56,1	43,5	12,6

In comparison with 2019, performance in the year ended 31 December 2020 was driven by the following factors:

a) On the level of EBITDA (worse result by PLN 4.2 m year on year):

- Higher sales profit before tax (by PLN 0.8 m) resulting from higher revenues from services provided to related companies with similar base costs,
- Lower other operating revenues (by PLN 2.0 m) due to the reversal of impairment losses on receivables in the amount of PLN 2.1m in 2019.
- Higher general overheads (by PLN 5.2m) due to increased operating costs (wages and employees' benefits, external services, lease amortization) partly offset by lower charges with non-deductible VAT (change in the calculation scheme).
- Lower other operating revenues (by PLN 2.0m) due to the impairment losses on receivables in the amount of PLN 2.1 m in 2019;

b) On the level of Net Profit (growth by PLN 12.6m year on year):

- The EBITDA effect (worse result by PLN 4.2m year on year),
- Higher depreciation/amortization (by PLN 0.2m) resulting from the changes under IFRS 16 (increased depreciation of leased fixed assets),
- Hence, lower operating profit (by PLN 4.4m).
- Financial income lower by PLN 18.6m, mainly due to lower revenue from dividend (PLN 8.8m) and the revenue from the reversal of the impairment losses on shares in 2020 (PLN 9.0m) partly offset by the impact of the sale of interest in MFW Bałtyk I Sp. z o.o. subsidiary (PLN 19.7 m),
- Financial costs lower by PLN 25.9 m as a result mainly of the lower level of impairment losses on shares than in the preceding year (see Note 34 to the financial statements),
- Income tax charge lower by PLN 9.7m is predominantly the effect of the sale transaction of Wińsko and Biomasa Wschód projects in 2020, as well as the impairment loss on shares in Energopep company and in FW Bądecz in 2019.

GROWTH PROSPECTS

Onshore wind farms

The Company continues works aimed at implementation of wind farm projects of the total capacity of 199 MW which secured auction offtake under the RES support auction scheme.

In July 2020, the facility agreement was entered into for the financing of construction of the biggest project in the Group's history - the Dębsk wind farm with the capacity of 121 MW, while in September a facility agreement was entered into for the financing of construction of a 27 MW Kostomłoty project. Also, in July 2020 an amended and restated facility agreement originating in 2019 was executed which increased the cap on available loans for the Szymankowo wind farm (38MW).

Construction of the Dębsk and Szymankowo wind farms has been progressing according to the schedule. As refers the Dębsk wind farm, construction works are underway, in terms of the structure and the power system, while with respect to the Szymankowo wind farm construction works have been completed in terms of roads, assembly areas and foundations, and deliveries have been performed of all components of the turbines - by 31 December 2020 4 out of 11 turbines were assembled, while by the date of publishing these statements, 10 out of 11 turbines have been assembled. The preparation phase commenced with respect to the third wind farm - Kostomłoty, by way of, among others, preparing the working designs.

In the RES auction held in December 2020 the Company secured a 15-year offtake for the Piekło Wind Farm of the capacity of ca. 13.2 MW.

The Group continues developing its wind projects with a view to attain the goals identified in the Group's Strategy for the years 2020-2024.

Photovoltaic farms

The construction of the Sulechów I project (8MW) has been completed. An operating permit was issued for this project and the President of ERO issued a concession to the Company developing Sulechów I for the generation of electricity for the period 24 January 2020 - 31 December 2030. The Sulechów I projects were, commissioned into operation, thus entering the operating stage, in the first quarter of 2020.

In the December RES auction the Company secured a 15-year offtake for three PV projects: Sulechów II, Sulechów III and Buk I, providing for the construction of 29 PV plants, with the aggregate capacity of ca. 28 MW.

The Group continues developing its photovoltaic projects with a view to attain the goals identified in the Group's Strategy for the years 2020-2024.

Development of offshore wind farm projects

Development work in the offshore wind power segment is continued. The Company holds 50% of the shares in the companies MFW Bałtyk I Sp. z o.o, MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o. preparing to develop three offshore wind farms located in the Baltic Sea with total capacity up to 3000 MW. For those projects which are at an advances stage of development (MFW Bałtyk II i MFW Bałtyk III), a request has been filed for the entitlement to have any negative balance covered under the initial phase of the projects envisaged in the act on promoting generation of electricity in offshore wind farms.

On 29 January 2021 the company developing the offshore wind farm project MFW Bałtyk I signed a grid connection agreement with PSE. According to the agreement, the total maximum power output of the Project has been determined at 1560MW.

Distribution

In the distribution segment, on 21 October 2020 new electricity distribution and sales tariff for Polenergia Dystrybucja Sp. z o.o. became effective, with RAB at PLN 109.6m. In the part concerning electricity trading to households the prices are governed by the "Act on freezing the electricity prices". Also, the approved investment plan for the years 2019-2022 totaling PLN 51m has been under implementation. After having obtained the approval of the Supervisory Board, Polenergia Dystrybucja commenced implementation of Investment Plan IV for the years 2021-2026. On 15 January 2021 the company executed an annex to the facility agreement with ING Bank Śląski S.A. which granted financing to the company for the implementation of Investment Plan IV in the amount of PLN 75.3m. Said Plan provides for launching investments with respect to the design and construction of electrical energy infrastructure aimed at supplying power to new facilities and customers, in particular with respect to new residential condominiums. The Company is continuing talks with several housing and commercial building investors.

5. Structure of assets, equity and liabilities in the balance sheet, including from the perspective of the Issuer's liquidity

	Name	Description	2020	2019	Change
1.	Return on equity	Net profit/loss / average annual equity	4.9%	4.0%	+0.9 p.p.
2.	Net return on sales	Net profit/loss / sales revenue	277.2%	149.8%	+127.4 p.p.
3.	Liquidity - liquidity ratio I	total current assets / see. short term	9.3	20.7	-11.4
4.	Receivable rotation cycle (in days)	average annual trade receivables x 365 days / revenue from sale of products and merchandise	257 days	145 days	+112
5	Debt to assets ratio	(total equity and liabilities - equity) * 100 / total assets	2.7%	2.5%	+0.2 p.p.

The return on equity ratio and net return on sales improved due to higher net financial result year on year. Higher value of return on equity indicates better effectiveness of funds employed, while higher value of return on sales indicates higher profit on each zloty of revenues from sales.

Financial liquidity measured with Liquidity Ratio I decreased year on year, due to the reduction in the total working assets (reduced cash and equivalents) with concurrent increase in short-term liabilities.

The increase in the receivable rotation cycle results mainly from the drop in sales revenues in 2020. The relatively high average collection period (257 days) is due to the fact that companies dealing with development projects in the Group are invoiced once a year, which translates into a high level of receivables at the end of each calendar year.

There were no significant changes in the balance sheet structure as at the end of 2020. Compared to 2019, there was a relatively slight drop in long-term liabilities with concurrent increase in short-term liabilities. Equity has remained at a similar level.

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

The Company's operations are affected by risk factors and threats related to the functioning of the Issuer's capital group.

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

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

Within the onshore wind farm also including the projects in development and under construction, a part of liabilities are denominated in EUR. This mainly regards investment liabilities in Polenergia Farma Wiatrowa Szymankowo Sp. z o.o., Polenergia Farma Wiatrowa 3 Sp. z o.o. and Polenergia Farma Wiatrowa Dębice/Kostomłoty Sp. z o.o. companies implementing the construction of the Szymankowo, Dębsk and Kostomłoty projects. The currency risk in the projects was fully secured on the financial market before the investment loan was disbursed by means of FX Forward transactions.

As part of the photovoltaic segment, which includes, inter alia, projects that received support for RES in 2020 (Sulechów II, Sulechów III and Buk I project portfolios) in the development and construction phase, some investment commitments are denominated in EUR. The Group analyzes the risk of changes in exchange rates on an ongoing basis and allows for the option of hedging the exchange rate in order to reduce the costs of servicing the liabilities held.

Moreover, Polenergia Obrót is exposed to currency risk as a result of trading in electricity in foreign markets and in connection with participation in the CO2 emission allowances market. The company's exposure to currency risk is largely mitigated by means of natural hedging, as revenues and corresponding costs of purchase, as well as receivables and liabilities, are all generated in foreign currencies. In the case of significant transactions of Polenergia Obrót in a foreign currency, currency exchange rate hedging transactions are concluded. Risk management at Polenergia Obrót is governed by its 'Risk Management Policy', in accordance with the rules prescribed by that document.

