In case of divergence between the language versions, the Polish version shall prevail.

Polenergia S.A. Group

DIRECTORS' REPORT ON THE OPERATIONS OF POLENERGIA GROUP
FOR THE YEAR ENDED 31 DECEMBER 2018

Michał Michalski – Management Board President	Iwona Sierżęga – Management Board Member
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Warsaw, 4 March 2019

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1. Combined statement of profit or loss for the 12 - month period ended 31 December 2018

In 2018, the Polenergia Group generated an adjusted (standardised) EBITDA and net profit of PLN 188.4m and PLN 34.7m, up by PLN 6.9m (4%) and PLN 14.5m (72%), respectively, year on year.

	Polenergia Group performance (PLN M)	12M 2018	12M 2017	Difference YOY	Difference YOY [%]	Q4 2018	Q4 2017	Difference YOY	Difference YOY [%]
	Sales revenues, including:	**3 448,7**	**2 762,4**	**686,3**	**25%**	**888,0**	**751,5**	**136,5**	**18%**
	trading segment	2 843,2	2 225,9	617,4		709,5	607,1	102,4	
	other	605,5	536,5	68,9		178,5	144,4	34,1	
	Cost of goods sold, including	**(3 319,5)**	**(2 647,1)**	**(672,4)**	**-25%**	**(834,0)**	**(717,0)**	**(117,0)**	**-16%**
	trading segment	(2 847,0)	(2 202,4)	(644,6)		(706,0)	(599,7)	(106,3)	
	other	(472,5)	(444,6)	(27,8)		(128,0)	(117,3)	(10,7)	
	Net sales profit	**129,2**	**115,3**	**13,9**	**12%**	**53,9**	**34,5**	**19,5**	**56%**
	Selling expenses and general overheads	(42,3)	(36,4)	(5,9)	-16%	(11,8)	(12,1)	0,3	2%
	Other operating revenue/expense	(3,1)	(91,8)	88,8	97%	7,5	(1,4)	8,8	647%
	Profit on loss of control over subsidiaries	12,0	-	12,0		-	-	-	
A	**Operating profit (EBIT)**	**95,8**	**(12,9)**	**108,7**	**841%**	**49,6**	**21,0**	**28,6**	**136%**
	Depreciation/Amortization	95,5	97,1	(1,6)		23,7	24,0	(0,3)	
	Impairment losses	9,8	100,1	(90,4)		(5,3)	1,1	(6,4)	
	EBITDA	**189,1**	**184,3**	**4,8**	**3%**	**68,0**	**46,1**	**21,9**	**48%**
	Normalizing adjustments:								
	Purchase price allocation (PPA)	(0,7)	(2,7)	2,0	75%	-	(0,7)	0,7	100%
	Adjusted EBITDA*	**188,4**	**181,6**	**6,9**	**4%**	**68,0**	**45,4**	**22,6**	**50%**
B	Financial income	5,7	6,4	(0,7)		0,9	1,8	(0,9)	
C	Financial costs	(60,8)	(60,8)	(0,0)		(13,0)	(15,0)	2,0	
A+B+C	**Gross profit (loss)**	**40,7**	**(67,3)**	**108,0**	**160%**	**37,6**	**7,9**	**29,7**	**375%**
	Income tax	(37,3)	(20,4)	(16,9)	-83%	(20,9)	(11,4)	(9,6)	-84%
	Net profit/loss	**3,4**	**(87,7)**	**91,1**	**104%**	**16,6**	**(3,5)**	**20,1**	**580%**
	Normalizing adjustments:								
	Purchase price allocation (PPA)	7,7	6,0	1,7		2,1	1,5	0,6	
	Foreign exchange differences	0,1	(1,0)	1,1		(0,1)	(0,3)	0,2	
	Loan valuation using the amortized cost method	7,1	2,7	4,4		0,3	0,7	(0,3)	
	Impairment losses**	23,6	100,1	(76,5)		8,5	1,1	7,4	
	Net profit /loss on sale of assets***	(7,2)	-	(7,2)		-	-	-	
	Adjusted net profit (loss)*	**34,7**	**20,1**	**14,5**	**72%**	**27,5**	**(0,5)**	**28,0**	**5476%**
	Adjusted EBITDA*	**188,4**	**181,6**	**6,9**	**4%**	**68,0**	**45,4**	**22,6**	**50%**
	Adjusted EBITDA Margin*	5,5%	6,6%	-1,1%		7,7%	6,0%	1,6%	
	Adjusted EBITDA (excl. trading segment)	**204,4**	**168,4**	**36,0**	**21%**	**68,7**	**41,5**	**27,2**	**65%**
	Adjusted EBITDA margin (excl. trading segment)	33,8%	31,4%	2,4%		38,5%	28,8%	9,7%	

*) Adjusted for non-monetary. one-off revenue (cost) recognized in a given financial year

**) Reversal of impairments losses in Wind Power segment and impairment losses in assets in Biomass, Conventional Energy and Development segments

***) Refers to transfer of interest in offshore wind farms

Revenues from sales of the Polenergia Group for 2018 increased by 25% year on year, which was mainly the effect of higher revenues from sales in the trading and conventional energy segments.

Adjusted EBITDA in the period in question amounted to PLN 188.4m and was higher by PLN 6.9m year on year, mainly due to a better result in the conventional energy and wind energy segments, partially offset by a worse result on electricity trading in the trading segment, which was a result of closing position in connection with an extraordinary price increase in the first half of 2018.

In Q4 2018 the Polenergia Group recorded an 18% increase in revenues from sales compared to an analogous period in the previous year, which was mainly the effect of higher revenues from sales in the trading segment and in the conventional energy segment.

Adjusted EBITDA in Q4 amounted to PLN 68.0m and was higher by PLN 22.6m compared to an analogous period in the previous year, mainly due to higher result in the conventional energy segment.

2. Detailed commentary on the financial performance for the 12- month period ended 31 December 2018 and other relevant information on the Group's standing

The wind energy segment recorded EBITDA increase by PLN 9.6m in 2018, which was mainly a result of higher selling prices of green certificates and electricity and lower operating costs (mainly due to lower real estate tax), partially offset by lower production and created provision for higher real estate tax for 2017 in the amount of PLN 6.3m in Q4 2018.

EBITDA of the conventional energy segment increased by PLN 37.2m, and in Q4 only EBITDA increased by PLN 28.7m. The increase was due to higher revenues from adjustment of gas compensation for 2017 (higher “Wg” adjustment rate and lower cost of coal), higher compensation for stranded costs (positive impact of the annual adjustment of long-term price curves) and higher revenues from gas compensation in 2018 (higher index rate).

EBITDA of the trading segment in 2018 was down by PLN 29.1m year on year due to a worse result on electricity trading which was the result of closing item in connection with an extraordinary price increase in the first half of 2018 and higher costs of wind farm profiling. In order to limit its risk exposure, the Group took measures consisting in closing items resulting in a loss in 1 the first half of 2018, limiting the electricity trading operations until the situation on the energy market stabilises and extending the scope of monitoring and reporting results and risk measures. EBITDA of the trading segment in Q4 was down by PLN 4.6m compared to the result in an analogous period in the previous year, due to a reduced scale of electricity trading operations and increased wind farm profiling costs.

EBITDA of the distribution segment went incrementally down year on year by PLN 1.9m, mainly because of lower margin on energy sales, lower revenues from connection fees and a delayed entry into force of the new distribution tariff. In Q4 the result decreased by PLN 0.9m, mainly due to lower margin on energy sales and lower revenues from connection fees.

EBITDA of the biomass segment in 2018 decreased by PLN 3.0m year on year and by PLN 0.3m in Q4, driven mainly by the deteriorating situation on the biomass market and the resulting decision of the Group to withdraw from that segment of activity. In 2018, the biomass segment was partially restructured. As a result of the restructuring, assets of Biomasa Południe plant were sold in June, and assets of Biomasa Północ plant were sold in October. The Company is in the process of a search for investor for Biomasa Wschód plant. Discussions are currently conducted with prospective buyers in cooperation with the financing bank.

EBITDA of the development segment was on a similar level to the previous year.

Unallocated Group management costs increased by PLN 6.3m year on year in connection with additional costs arising, among others, from consultancy services in connection with the sale of shares in offshore wind farm project companies and the service of two call options exercised over Q2 and Q3 2018 and the impact of VAT settlement for 2017 and 2018.