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

On 19 June 2015, Polenergia Farma Wiatrowa Mycielin Sp. z o.o. Subsidiary and Alior Bank S.A. executed a transaction to hedge interest rate risk. The instrument hedging 60% of interest-related cash flows took effect in Q2 2016. Additionally, on 30 April 2020, the company decided to increase the security level to 90% by performing an additional IRS transaction.

On March 18, 2020, Dipol Sp. z o.o. and Polenergia Farma Wiatrowa 23 Sp. z o.o. hedged 95% of the risk of changes in interest rates. IRS transactions were entered into in mBank.

On 19 May 2020, Polenergia Farma Wiatrowa 17 Sp. z o.o. concluded an IRS transaction hedging 95% of the risk of changes in interest rates with ING Bank Śląski S.A.

On 30 June 2020, Polenergia Farma Wiatrowa 4 Sp. z o.o. concluded an IRS transaction with BOŚ Bank, hedging 80% of the risk of changes in interest rates.

On 6 August 2020, Polenergia Farma Wiatrowa 1 Sp. z o.o., and Polenergia Farma Wiatrowa 6 Sp. z o.o. concluded interest rate risk hedging transactions corresponding to 80% of the value of loans taken out with the EBRD bank.

On 18 August 2020, Polenergia Farma Wiatrowa Szymankowo Sp. z o.o. concluded interest rate risk hedging transactions corresponding to 90% of the value of loans taken out in ING Bank Śląski S.A. and mBank S.A.

On 2 November 2020, Polenergia Farma Wiatrowa 3 Sp. z o.o. concluded interest rate risk hedging transactions corresponding to 90% of the value of loan taken out from ING Bank Śląski S.A., mBank S.A. and Santander Bank Polska S.A.

With the launch of financing for the Polenergia Farma Wiatrowa Dębice Kostomłoty Sp. z o.o. project, transactions will be concluded to hedge the risk of changes in interest rates in the amount of min. 75% of the loan value.

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

Sensitivity of the Group's profit/loss before tax, estimated by Polenergia, (due to changes in the fair value of monetary assets and liabilities) to interest rate movements, all other factors being equal, is presented in Note 44 to the Consolidated financial statements.

Risk of volatility in electricity market prices

The Group's financial performance is dependent on the market prices of electricity. The Group keeps monitoring the electricity market, making decisions to secure the sale of electricity generated by offshore wind farms, photovoltaic farms, and gas and clean fuels segment.

The Group also trades in electricity and gas on the wholesale market. The results in that business depends on the changes in product market prices and the structure of open positions on the market. For this activity, ongoing risk control is carried out, taking into account the risk mandates granted for individual products and portfolios, as well as risk exposure testing using the VaR methodology.

The volatility of electricity prices directly impacts the profiling costs in the Group's wind farms (hereinafter profiling costs). The risk of volatility of profiling costs remains outside the Group's control to a large extent, such risk may have a material effect on the results obtained by the Group.

At the same time, support granted to RES under the auction-based scheme will protect the producer against market risk for 15 years in the scope of electricity prices. The support solely applies to the projects implemented in the Group which won the auction.

From 2022, as part of the implementation of European regulations, a number of rules regarding the functioning of the balancing market in Poland will change, which may cause the risk of increased price volatility on the current market and changes in the approach of market participants to creating offers on the wholesale electricity market and the balancing market. It is a systemic risk that affects all participants of the electricity market in Poland.

In 2021 and 2022 the onshore wind farm segment will remain largely resistant to the current volatility of electricity prices due to the fact that for a significant part of the portfolio, the electricity sales price in this year and next year has been hedged on the futures market. In the event of a long term decline in electricity prices and, as a consequence, lower prices of futures contracts, the potential of the segment's financial result in the coming years may be limited. Also, the increase in the number of wind sources may negatively affect the revenues of the onshore wind farm segment in the coming years due to the decline in energy prices in the periods of high generation of energy from wind sources, which contributes to an increase in the cost of profiling .

Risk of volatility in market prices of green certificates

The Group's financial results depend on the market prices of green certificates. The Group analyzes the situation on the green certificate market on an ongoing basis and makes decisions on securing the sale of green certificates from the wind energy segment, taking advantage of the possibility of concluding transactions on the bilateral contracts market and on the exchange market

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

Pursuant to the Ordinance of the Minister of Climate of 27 August 2020 (Journal of Laws of 2020, item 1481), the obligation to redeem certificates of origin for electricity produced from agricultural biogas for 2021 remained at the level of 0.50% of the volume of electricity sales to end users; for certificates of origin of energy from other RES this obligation is kept at 19.5%.

Excess supply of green certificates continues on the market, with a potential adverse impact on the market prices.

The announced possibility of a possible reduction in the level of obligations in the coming years to a greater extent than the decrease in the supply of certificates related to the termination of support for the oldest projects may cause a drop in the prices of green certificates and lead to the Group achieving worse financial results and failure to meet the financial ratios specified in loan agreements for financing individual wind projects. A long-term decline in the prices of green certificates could periodically impair the Group's ability to meet its obligations under certain loan agreements or necessitate drawing on guarantees provided by Polenergia S.A. for certain projects. The Group reduces its exposure to the risk of a drop in the price of green certificates on an ongoing basis by securing in advance the sales price of certificates corresponding to energy production in the coming years.

Risk related to RES auctions

Under the new RES (auction-based) support scheme, to receive support for energy generation from RES a producer is required to win an auction, which also determines the extent of such support. As a consequence there exists a risk of obtaining no support for wind farm and photovoltaic farm projects implemented by the Group. On the other hand, support granted under the auction-based scheme will protect the producer against market risk for 15 years.

As notified by the Minister of Energy, auctions are planned to be carried out in 2021 for the purchase of electricity from wind farms and photovoltaic farms.

The Group is working on the further development of wind and photovoltaic projects to achieve the goals set out in the Group's Strategy for 2020-2024. A part thereof will be ready for auctions in 2021.

In a situation where a project of a wind farm or a photovoltaic farm does not receive support through an auction, the manner of such project’s further implementation is subject to verification, in particular, it is possible to build such project in order to supply electricity directly to the end user.

Risk related to the unstable tax regime

The fact that many tax regulations lack an unambiguous interpretation may cause certain difficulties in case of a change to tax regulations. The new thin capitalization rules implemented in the legal system from the beginning of 2018 may serve as an example: it is unclear how the limit for the eligibility of excess of debt financing as deductible expenses should be determined. With reference to the above, the Ministry of Finance issued interpretations and clarifications which are contradictory to the non-final judgments of the Higher Administrative Court. (WSA). The case will probably be settled in 2021 by the Supreme Administrative Court (NSA).

From the beginning of 2019 the criteria of using the general tax avoidance prevention clause (GAAR) have changes, the obligation of reporting tax schemes and additional tax obligations (sanctions) were implemented. In addition, the obligatory mechanism of split payment for sensitive goods and service and bank account verification was implemented using the so-called White list of VAT payers. The changes introduced came as additional burden to operating and accounting services, and the non-fulfillment of the new requirements would result in extensive adverse impact on CIT and VAT. All the above changes were heavily criticized by the market, as the regulations are not clearly formulated, enabling their interpretation by tax bodies to the detriment of taxpayers. The Ministry of Finance issues numerous and extensive tax clarifications concerning the regulations being introduced, however, due their complicated nature taxpayers still have many doubts as to their practical implementation. As a result of such actions taxpayers may be exposed to numerous tax risks.

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 (or air emissions of gases and particulate matter or for generation of waste, as required under the water law) and to timely submit properly structured reports on their use of the environment or other matters. Ensuring compliance with environmental regulations may require expenditure to prepare the relevant documents and adjust the Group’s installations to the applicable requirements. At the date of authorization of this report, Polenergia S.A. and its subsidiaries secured all relevant environmental permits.

Further, under the EU CO2 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 1 January 2005 upon the entry into force of Directive 2003/87/EC, transposed into Polish legislation by virtue of the Act on Trading in Allowances for Emissions of Greenhouse Gases and Other Substances of 22 December 2004. The current period EU ETS 2013-2020 is governed by the Act on Trading in Allowances for Emissions of Greenhouse Gases of 12 June 2015.

Plants owned by the Polenergia Group:

EL Mercury (KPRU number: PL 0879 05) and

EC Nowa Sarzyna (KPRU number: PL 0472 05)

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

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

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

2013- 17 763

2014- 16 420

2015- 14 272

2016- 10 859

2017- 8 217

2018- 6 548

2019- 4 869

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.