As a result of the above described events, the adjusted EBITDA margin excluding the Trading segment amounted to 33.8% and was higher by 2.4 percentage points year on year. In Q4 that ratio amounted to 38.5% and was higher by 9.7 percentage points from that recognised in an analogous period in the previous year.

The result on financial activity in 2018 was lower by PLN 0.7m year on year, due to lower foreign exchange gains (PLN 1.0m) partially offset by higher financial revenue from interest (PLN 0.2m).

The year on year change in income tax was due to the Group's higher gross profit, the effect of the transaction of sale of shares in the offshore wind farm projects and the fact that no deferred tax asset was recognised related to, among others, impairment losses on assets and green certificate stock valuation. Furthermore, the amount of tax in 2017 was affected by a write down of deferred tax asset concerning wind farms and the fact that no deferred tax asset on tax loss in 2017 was created.

Also, net profit was affected by the following impairment losses on non-financial assets and goodwill:

- in the wind energy segment – as announced on 20 December 2018 (Current Report No. 53/2018) on the basis of performed asset impairment test, a decision was made to reverse the impairment loss in the amount of PLN 54.7m (after tax). The decision was made as a consequence of changes in the regulatory and market environments and related forecast update with regard to prices of electricity and green certificates.
- in the biomass segment:
    - As announced on 2 July 2018 (Current Report No. 19/2018), on the basis of new regulatory environment and biomass projects' economics, a decision was made to recognise an impairment loss mainly concerning the value of property, plant and equipment of Biomasa Północ (in the amount of PLN 1.2m) and Biomasa Wschód (in the amount of PLN 14.9m) plants. The impairment loss was a non-cash charge.
    - The final value of impairment losses in the biomass segment in 2018 in the amount of PLN 14.8m was also influenced by a reversed impairment loss (in the amount of PLN 1.3m) on Biomasa Południe plant recognized in 2017, due to the sale of the plant's assets in June 2018.
    - On 30 October 2018 Polenergia Biomasa Energetyczna Północ sold movable property (mainly plant and equipment). As a result of assets sale, the company discontinued its biomass pellet production operations.
    - As announced on 20 December 2018 (Current Report No. 53/2018), on the basis of performed goodwill impairment test, a decision was made to recognise an impairment loss in the amount of PLN 15.1m related to Wińsko biomass power plant project.

      The Group's Management Board, in taking a decision to recognise the impairment loss, took into account the market environment and the project's economics. The Group, given the intention to dispose of rights to the project, will maintain an adequate status of its development, taking into account economic viability of all actions taken.
- in the conventional energy segment – as announced on 20 December 2018 (Current Report No. 53/2018) on the basis of performed goodwill impairment test, a decision was made to recognise goodwill impairment loss in the amount of PLN 40m. Impairment loss on goodwill allocated to the conventional energy segment is due to the upcoming end of Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. operation under stranded cost compensation system. ENS will remain system participant until May 2020. After that date, ENS will be a capacity market participant and will continue its heat and electricity generation operations taking into account the existing market environment.
- in the development and implementation segment – as announced on 20 December 2018 (Current Report No. 53/2018), on the basis of performed asset impairment test, a decision was made to recognise an impairment loss in the amount of PLN 8.8m related to Piekło Wind Farm construction project.

  The Group's Management Board, in taking a decision to recognise the impairment loss, took into account the market environment and the project's economics. The Group, given the intention to dispose of rights to the project, will maintain an adequate status of its development, taking into account economic viability of all actions taken.

The total effect of the above changes in impairment losses on the result after tax amounted to minus PLN 23.6m (having taken into account the reversal of impairment losses in the development and implementation segment in the amount of PLN 0.4m).

Other information material for the Group's standing

The debt situation of portfolio companies is monitored on a continuous basis. In June and July 2018 debt reprofiling of Amon, Talia and Gawłowice, Skurpie and Rajgród wind farms was completed.

Restructuring of biomass projects continues. The process of sale of assets of Biomasa Południe and Biomasa Północ was completed (in October 2018).

Discussions are conducted with prospective investors for Biomasa Wschód in cooperation with the bank financing the plant's operations.

Onshore wind farm projects with an aggregate capacity of 199 MW and photovoltaic power plant projects with an aggregate capacity of 8 MW took part in auctions for the sale of energy from renewable sources held on 5 and 15 November 2018, respectively. Companies which develop wind farm projects did not qualify among producers whose offers won the auction. On the other hand, the company developing photovoltaic projects with an aggregate capacity of 8MW won an auction and thus acquired a right to have its negative balance covered with respect to the price offered during the auction for electricity generated over a period of 15 years. Construction and commissioning of photovoltaic farms is planned for 2019.