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

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

2013- 34 256

2014- 32 448

2015- 30 681

2016- 28 959

2017- 27 278

2018- 25 642

2019- 24 046

2020- 22 495

Allocations of emission allowances are annually transferred to the account of the operator of the Installation on the basis of the verified Report on CO2 emissions for the previous year.

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

2013- 145,048

2014- 134,082

2015- 116,082

2016- 88,676

2017- 67,103

2018- 53,468

2019- 39,758

2020- 0

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

The installations listed above submit annual reports to the electronic National Database for Emissions of Greenhouse Gases and Other Substances and verified annual reports on CO2 emissions. As of 1 January 2013, all the installations are also subject to new CO2 emissions monitoring plans, approved by competent authorities and compliant with the requirements of: Commission Regulation (EU) 2018/2066 of 19 December 2018 on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87 / EC of the European Parliament and of the Council.

In 2016, both installations obtained appropriate permits together with emission monitoring plans, after the entry into force of the Act of June 12, 2015 on the greenhouse gas emission allowance trading scheme.

In consideration of the new settlement period started in 2021, in May 2019 EC Nowa Sarzyna filed an application to allocate free of charge emissions permit for the period 2021-2025. The European Commission is currently working on the verification of the applications. Moreover, in compliance with the requirements of the Act of 4 July 2019 amending the system of Trading in Allowances for Emissions of Greenhouse Gases and other acts, EC Nowa Sarzyna filed the monitoring methodology plan and obtained the approval thereof (on 2 December 2019). On 30 December 2020, the Leżajsk Starost issued a new decision approving the CO2 emission monitoring plan, taking into account the changes introduced to the gas fuel measurement systems.

Risk of new projects failing

The Polenergia Group has been pursuing a significant number of projects in the segment of onshore and offshore wind farms, photovoltaic, gas and clean fuel projects, and investments in distribution infrastructure development. Projects pursued by the Polenergia Group require significant capital expenditure. The expenditure is particularly high in case of development projects and construction of onshore and offshore wind farms. The Polenergia Group 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 Group Development Service. Such analyses include a series of assumptions, related to power generation volume, revenue, production costs, required investment amount and costs of financing. There is a risk that Polenergia S.A. may adopt assumptions more favorable than the 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 Group Development Service has extensive experience in all aspects of project preparation and implementation, such as development, plant operation and financing The Group consistently improves its project management methods and carefully selects the locations for wind farm and photovoltaic projects in order to minimize the risk of achieving an unsatisfactory return on investment and the risk of incurring significant costs of project preparation without ascertaining the feasibility of the project.

Risk that investment plans are not executed or are delayed

Non-execution or delay in the implementation of investment plans involve a risk of not reaching the assumed operational objectives within the defined time limit. The above would have an adverse impact on the Group's financial results, which would be worse than in case of the project completion as planned, and might lead to the failure to comply with the requirements set in the credit facility agreements.

Intending to implement the investment plans set forth, the Group is taking steps to minimize such risk (such as precise planning and analyzing factors which may affect the achievement of objectives, ongoing monitoring of results and immediate response to any signals showing that the achievement of objectives could be at risk, and a set of insurance policies). Particular diligence is applied by the Management Board in preparing each project, by working on each and every technological detail and ensuring adequate financing.

Pursuant to the provisions of the Act on investments in wind farms, amended on 29 August 2019, with regard to construction permits for wind farms issued before the date of entry into force of the above-mentioned Act (16 July 2016) for which an occupancy permit was not issued within 5 years from 16 July 2016, i.e. until 16 July 2021, a three-year period in which the investor is obliged to start construction works should be counted from 16 July 2021.

The Companies developing four wind farm projects of the capacity totaling 199 MW were qualified in 2019 and 2020 as producers whose offers won RES auctions. On 29 July 2020, the Polenergia Farma Wiatrowa Szymankowo Sp. z o.o. Subsidiary concluded an agreement amending and unifying the existing loan agreement, on the basis of which an investment loan will be granted to finance the construction of a wind farm. On 10 July 2020, the Polenergia Farma Wiatrowa 3 Sp. z o.o. subsidiary concluded loan agreements for financing the construction of the Dębsk wind farm. On 30 September 2020, the Polenergia Farma Wiatrowa Dębice / Kostomłoty Sp. z o. o. subsidiary concluded loan agreements for financing the construction of the Kostomłoty wind farm. The Szymankowo and Dębsk wind farms are at an advanced stage of construction. Turbines assembly has been in progress for the Szymankowo Wind Farm, the trial and testing phase is scheduled starting from April 2021. The construction of the Dębsk wind farm is proceeding according to the approved schedule. The commencement of construction works on the Kostomłoty wind farm is planned according to the schedule for April 2021. Preparatory works are underway to start the construction of the Piekło wind farm.

On 29 June 2020, the President of the Energy Regulatory Office issued a decision in favor of Polenergia Farma Wiatrowa 3 Sp. z o.o., implementing the Dębsk wind farm project, according to which the deadline for fulfillment of the obligation referred to in art. 79 sec. 3 item 8 letter A of the RES Act (the participant's commitment to sell energy generated in a renewable energy source installation, for the first time under the auction system, within 42 months from the closing of the auction session,) was extended by an additional period of 12 months, i.e. no later than by September 5, 2023 and the period referred to in art. 74 sec. 1 of the RES Act (Electricity from renewable energy sources produced for the first time after the closing of the auction session in a renewable energy source installation or in a modernized renewable energy source installation, may be sold by auction only if the devices included in these installations, used for the production and processing of this electricity, installed during construction or modernization, were manufactured within 42 months) was extended by an additional period of 12 months. The Group does not exclude the possibility of applying for a decision extending the deadline for the sale of electricity produced in the installation by 12 months for Polenergia Farma Wiatrowa Dębice / Kostomłoty Sp. z o.o. implementing the Kostomłoty wind farm project.

Risk related to credit facility agreements

The concluded credit facility agreements provide for a number of financial requirements to be met by the respective projects, and a failure to comply with such requirements may constitute repayment acceleration trigger and/or cause an increase in financing costs.

The Group has continued to analyze the indebtedness level and the risk of non-fulfillment of the requirements set forth in the credit facility agreements on an on-going basis, and remained in contact with the financing institutions. Detailed information concerning the conclusion of new credit facility agreements and changes to the existing agreement in 2020 are included in Note 29 to the Consolidated Financial Statements.

On 21 July 2020, Polenergia Dystrybucja Sp. z o.o. obtained from ING Bank Śląski SA a letter of waiver regarding the failure to exercise the bank's rights resulting from failure to meet the banking covenants for the next four quarters under the applicable loan agreement. Due to the COVID-19 epidemic, Polenergia Dystrybucja experienced significant drops in the volumes of distributed energy, which translated into lower than assumed financial results. In connection with the above, the updated financial forecasts showed a higher probability of breaching the covenants in subsequent periods under the applicable loan agreement and therefore an application for a letter of waiver was submitted to ING Bank Śląski SA. The receipt of the letter allows the Company to safely continue the fulfillment of its investment obligations. At the same time, it should be emphasized that there is no ongoing breach of the covenants and the forecast breach of the covenants was only indicative and did not affect the operating activities of the Company and its ability to settle liabilities. In connection with the loan agreement concluded on 15 January 2021 for financing the investment plan for the years 2021-2026 between the company and ING Bank Śląski S.A. the covenants and their levels also changed. Therefore, from 2021 the letter of waiver obtained was replaced with a new loan agreement.

Risk related to financial standing of customers and contracting parties

In the area of industrial energy generation outsourcing, the Polenergia Group generates revenue based on long-term power and heat supply agreements concluded with one or several customers. The financial standing of customers and their ability to settle liabilities towards companies of the

Polenergia Group is, therefore, of key significance for the success of the Group's projects, its financial results and financial standing. A sudden drop in energy consumption by a customer may also affect energy production efficiency.

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

Due to the increased probability of the deterioration of the financial situation of some enterprises and the limitation of the possibility of disconnecting customers as part of debt collection activities during the COVID-19 epidemic, the Group identifies the risk of an increase in the level of bad debts in the distribution segment. The above was taken into account in the credit risk assessment model, which resulted in an increase in the provision for bad debts in the first quarter of 2020 in the amount of PLN 233k. In the second and third quarter of 2020, Polenergia Dystrybucja observed a slight increase in delays in payments. The upward trend was mainly in the range of overdue receivables from 1 to 30 days. On 15 October, the protection period for customers of distribution and sales companies ended. Such period significantly limited the possibility of enforcing the repayment of overdue payments. As a result a significant improvement in the collection of receivables and a reduction in the level of overdue receivables was observed.

Additionally, Polenergia Dystrybucja introduced a system of daily monitoring of receivables and is in constant contact with the largest customers. At the same time, the company has not yet received any information about delays in the implementation of the projects in the investment portfolio. Due to the current situation, a test for the impairment of assets and goodwill in the distribution segment was carried out, as a result of which no impairment was found.

At the same time, in the segment of trade and sales, due to the COVID-19 epidemic, there is an increased risk of conducting commercial activities. This is due to, inter alia, an increase in price volatility, a decrease in liquidity in the markets and an increase in the risk of contractor insolvency. The above-mentioned risk factors may also affect liquidity by increasing the level of required security deposits and the level of bad debts. In response to the increased risk, the Company intensified ongoing monitoring and analyzes in this area and applies more restrictive verification of contractors when concluding new transactions.

<u>Risk related to the dispute with Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. And Tauron Polska Energia S.A.</u>

Amon Sp. z o.o. and Talia Sp. z o.o., the Company's subsidiaries, each filed an action to state ineffectiveness of the declarations of termination by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. (a company operating within the Tauron Group) of the Agreements for the sale of property rights resulting from certificates of origin confirming the production of electricity in renewable energy sources - wind farms in Łukaszów (Amon) and Modlikowice (Talia) and the Agreements for the sale of electricity generated in the above-mentioned wind farms.

Next, Amon Sp. z o.o. and Talia Sp. z o.o. changed their action in that they filed a new claim, alongside with the original claim, to pay compensation for failure to perform, or for undue performance of, the a/m Agreements, and next extended the claim to include further periods of non-performance by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. (hereinafter referred to as "PKH") of the said agreements.

As a result Amon Sp. z o.o. currently seeks payment of PLN 69,478k, and Talia Sp. z o.o. PLN 46,078k.

On 25 July 2019, the District Court in Gdańsk, by a partial and preliminary judgment, upheld Amon's claim in the part regarding the ineffectiveness of declarations on termination of the agreements for the sale of energy and property rights by PKH, and on 6 March 2020, the District Court in Gdańsk with a partial and preliminary ruling, Talia's claim was granted in the same part.

Consequently, such notice of termination does not have any legal effect of terminating the two agreements. As a result the said agreements remain in force after the notice period, i.e. After 30 April 2015, and all their provisions remain binding. At the same time the Court considered as grounded, as a principle, the claims for compensation lodged by Amon against PKH on account of non-performance by PKH of the agreement for the Sale of Property Rights. On 7 February 2020, Polenergia S.A. received information about an appeal by PKH against the judgment of the District Court in Gdańsk of 25 July 2019.

The risk related to the possible dismissal of claims by Amon Sp. z o.o. and Talia Sp. z o.o. will result in the inability to obtain compensation from PKH, or in the event of partial dismissal of claims, in the possibility of obtaining compensation in an amount lower than assumed.

Towards the end of April 2018, Amon Sp. z o.o. and Talia Sp. z o.o. brought an action against Tauron Polska Energia S.A. of Katowice for premature termination of long-term contracts for sale of electricity and property rights between Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o., a subsidiary of Tauron, and Amon and Talia.

In the case of Amon, the amount of claims was PLN 47,556,025.51 by way of compensation, together with interest and litigation costs and the determination of Tauron's liability for future damages, the amount of which was estimated at over PLN 158m. In the case of Talia, the amount of claims was PLN 31.299.188,52 by way of compensation, together with interest and litigation costs and the determination of Tauron's liability for future damages, the amount of which was estimated at over PLN 107m.

On 29 December 2020 Amon Sp. z o.o. and Talia Sp. z o.o. filed with the District Court in Katowice a change of claim against Tauron Polska Energia S.A. covering claims for damages arising after 31 December 2017. The basis of Tauron's tort liability for damages is the cessation of performance by Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o., - a subsidiary of Tauron, of long-term agreements for the sale of electricity generated from renewable sources and long-term agreements for the sale of property rights resulting from certificates of origin confirming the production of electricity from renewable sources, entered into with Amon and Talia. Pursuant to the change in question, the claims for damages with interest increased to PLN 78,204,905.55 in the case of Amon (an increase by PLN 30,648,880.04), and to PLN 53,127,847.08 in the case of Talia (an increase by PLN 21,828,658.56). The disputed amount, taking into account the estimated Tauron's liability for future damages as of the day of bringing the action is over PLN 236m in the case of Amon Sp. z o.o., and over PLN 160m in case of Talia Sp. z o.o.

The risk related to the possible dismissal of claims filed by Amon Sp. z o.o. and Talia Sp. z o.o. will result in the inability to obtain compensation from Tauron Polska Energia S.A., or in the event of partial dismissal of claims, in the possibility of obtaining compensation in a lower amount.

Risk related to the dispute with Eolos Polska Sp. z o.o.

Eolos Polska Sp. z o.o. filed for joint and several payment by the Company's subsidiaries: Certyfikaty Sp. z o.o. and Polenergia Obrót S.A. and from Polenergia Usługi Sp. z o.o. of contractual penalties for the termination of agreements for the sale of property rights resulting from of origin for electricity generated in renewable energy sources and for the payment of balancing costs in the total amount of PLN 27,895,009. It should be noted that in the statement of claim the plaintiff indicated that its claim could be higher due to the fact that the claimed contractual penalties would increase in subsequent years. The Companies denied the claim in its entirety. Moreover, Polenergia Obrót S.A. maintains that the allegation of its joint responsibility for Certyfikaty Sp. z o.o. liabilities is groundless.

Two hearings were held before the Regional Court in Warsaw n the case brought by Eolos Sp. z o.o on 27 September and 13 December 2019, and witnesses were heard. The sessions planned for 8 April 2020 and 20 November 2020 were not held. Next sessions is planned for 24 March 2021 in online mode.

Risk related to customers' actions

On 2 January 2020 Polenergia Biomasa Energetyczna Północ Sp. z o.o. reached another settlement following the mediation, where the contracting party shall pay PLN 150k. The above amount is not reflected in the company's statement of financial position.

On 8 March 2019 the Regional Court in Warsaw allowed the action by Nationale Nederlanden PTE SA to state invalidity of a part of the resolution no 2 of the Extraordinary General Meeting of Shareholders of the Company of 13 July 2018. i.e. in the scope of changing article 10.2 item (a) of th Statutes made in virtue of item 4) of the a/m resolution. The Company appealed against the judgment and demanded to dismiss it and claimed the breach of substantive and procedural law. At the hearing on 28 January 2020 the Appeal Court dismissed the appeal by Polenergia SA. The judgment is final.

Polenergia Elektrownia Północ Sp. z o.o.- on 21 September 21, 2020 the District Court in Gdańsk delivered to the Company's subsidiary the defendant's response to the claim for payment of PLN 500 thousand as contractual penalty, filed by the company in December 2019. In November 2020, the case was referred for mediation with the consent of both parties. Two mediation meetings were held with both parties. The mediation was extended by the District Court in Gdańsk for consecutive three months with the consent of both parties. The next date of the mediation meeting was scheduled for 25 March 2021.

On 4 March 2021, Polenergia Elektrownia Północ Sp. z o.o., received a request for payment in the amount of PLN 1.5m with interest from 2 August 2019. The case concerns the additional payment for the purchase of real estate by the Company in 2011. The Management Board of the Company is of the opinion that the tender offer is unjustified and ineffective, as in January 2021 the Company exercised its right to lower the price, sending the sellers of the property in question a price reduction by PLN 1.5m.

Polenergia Dystrybucja Sp. z o.o. - on 4 January 2021 the Court of Appeal in Gdańsk served on the Company's subsidiary a cassation complaint by an electricity supplier against the judgment of the Court of Appeal in Gdańsk of 7 November 2019 dismissing the appeal of the supplier against the above-mentioned company in a case concerning the reimbursement of overpayment for the supplied energy and the obligation of the electricity supplier to pay to the above-mentioned the company the amount of PLN 548k, the part of which not covered with the appeal was already paid.

Risk related to application of hedge accounting to cash flow hedges

As at 31 December 2020, the Group recognized in PLN 12,609k (2019: PLN 1,049k) in other comprehensive income being a component of equity, on account of the effective portion of the instrument hedging to the fair value.

Hedging transactions are performed in order to limit the effect of:

- change of interest rate on the amount of future highly probable payments of loan installments.

- change of currency rates on the amount of future highly probable currency payments on account of investment agreements.