The Group continues work aimed at developing a portfolio of wind farm projects with a capacity of 199 MW based on revenues from the energy market or long-term contracts. The Group also does not rule out participation in an auction for wind farms in 2019.

Preparations are ongoing to take part in subsequent auctions (expected in 2019) for photovoltaic power plant projects with an aggregate capacity of 16 MW. Further projects with a capacity of 30 MW are in an early development phase.

In the distribution segment, execution of the investment programme implemented in 2016 is carried out according to he plan. Polenergia Dystrybucja obtained a consent of the Supervisory Board for the implementation of a new investment plan for the years 2019-2022 for a total amount of PLN 51m and secured a loan of PLN 33m for its implementation from ING Bank.

Conventional energy segment companies - Polenergia Elektrociepłownia Nowa Sarzyna sp. z o. o. and Mercury Energia Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka Komandytowa, took part in three auctions on the capacity market with supply periods falling in the years 2021, 2022 and 2023. In conformity with auction results, the companies concluded one year capacity agreements which provide for the following levels of capacity obligations:

- 114.0 MW for 2021,
- 113.8 MW for 2022 and
- 113.6 MW for 2023.

The Group has been preparing for the construction of three offshore wind farms (Polenergia Bałtyk I S.A., MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o.) located on the Baltic Sea with an aggregate capacity up to 3000 MWe. The farms' construction date depends on the entry into force of a relevant regulatory system.

In Q2 2018 an agreement was concluded on the transfer of 50% of shares in wind business companies (MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o.) dealing with offshore wind farms development and construction projects to Statoil Holding Netherlands B.V. (currently Equinor), as reported in the Current Report No. 14/2018.

In addition, on 20 December 2018, a preliminary agreement was concluded on the transfer of 50% of shares in Polenergia Bałtyk I S.A. dealing with offshore wind farms development and construction project to Wind Power AS, a company that belongs to the Equinor group, as announced in Current Report No. 52/2018. For detailed transaction description, refer to Note 18 to the Consolidated Financial Statements of the Polenergia S.A. Group

On 28 January 2019, MFW Bałtyk II sp. z o. o. obtained connection conditions which provide for a possibility to connect Bałtyk Środkowy II offshore wind farm with a total capacity of 240 MW. Obtaining of the said connection conditions means there is a possibility to increase the total capacity of offshore wind farms developed by MFW Bałtyk II sp. z o. o. and MFW Bałtyk III sp. z o. o., from 1200 MW up to 1440 MW. On 30 January 2019, Polenergia Bałtyk I S.A. obtained connection conditions for the developed Bałtyk Północny offshore wind farm project. The obtained connection conditions provide for a possibility to connect an offshore wind farm with a total capacity of 1560 MW. Obtaining of the said connection conditions means there is a possibility to increase the total capacity of offshore wind farms developed by MFW Bałtyk II sp. z o. o., MFW Bałtyk III sp. z o. o. and Polenergia Bałtyk I S.A., up to 3000 MW.

Breakdown of the Group’s results for Q4 and full year 2018 by business segment is presented on the following pages.