Hedge accounting seeks to eliminate the risk of an accounting mismatch between the time when gains or losses on a hedging instrument and those on the hedged item are recognized.

As at 30 June 2018 the Group held the following hedging instruments for cash flow hedge accounting purposes:

Date of maturity of interest rate hedging instrument	Hedge value in kPLN	Interest rate hedged	Instrument
26.02.2027	16 892,66	1,25%	IRS
29.09.2025	78 844,10	0,52%	IRS
10.09.2035	9 000,00	1,20%	IRS
29.03.2028	157 210,00	0,79%	IRS
29.06.2026	40 651,30	0,56%	IRS
30.06.2034	13 932,87	0,89%	IRS
26.02.2027	4 202,47	1,25%	IRS
15.12.2028	27 434,36	0,75%	IRS
15.06.2021	105 615,00	3,07%	IRS
11.06.2035	123 300,00	1,10%	IRS
Total	**577 082,75**		

Date of maturity of foreign exchange rate hedging instrument	Hedge value in kEUR	FX rate hedged	Instrument
2021.03	2 211,35	442,25%	Forward
2021.04	2 936,15	442,54%	Forward
2021.05	2 288,10	448,60%	Forward
2021.06	1 486,55	442,91%	Forward
2021.08	724,80	443,68%	Forward
2021.09	28 629,60	444,01%	Forward
2021.10	19 750,80	444,36%	Forward
2021.11	9 513,00	444,64%	Forward
2021.12	21 113,40	449,98%	Forward
2022.01	7 429,20	445,32%	Forward
2022.02	10 852,50	454,26%	Forward
2022.03	1 087,20	446,00%	Forward
2022.06	774,90	457,34%	Forward
2022.07	516,50	457,52%	Forward
Total	**109 314,06**		

7. Statement of compliance with corporate governance rules

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

Code of Best Practice for Warsaw Stock Exchange Listed Companies. available at: www: http://corp-gov.gpw.pl/

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

c) In 2020, the Issuer applied the provisions of the set of corporate governance rules referred to in point a). Description of the main features of the internal control and risk management systems used in the Issuer's enterprise in relation to the process of preparing financial statements of the Group companies and the Consolidated Financial Statements.

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

   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 Company's Accounting Policy approved by the Management Board, based on the International Financial Reporting Standards or the Polish Accounting Standards. The documents are reviewed by authorized persons in terms of their formal, accounting and factual correctness.

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

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

   Full-year and half-year (consolidated and separate) financial statements are subject to audit (full-year reports) or review (half-year reports) by an independent auditor appointed by the Supervisory Board under the authorization provided for in the Group's Statutes.

   Audited full-year financial statements of the Group are approved by the Management and Supervisory Boards.

   After the accounting closing of each calendar month, the Company prepares management reports including, inter alia, an analysis of key financial data and operating ratios and a comparison of current financial performance with the adopted budget, along with an explanation of material deviations from the budget. Management reports are distributed among the members of the Management Board every month, and every quarter among the Supervisory Board members.

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

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

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

   Detailed information on major - direct or indirect - holdings of shares is presented below.

No	Shareholder	Number of shares held	Number of votes	Shareholding
1	Mansa Investments Sp. z o.o. *)	23 467 043	23 467 043	51,64%
2	BIF IV Europe Holdings Limited	10 370 213	10 370 213	22,82%
3	Nationale Nederlanden OFE	2 570 000	2 570 000	5,66%
4	Generali OFE	3 000 000	3 000 000	6,60%
5	Aviva OFE Aviva Santander	3 732 687	3 732 687	8,21%
6	Others	2 303 604	2 303 604	5,07%
	Total	**45 443 547**	**45 443 547**	**100%**

*)100% of shares in in Mansa Investments Sp. z o.o. are indirectly controlled by Ms. Dominika Kulczyk, through Kulczyk Holding S.à r.l.

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

The Company did not issue 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 records whereby, with the Company's cooperation, the capital rights attaching to securities are separated from the holding of securities.

There are 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 records whereby, with the Company's cooperation, the capital rights attaching to securities are separated from the holding of securities.

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

There are no restrictions on transfer of ownership rights to the Issuer'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 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 for a given term of office.

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 Statutes fall within the scope of powers and responsibilities of the Management Board.

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

i) Rules governing amendments to the Statutes of the Issuer

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

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

Manner of operation

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

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

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

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

Key powers of the General Meeting

The powers of the General Meeting are stipulated in art. 20.1. of the Company's Statutes 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 purpose funds;

e) determining the rules and amounts of remuneration of Supervisory Board members;

f) changing the Company's business objects;

g) amending the Company's Statutes;

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 authorized to appoint and remove members of the Supervisory Board (pursuant to art. 10.2 of the Statutes). Furthermore, pursuant to art. 368.1 of the

Commercial Companies Code, the General Meeting may remove a member of the Management Board.

Shareholders' rights and the manner of exercising those rights.

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

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

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

k) Composition and changes thereto during the last financial year, and description of the operation of the Issuer's managing, supervisory or administrative bodies and their committees

Supervisory Board

Composition

No	Name and surname	Position
1.	Dominika Kulczyk	Chair of the Supervisory Board
2.	Hans E. Schweickardt	Deputy Chairman of the Supervisory Board
3.	Brian Bode	Member of the Supervisory Board since 26.02.2021
4.	Adrian Dworzyński	Member of the Supervisory Board
5.	Marjolein Helder	Member of the Supervisory Board
6.	Sebastian Kulczyk	Member of the Supervisory Board
7.	Orest Nazaruk	Member of the Supervisory Board
8.	Marta Schmude	Member of the Supervisory Board since 01.09.2020
9.	Grzegorz Stanisławski	Member of the Supervisory Board from 17.11.2020 until 25.02.2021
10.	Emmanuelle Rouchel	Member of the Supervisory Board since 25.02.2021

On 1 September 2020, a resignation from the function of a member of the Supervisory Board of the Company was received from Ms. Marta Schmude.

On 17 November 2020 Mansa Investments Sp. z o.o. with the registered address in Warsaw as the shareholder, exercising the right resulting from art. 10.2 letter a) of the Company Statutes, appointed Mr. Grzegorz Stanisławski as a Member of the Supervisory Board as of 17 November 2020.

On 25 February 2021 Mr. Grzegorz Stanisławski was revoked as member of the Supervisory Board of the Company, and Ms. Emmanuelle Rouchel was appointed as member of the Supervisory Board of the Company.

On 26 February 2021 Mr. Brian Bode filed the resignation from the function of a member of the Supervisory Board.

The Supervisory Board is composed of six to nine members. The number of Supervisory Board members for a given term of office is determined by the General Meeting The term of office of the

Supervisory Board is three years, except for the first term of office of the Supervisory Board, which is one year The Supervisory Board members are not appointed for a joint term of office.

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

a) a shareholder holding shares representing at least 33% of the Company's share capital has the right to appoint and remove 2 members of the Supervisory Board, including the Chairman, by submitting a relevant written statement to the Company. 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 highest number of the 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 capital group.

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

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

Composition of the Committee

No	Name and surname	Position
1.	Orest Nazaruk	Chairman of the Audit Committee
2.	Hans E. Schweickardt	Member of the Audit Committee of the Supervisory Board
3.	Briana Bode	Member of the Audit Committee of the Supervisory Board until 26.02.2021
4.	Adrian Dworzyński	Member of the Audit Committee of the Supervisory Board since 19.03.2021

Information on the Audit Committee

Mr. Orest Nazaruk and Mr. Adrian Dworzyński meet the independence criteria defined in the Act on Certified Auditors. Mr. Orest Nazaruk has knowledge in the field of audits of financial statements and accounting, he also has knowledge and qualifications in the field of the sector in which the Company operates, thanks to the experience gained, inter alia, in Arthur Andersen, State Treasury Ministry and PGNiG Energia. Mr. Hans E. Schweickardt has knowledge and qualifications in the field of the sector in which Company operates, thanks to the experience gained, inter alia, in Alpiq, Swiss Grid and ATEL. Mr. Adrian Dworzyński is legal counsel with over 20years of experience. He has knowledge and qualifications in the field of the sector in which the Company operates, thanks to experience earned in companies such as PGE Polska Grupa Energetyczna S.A., PKN Orlen S.A. and DUON S.A.

In the last financial year the Audit Committee met twice.

In conformity with the Company policy, certified auditor and audit companyselection procedure, the following criteria are applied in selection of an Auditor:

- reputation and experience in provision of audit services;
- prior experience (negative/positive) in cooperation (if any);
- experience in audits of financial statements in companies of similar size and profile of operations;
- audit costs;
- audit duration;
- additional circumstances which enable minimizing the costs and audit-related organizational effort of the Polenergia Group.

The selection of the audit firm was caried out in accordance with applicable procedure.

The auditing company auditing the financial statements provided additional permitted services in 2020, which were a review of mid-year financial statements and confirmation of compliance with the terms of the concluded loan agreements based on the analysis of financial information from the financial statements audited by the Auditor.

Rules of operation

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

An Audit Committee has been established within the Supervisory Board

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

a) assessment of the Company's financial statements for the previous financial year;

b) issue of opinions on the Directors' Report and Management Board recommendations concerning the distribution of profit (including payment of dividend) or coverage of loss, as well as on draft resolutions proposed to the General Meeting and on other important materials presented to shareholders in connection with the General Meeting;

c) review and approval of annual operational and financial plans for the Company ("Company Budget") and for individual projects ("Project Budgets") in which the Company invests, and any material changes thereto, as well as requesting from the Management Board to present detailed reports on performance of the plans;

   "Project" means a company, business or venture engaged in the generation, transmission, distribution of or trade in electricity (including renewable energy) or heat, or in the supply, transmission, trade in or distribution of fuels (including gas), in which the Company is a shareholder, investor, developer or manager;

d) granting of consent for the Company to incur capital expenditure in an amount exceeding the equivalent of USD 100,000 (one hundred thousand US dollars), as calculated on the basis of average exchange rate quoted by the National Bank of Poland for the transaction date (the "NBP exchange rate"), on a company, business or venture that is not a Project;

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

f) submission to the General Meeting of written reports on findings referred to in item a) and b) above;
g) appointment, removal from office and suspension from duties of Management Board members, including the President, Vice President or the entire Management Board;
h) determination of the number of Management Board members for the next term of office;
i) determination of the amount of remuneration and other benefits for Management Board members;
j) when all members of the Management Board have been removed from office or suspended from duties or when the Management Board is unable to operate for other reasons, delegation of one or more Supervisory Board members to temporarily perform the duties of the Management Board;

k) granting consent for sale, lease, exchange, or other disposal of the Company's assets, including the Company's share 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 NBP exchange rate;

l) granting consent to the Company for the taking out of bank loans, taking out or granting other loans, and taking on other debt, except 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;

m) granting consent to the Company for incurring expenditure in an amount exceeding the PLN equivalent of USD 250,000.00 (two hundred and fifty thousand 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 treated as expenditure incurred in the Company's ordinary course of business;

n) granting consent to the Company for taking part in legal transactions with any of the following parties;

   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;

o) granting consent to the Company for entry into an agreement establishing a partnership under civil law, general partnership, limited partnership, into a profit-sharing or revenue-sharing agreement or any similar agreement whereunder the Company's revenue or profit is or may be shared with other persons or entities;

p) 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;

q) granting consent to the Company for the issue of sureties or guarantees or other encumbrance of its assets if the cumulative amount of such sureties, guarantees or other encumbrances exceeds or may exceed the PLN equivalent of USD 100,000.00 (one hundred thousand US dollars), as translated at the NBP exchange rate, unless such sureties, guarantees or other encumbrances are provided for in the Company's approved budget;

r) selection or change of the Company's certified 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 at the Exchange Rate, and concerning 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 Projects financing and any material amendments to such terms and conditions;

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

x) approving any acquisition or disposal by the Company of a property, perpetual usufruct right or interest in a property, unless such acquisition or disposal was provided for in the Company's or a Project's approved budget.

Management Board

Composition

No	Name and surname	Position
1.	Michał Michalski	President of the Management Board
2.	Iwona Sierżęga	Member of the Management Board
3.	Piotr Maciołek	Member of the Management Board since 22.01.2020
4.	Tomasz Kietliński	Member of the Management Board since 22.01.2020
5.	Jarosław Bogacz	Member of the Management Board since 22.01.2020

At the meeting on 22 January 2020 the Supervisory Board appointed Mr. Piotr Maciołek, Mr. Tomasz Kietliński and Mr. Jarosław Bogacz to the position of the Management Board Member.

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

On 8 March 2019 the Regional Court in Warsaw allowed the action by Nationale Nederlanden PTE SA to state invalidity of a part of the resolution no 2 of the Extraordinary General Meeting of Shareholders of the Company of 13 July 2018. i.e. in the scope of changing article 10.2 item (a) of th Statutes made in virtue of item 4) of the a/m resolution. The Company appealed against the judgment and demanded to dismiss it and claimed the breach of substantive and procedural law.

At the hearing on 28 January 2020 the Appeal Court dismissed the appeal by Polenergia SA. The judgment is final.

In October 2019 Polenergia S.A. filed an action to the Regional Court in Warsaw for payment of PLN 956k of receivables due for the lease of gas turbine. The case is pending.

On 7 May 2020, the District Court in Warsaw issued an order to pay PLN 956k in order for payment proceedings as unpaid dues for the lease of a gas turbine. The order became final.

Proceedings concerning the Company's subsidiaries are presented in the Directors' Report on the operations of the capital group.

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

NET REVENUES FROM SALE OF PRODUCTS (BUSINESS STRUCTURE - TYPES OF ACTIVITY) (mPLN)	2020	2020
net revenues from consulting and advisory projects	19.0	93.7%
net revenues from lease	1.2	6.1%
other revenues	0.0	0.2%
Net revenues from sales, total	**20.2**	**100 %**

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

The Company generates revenues from sales of goods and services both on domestic and foreign markets, while revenues generated in Poland represent a vast majority (98% in 2020).

GEOGRAPHICAL DISTRIBUTION OF REVENUE

	For 12 months end		Change
	31.12.2020	31.12.2019	y/y
- Domestic market	19 784	27 848	(8 064)
- International market	455	1 221	(766)
Total revenue	**20 239**	**29 069**	**(8 830)**

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

On 3 November 2020 Mansa Investments Sp. z o.o. with the registered address in Warsaw, the Company majority shareholder („Mansa Investments") and BIF IV Europe Holdings Limited with the registered address in London, United Kingdom, entity related with Brookfield Renewable Partners L.P. ("Investor", and "Parties" jointly with Mansa Investments) concluded transaction documentation consisting of an investment agreement ("Investment Agreement") and a shareholders agreement ("Shareholders Agreement", and "Transaction Documentation" together with the Investment Agreement) complying with the criteria set out in art. 87 sec. 1 item 5 of the Act of 29 July 2005 on public offering and conditions for introducing financial instruments to an organized trading system and on public companies and concerning the acquisition of the Company's shares, exercising voting rights at the general meeting of the Company and implementing a common policy towards the Company, with regard to "Transactions" including, inter alia:

A. Calls to subscribe for the sale of shares

In accordance with the Transaction Documentation, the Parties undertook to cooperate in connection with the Investor's purchase of a package of the Company's existing shares by way of a public tender offer for 100% of the Company's shares (the "Tender Offer"), which will be announced by the Investor and Mansa Investments acting in concert, while it is expected that as a result of the Tender Offer the Parties will hold shares representing at least 90% of votes at the General Meeting of the Company.

The parties agreed that the Tender Offer would be announced on 6 November 2020 after the Company publishes the consolidated quarterly report for the third quarter of 2020. Subject to applicable law, the price per share of the Company in the Tender Offer will be PLN 47.00.

B. Obligations concerning the transitory period

In the period between entering into the Investment Agreement and the settlement of the Tender Offer, the Parties agreed that the Company would operate in the ordinary course of business, provided, however, that transactions exceeding certain material thresholds would require prior consent of the Investor.

C. Withdrawal of the Company's shares from trading and compulsory buyout

The purpose of the Tender Offer was to withdraw the Company's shares from trading on the Warsaw Stock Exchange. Depending on the result of the Tender Offer, withdrawal of shares from trading may be preceded by a compulsory buyout.

D. Issue of New Shares

After the Company's shares are withdrawn from trading on the Warsaw Stock Exchange, the Company's share capital will be increased by issuing "New Shares", whereby:

- The New Shares will only be acquired by Mansa Investments (or its affiliate);
- the total issue price of the New Shares (total amount contributed) will be equal to the aggregate amount of Mansa Investments' outstanding receivables on account of shareholder loans granted to project companies to finance the development of existing onshore wind farm projects;
- the issue price of one New Share will be PLN 25.10, i.e. the closing price of the Company's shares on the Warsaw Stock Exchange on the day of entering into the above-mentioned loan agreements.