12M 2018 (PLN m)	Wind Power	Conventional Energy	Trading	Distribution	Biomass	Development	Unalocated cost of Group management	Purchase price allocation	TOTAL
Sales revenue	149,1	348,1	2 843,2	86,2	17,8	0,0	3,6	0,7	3 448,7
Operating costs	(112,7)	(252,3)	(2 847,0)	(73,1)	(19,8)	(0,4)	(4,0)	(10,1)	(3 319,5)
including depreciation/amortization	(56,9)	(21,6)	(0,1)	(4,6)	(1,4)	-	(0,7)	(50,1)	(135,5)
Gross profit on sales	**36,4**	**95,8**	**(3,8)**	**13,1**	**(1,9)**	**(0,4)**	**(0,4)**	**(9,4)**	**129,2**
Gross profit on sales margin	*24,4%*	*27,5%*	*"n/a"*	*15,2%*	*"n/a"*	*"n/a"*	*"n/a"*	*"n/a"*	*3,7%*
General overheads	(2,6)	(6,4)	(12,3)	(5,8)	(1,4)	(0,3)	(12,9)	-	(41,6)
Other operating activities	72,5	(1,1)	(0,0)	2,5	(29,0)	(8,3)	(0,4)	(40,0)	(3,8)
including impairment losses	67,5	-	-	-	(28,9)	(8,4)	-	(40,0)	(9,8)
Operating profit	**106,3**	**88,3**	**(16,0)**	**9,8**	**(32,4)**	**(9,0)**	**(13,7)**	**(49,4)**	**83,8**
EBITDA	**95,7**	**109,9**	**(16,0)**	**14,5**	**(2,1)**	**(0,6)**	**(13,0)**	**0,7**	**189,1**
EBITDA Margin	*64,2%*	*31,6%*	*"n/a"*	*16,8%*	*"n/a"*	*"n/a"*	*"n/a"*	*100,0%*	*5,5%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	(0,7)	(0,7)
Adjusted EBITDA	**95,7**	**109,9**	**(16,0)**	**14,5**	**(2,1)**	**(0,6)**	**(13,0)**	**-**	**188,4**
Adjusted EBITDA Margin	*64,2%*	*31,6%*	*"n/a"*	*16,8%*	*"n/a"*	*"n/a"*	*"n/a"*	*"n/a"*	*5,5%*
Profit (loss) on financial activities	(55,0)	(2,1)	(6,5)	(1,8)	(0,2)	0,1	22,5	-	(43,1)
Profit (loss) before tax	**51,3**	**86,2**	**(22,5)**	**8,0**	**(32,6)**	**(8,9)**	**8,8**	**(49,4)**	**40,7**
Income tax									(37,3)
Net profit (loss) for period									**3,4**
Normalizing adjustments:									
Purchase price allocation (PPA)									7,7
Foreign exchange differences									0,1
Loan valuation using the amortized cost method									7,1
Impairment losses									23,6
Net result on disposal of assets									(7,2)
Adjusted net profit									**34,7**

12M 2017 (PLN m)	Wind Power	Conventional Energy	Trading	Distribution	Biomass	Development	Unalocated cost of Group management	Purchase price allocation	TOTAL
Sales revenue	142,8	271,8	2 225,9	86,4	30,3	0,0	2,4	2,7	2 762,4
Operating costs	(114,6)	(214,0)	(2 202,4)	(69,3)	(32,4)	(0,4)	(3,7)	(10,1)	(2 647,1)
including depreciation/amortization	(56,9)	(21,5)	(0,0)	(4,3)	(3,4)	-	(0,9)	(10,1)	(97,1)
Gross profit on sales	**28,2**	**57,8**	**23,4**	**17,1**	**(2,1)**	**(0,4)**	**(1,3)**	**(7,4)**	**115,3**
Gross profit on sales margin	*19,8%*	*21,3%*	*1,1%*	*19,7%*	*"n/a"*	*"n/a"*	*"n/a"*	*"n/a"*	*4,2%*
General overheads	(4,1)	(6,1)	(10,8)	(6,8)	(1,4)	(0,5)	(6,3)	-	(36,0)
Other operating activities	5,1	(0,5)	0,5	1,9	(8,6)	(90,6)	0,0	-	(92,3)
including impairment losses	-	-	-	-	(9,5)	(90,6)	-	-	(100,1)
Operating profit	**29,2**	**51,2**	**13,1**	**12,1**	**(12,0)**	**(91,5)**	**(7,6)**	**(7,4)**	**(12,9)**
EBITDA	**86,1**	**72,7**	**13,1**	**16,4**	**0,9**	**(0,9)**	**(6,7)**	**2,7**	**184,3**
EBITDA Margin	*60,3%*	*26,8%*	*0,6%*	*18,9%*	*2,9%*	*"n/a"*	*"n/a"*	*100,0%*	*6,7%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	(2,7)	(2,7)
Adjusted EBITDA	**86,1**	**72,7**	**13,1**	**16,4**	**0,9**	**(0,9)**	**(6,7)**	**-**	**181,6**
Adjusted EBITDA Margin	*60,3%*	*26,8%*	*0,6%*	*18,9%*	*2,9%*	*"n/a"*	*"n/a"*	*"n/a"*	*6,6%*
Profit (loss) on financial activities	(51,6)	(2,3)	(3,1)	(1,8)	(0,4)	(0,0)	5,0	-	(54,4)
Profit (loss) before tax	**(22,4)**	**48,9**	**10,0**	**10,2**	**(12,5)**	**(91,6)**	**(2,6)**	**(7,4)**	**(67,3)**
Income tax									(20,4)
Net profit (loss) for period									**(87,7)**
Normalizing adjustments:									
Purchase price allocation (PPA)									6,0
Foreign exchange differences									(1,0)
Loan valuation using the amortized cost method									2,7
Impairment losses									100,1
Net result on disposal of assets									-
Adjusted net profit									**20,1**
Change of adjusted EBITDA yoy	**9,6**	**37,2**	**(29,1)**	**(1,9)**	**(3,0)**	**0,4**	**(6,3)**	**-**	**6,9**