E. Company Statutes, corporate governance

Pursuant to the Shareholders‘ Agreement, Mansa Investments and the Investor will take appropriate steps to amend the Statutes of the Company after its shares are withdrawn from trading on the Warsaw Stock Exchange, so that the Statutes are compliant and correctly reflect the relevant provisions of the Shareholders' Agreement. However, after the settlement of the Tender Offer, between the Parties (including the Company) the provisions of the Shareholders 'Agreement will prevail over the currently binding Statutes and the Parties undertake to exercise their corporate rights, including voting rights, in order to fully implement the provisions of the Shareholders' Agreement.

F. Further development of the Company

After the tender offer is settled, Mansa Investments and the Investor will exercise joint control over the Company.

The parties committed to continue supporting the ongoing development and growth of the Company as a leading private energy company in Poland, in accordance with the applicable Polenergia Group Strategy for 2020-2024, approved by the Company's Supervisory Board on 18 May 2020. Therefore, the Investor committed to make capital payments in the total amount of EUR 150m within the next two years, immediately after the withdrawal of the Company's shares from trading on the Warsaw Stock Exchange. The issue price of one share in the above mentioned issues will be PLN 43.00.

G. Profit distribution policy

The Transaction Documentation sets out the profit distribution policy to be applied by the Company after the settlement of the Tender Offer, according to which payouts (if any) in relation to profits generated in the years 2020-2024 will be limited, and with regard to profits generated in 2025 and subsequent years, determined minimum amounts will be paid (if possible).

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

On 5 February 2021, the Company was informed that on the same day the majority shareholder of the Company - Mansa Investments Sp. z o.o. based in Warsaw ("Mansa Investments") and BIF IV Europe Holdings Limited based in London, United Kingdom, an entity related to Brookfield Renewable Partners L.P. ("Investor", and "Parties” jointly with Mansa Investments) concluded annexes to the investment agreement of 3 November 2020 ("Investment Agreement") and shareholder agreements of the same day ("Shareholders Agreement"); the company informed about the conclusion thereof in current report No. 27/2020 on 4 November 2020.

In relation to the information provided in the above current report, the Parties agreed to change two parameters regarding the parties' cooperation after the Company's shares withdrawal from trading on the Warsaw Stock Exchange:

1.the issue price of one New Share, i.e. the shares to be offered to Mansa Investment and the total issue price of which is to be equal to the total outstanding amount of Mansa Investments receivables on account of shareholder loans granted to project companies to finance the development of existing onshore wind farm projects (description for individual loans is included in the Company's current report No. 7/2020 POL of 14 April 2020), will amount to PLN 47.00 instead of PLN 25.10; and

2.the issue price of one share under the issue of shares to be offered to the Investor in performance of its commitment to make capital contributions to the Company in the total amount of EUR 150m over the next two years, immediately after the Company's shares are withdrawn from trading on the Warsaw Stock Exchange, will amount to PLN 47.00 instead of PLN 43.00.

Moreover, on 5 February 2021, the Investor published an announcement on the increase in the price per share of the Company in a tender offer to subscribe for the sale of the Company's shares announced on 6 November 2020 and subsequently amended by announcements on 8 December 2020, 17 December 2020, and on 20 January 2021, from PLN 47.00 to PLN 63.00. The subscription period expired on 17 February 2021**.** As a result of the tender offer, BIF IV Europe Holdings Limited subscribed for 10 370 213 shares of the Company, which constitutes 22.82% of the total number of votes in the Company.

On 20 February 2021 the Company was informed that on the same day Mansa Investments Sp. z o.o. with the registered address in Warsaw, the majority shareholder of the Company ("Mansa Investments") and BIF IV Europe Holdings Limited with the registered address in London, United Kingdom, an entity related to Brookfield Renewable Partners L.P. ("Investor" and "Parties” jointly with Mansa, or separately "Party") entered into an additional agreement ("Additional Agreement") to the investment agreement of 3 November 2020 as amended ("Investment Agreement") and the shareholders agreement of the same day, as amended ("Shareholders Agreement", and jointly with the Investment Agreement - "Agreements"), about which the Company informed in current reports No. 27/2020 on 4 November 2020 and No. 5/2021 and 6/2021 on 5 February 2021.

In the Additional Agreement of the Parties:

1. confirmed the fulfillment of the two conditions of the tender offer to subscribe for the sale of 100% of the Company's shares, announced on 6 November 2020, as amended by announcements of 8 December 2020, 17 December 2020, 20 January 2021 and 5 February 2021 by the Investor and Mansa acting in concert (the "Tender Offer"): (i) issuance by the European Commission of an unconditional decision recognizing the planned concentration, consisting in the direct or indirect acquisition by the Investor of the Company's shares, which will result in the acquisition of joint control over the Company by Mansa and the Investor, as compatible with the common market, and (ii) adoption by the Supervisory Board of the Company of the resolution on appointing a person designated by the Investor to the Supervisory Board of the Company to individually perform supervisory activities and confirmed the waiver of the last condition for the Investor's purchase of the Company's shares in the Tender Offer - the Company's accession to the Shareholders' Agreement and in connection with the subscription in the Tender Offer for a total of 10,370,213 Company's shares, the Investor made a decision to acquire such shares;
2. undertook to negotiate in good faith amendments to the Agreements to reflect the provisions of the Additional Agreement therein;
3. decided to postpone the actions aiming at withdrawing the Company's shares from trading on the Warsaw Stock Exchange;
4. decided that the Agreements would provide for mechanisms of jointly increasing the Company's share capital in order to implement: (i) issue of New Shares and (ii) shares directed to the Investor to fulfill its obligations to make capital contributions to the Company of up to EUR 150m ("Tranche I");
5. decided that the increase of the share capital of the Company in order to carry out the issue of New Shares and Tranche I and additional financing in the amount of EUR 150m (Tranche II) will be made by issuing shares with pre-emptive rights or otherwise ensuring adequate protection against dilution for other shareholders of the Company and at the same issue price as the Parties;
6. decided to cooperate in order to maintain the remaining parameters of the future issues of the Company's shares as agreed in the Agreements;
7. the Parties undertook to negotiate in good faith in order to establish alternative financing conditions for the Company in the event that it is not possible to conduct a capital subsidy on the above terms;
8. decided, after the settlement of the Tender Offer, to exercise joint control over the Company by Mansa and the Investor and to strive for the future Supervisory Board of the Company to consist of 8 members, three members appointed by each of the Parties to exercise personal rights and two independent members elected either by the General Meeting or otherwise to be agreed with other shareholders of the Company; and
9. undertook to convene and hold a General Meeting by the end of May 2021 in order to adopt resolutions enabling the issue of New Shares and the shares under Tranche I.

On 25 February the company announced that it had received a notification from BIF IV Europe Holding Limited with the registered address in London, United Kingdom (the "Investor") under: (i) art. 69 sec. 1 item 1) of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies (i.e. Journal of Laws of 2019 item 623 as amended) ("Act on Public Offer"), (ii) art. 69 sec. 2 item 2) in connection with art. 87 sec. 1 item 5) of the Public Offer on Financial Instruments Act and (iii) art. 77 sec. 7 of the Public Offer on Financial Instruments Act. As a result of settling the transaction for the purchase of the Company's shares, for which subscriptions were submitted in the tender offer to subscribe for the sale of 100% of the Company's shares, announced on 6 November 2020 and as amended in the announcements of 8 December 2020, 17 December 2020, 20 January 2021 and 5 February 2021, the Investor acquired 10 370 213 shares of the Company, constituting 22.82% of the share capital of the Company, entitling to exercise 10 370 213 votes in the Company, constituting 22.82% of the total number of votes in the Company. At the same time, the Investor informed in the notification that together with Mansa Investments Sp. z o.o. with the registered address in Warsaw, with which the Investor has a memorandum of understanding referred to in art. 87 sec. 1 item 5) of the Public Offer on Financial Instruments Act, the parties to such memorandum of understanding currently hold a total of 33,837,256 shares of the Company, which constitutes 74.46% of the Company's share capital, entitling to exercise 33,837,256 votes in the Company, which constitutes 74.46% of the total number votes in the Company.

Moreover, the Issuer provides information on significant agreements in the form of current reports in accordance with the requirements set out in the ordinance of the Minister of Finance of 19 February 2009 on current and periodic information to be provided by issuers of securities and conditions for recognizing as equivalent the information required by the law of a non-member state.

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

The Group’s capital structure is presented in 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 considered as fulfilled by indicating the place of inserting the relevant information in the financial statements

For information on the Company’s related-party transactions, see Note 46 to the Consolidated financial statements.

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

For contracted credits and loans see Note 30 to the Consolidated 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 38.1 to the Standalone 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 information on loan sureties or guarantees issued by the Issuer or the Issuer’s subsidiary to a single entity or its subsidiaries, see Note 28.1 to the Standalone financial statements and Note 33 to the Consolidated financial statements.

Moreover, the Issuer did not receive any guarantees as at 31 December 2020.

17. For issues of securities in the period covered by the report - description of the Issuer's 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 results presented in the full-year report and the financial forecasts for the year, published earlier (mPLN)

In 2020 the Company did not publish performance forecasts on a standalone basis.

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 by the Issuer to mitigate such threats

The most important part of the Issuer's and the Group's financial liabilities are bank borrowings, described in more detail in the financial statements. As at 31 December 2020 all liabilities of the Issuer and the Issuer's capital Group were settled in a timely manner.

On the other hand, volatility in prices of electricity and green certificates may potentially result in a failure to meet the financial ratios defined in loan agreements concluded to finance individual wind farm projects.

The Group is monitoring the situation and keeping in touch with the financing institutions. If the prices of electricity and green certificates decrease, in a longer run there may be temporary problems with the performance of certain credit facility agreements, which in the case of some projects may trigger payment under guarantees issued by Polenergia S.A. in favor of individual projects. For details on the guarantees, see Note 28.1 to the Standalone financial statements.

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

As at the publication hereof, the Company plans to spend an estimated total amount of ca. PLN 130m on equity investments in 2021. Such amounts will be mainly earmarked for the development in onshore and offshore wind energy projects.

Polenergia S.A. seeks to finance projects under a "project finance" model which assumes partial reliance on externally sourced funds. It does not rule out, however, securing investors who would acquire shares in projects and participate in construction financing.

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 group's operations and results in the financial year, or which may have a material effect on its operations and results in future years

Events having a material effect on the Issuer's business and financial performance are presented in items 1 and 4 hereof. All of them are typical for the Issuer'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 full-year report have been prepared, taking into consideration the Issuer's market strategy, and an overview of the business development policy of the Issuer's group

<u>External and internal factors affecting the Group's growth</u>

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

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

Description of the Group's business growth prospects

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

Currently, the Group is focused on:

- further optimizing its operating costs and improving asset efficiency,
- developing new projects and maintaining the existing projects, both in offshore and onshore wind farms and photovoltaic area,
- developing the projects from onshore wind farm portfolio which won auctions in 2019 and 2020 and preparing further projects to participate in subsequent RES auctions,
- implementing projects from photovoltaic farm portfolio which won the auctions in 2020, and preparing further projects to participate in subsequent RES auctions,
- further developing business in trading segment,
- implementing an investment project in the distribution area (which targets an increase of the Regulatory Assets Base and a growth in the number of customers connected to the company's network on a permanent basis),
- pursuing initiatives in photovoltaics for existing customers and vehicle charging stations.
- intensifying efforts to grow energy sales to customers not connected to the company's network.
- development in the gas and clean fuels segment based on the construction of new gas production capacities in cooperation with Siemens and industrial partners as well as the production and storage of green hydrogen produced in the electrolysis process from the Group's own renewable energy.

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

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

23. Changes in basic management policies of the Issuer and its group

In the financial year 2020, there were no changes to the basic management rules of the Issuer or its Group.

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

Ms. Iwona Sierżęga is party to an employment contract concluded with the Company The contract is entered into for an indefinite term. It may be terminated upon 6 months' notice. Furthermore, Ms.

Iwona Sierżęga is a party to a non-competition agreement that obliges the Company to pay her an amount equal to 100% of her remuneration for 6 months as compensation for refraining from any activities that would compete with the Company's business.

Mr. Tomasz Kietliński is party to an employment contract concluded with the Company The contract is entered into for an indefinite term. It may be terminated upon 6 months' notice. Furthermore, Mr. Tomasz Kietliński is a party to a non-competition agreement that obliges the Company to pay him an amount equal to 100% of his remuneration for 6 months as compensation for refraining from any activities that would compete with the Company's business.

Mr. Piotr Maciołek is party to an employment contract concluded with the Company The contract is entered into for an indefinite term. It may be terminated upon 6 months' notice. Furthermore, Piotr Maciołek is a party to a non-competition agreement that obliges the Company to pay him an amount equal to 100% of his remuneration for 6 months as compensation for refraining from any activities that would compete with the Company's business.

Mr. Jarosław Bogacz is appointed to the Management Board with the resolution of the Supervisory Board of 22.01.2020 and is a party to a non-competition agreement that obliges the Company to pay him an amount equal to 100% of his remuneration for 6 months as compensation for refraining from any activities that would compete with the Company's business.

Mr. Robert Nowak was party to an employment contract concluded with the Company. The contract was entered into for an indefinite term with a notice of termination of 6 months. Furthermore, Mr. Robert Nowak was a party to a non-competition agreement that obliges the Company to pay him an amount equal to 100% of his remuneration for 6 months as compensation for refraining from any activities that would compete with the Company's business. The contract with Mr. Robert Nowak was terminated in December 2019. The notice period expired on 30 June 2020, while the Company's obligation to pay him an amount equal to 100% of his remuneration as compensation for refraining from any competitive activities expired as at the end of 2020.

25. Liabilities arising from pensions and similar benefits for former Management and Supervisory Boards or former members of administrative bodies and on liabilities incurred in connection with these pensions, with an indication of the total amount for each category of body; if the relevant information is presented in the financial statements - the obligation is considered fulfilled by indicating the place of their inclusion in the financial statements

The Issuer does not have the above liabilities.

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

For information on the remuneration of members of the Management and Supervisory Boards, see Note 42 to the Standalone financial statements.

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

Ms. Dominika Kulczyk owns 100% of shares in Kulczyk Holding S.à r.l., company set up under the law of Luxembourg holding 100% shares of Mansa Investments Sp. z o.o., which is the owner of 51.64% shares of the Issuer.

28. 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

On 3 November 2020, Mansa Investments and BIF IV Europe Holdings Limited based in London concluded transaction documentation consisting of an investment agreement and a shareholder agreement, including, inter alia, the call to subscribe for the sale of shares in Polenergia S.A.; on 6 November 2020, a tender offer was announced to subscribe for the sale of 100% of Polenergia S.A. shares.

On February 5, 2021, the Company was informed that on the same day the majority shareholder of the Company - Mansa Investments Sp. z o.o. based in Warsaw ("Mansa Investments") and BIF IV Europe Holdings Limited based in London, United Kingdom, an entity related to Brookfield Renewable Partners L.P. ("Investor", and "parties" jointly with Mansa Investments) concluded annexes to the investment agreement of November 3, 2020 ("Investment Agreement") and shareholder agreements of the same day ("Shareholders Agreement"); the company informed about the conclusion thereof in current report No. 27/2020 on November 4, 2020.

Information in the above matter were described in item 11 hereof.

Apart from the above, the Issuer is not aware of any agreements which may result in a future change to the current shareholder structure.

29. Employee stock ownership plan control system

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

30. Additional information

a) Concerning the date of entering into an agreement between the Issuer and an entity authorized to audit the financial statements on the audit or review of financial statements or Consolidated financial statements, and the period for which the agreement was concluded

Agreement of 26 March 2020 between Polenergia S.A. and Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with the registered address in Poznań, ul. abpa Antoniego Baraniaka 88 E for the performance of:

- review of the interim Standalone and Consolidated financial statements for the periods from 1 January 2020 until 30 June 2020 and from 1 January 2021 until 30 June 2021
- audit of the Standalone and Consolidated financial statements for the year ended 31 December 2020 and 31 December 2021.

Moreover, individual Group companies concluded agreements with Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with the registered address in Poznań, ul. abpa Antoniego Baraniaka 88 E for the audit of their financial statements for the year ended 31 December 2020 and 31 December 2021.

b) The period and scope of services provided by the selected audit firm to the Group

In 2020 Group companies used services of the selected audit firm which comprised audits or reviews of their financial statements or Consolidated financial statements, as well as additional services, aimed at confirming the fulfillment of concluded loan agreements on the basis of analyses of financial information derived from audited financial statements.

c) The body that selected the audit firm

The Supervisory Board upon the recommendation of the Audit Committee.

d) Remuneration to the entity authorized to audit financial statements, paid or due for the financial year

The total amount of the remuneration under the above-mentioned agreements is presented in Note 44 to the Standalone Financial Statements.

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

Off-balance sheet items by entity, type and value are presented in Note 28 to the Standalone financial statements.