4 Q 2018 (PLN m)	Wind Power	Conventional Energy	Trading	Distribution	Biomass	Development	Unalocated cost of Group management	Purchase price allocation	TOTAL
Sales revenue	50,0	101,5	709,5	21,5	4,2	0,0	1,3	-	888,0
Operating costs	(35,0)	(67,3)	(706,0)	(19,0)	(4,6)	(0,2)	0,5	(2,5)	(834,0)
including depreciation/amortization	(14,2)	(5,4)	(0,0)	(1,2)	(0,2)	-	(0,2)	(42,5)	(63,7)
Gross profit on sales	**14,9**	**34,2**	**3,5**	**2,5**	**(0,4)**	**(0,2)**	**1,8**	**(2,5)**	**53,9**
Gross profit on sales margin	*29,9%*	*33,7%*	*0,5%*	*11,8%*	*"n/a"*	*"n/a"*	*"n/a"*	*"n/a"*	*75,9%*
General overheads	(0,6)	(1,7)	(4,2)	(1,9)	(0,5)	(0,1)	(2,6)	-	(11,6)
Other operating activities	69,5	(0,3)	(0,0)	0,7	(14,8)	(8,7)	(0,4)	(40,0)	5,9
including impairment losses	67,5	-	-	-	(13,4)	(8,8)	-	(40,0)	5,3
Operating profit	**83,8**	**32,2**	**(0,7)**	**1,3**	**(15,6)**	**(9,0)**	**(1,2)**	**(42,5)**	**48,3**
EBITDA	**30,6**	**37,6**	**(0,7)**	**2,5**	**(0,8)**	**(0,2)**	**(1,0)**	**-**	**68,0**
EBITDA Margin	*61,1%*	*37,0%*	*"n/a"*	*11,6%*	*"n/a"*	*"n/a"*	*"n/a"*	*-*	*7,7%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	-	-
Adjusted EBITDA	**30,6**	**37,6**	**(0,7)**	**2,5**	**(0,8)**	**(0,2)**	**(1,0)**	**-**	**68,0**
Adjusted EBITDA Margin	*61,1%*	*37,0%*	*"n/a"*	*11,6%*	*"n/a"*	*"n/a"*	*"n/a"*	*"n/a"*	*7,7%*
Profit (loss) on financial activities	(11,9)	(0,6)	(2,0)	(0,5)	(0,1)	0,0	3,0	-	(12,0)
Profit (loss) before tax	**71,9**	**31,6**	**(2,7)**	**0,8**	**(15,7)**	**(9,0)**	**1,9**	**(42,5)**	**36,2**
Income tax									(20,9)
Net profit (loss) for period									**16,6**
Normalizing adjustments:									
Purchase price allocation (PPA)									2,1
Foreign exchange differences									(0,1)
Loan valuation using the amortized cost method									0,3
Impairment losses									8,5
Net result on disposal of assets									-
Adjusted net profit									**27,5**

4 Q 2017 (PLN m)	Wind Power	Conventional Energy	Trading	Distribution	Biomass	Development	Unalocated cost of Group management	Purchase price allocation	TOTAL
Sales revenue	50,3	63,7	607,1	22,4	7,2	0,0	0,0	0,7	751,5
Operating costs	(32,1)	(58,3)	(599,7)	(18,0)	(7,9)	(0,2)	1,6	(2,5)	(717,0)
including depreciation/amortization	(14,2)	(5,4)	(0,0)	(1,0)	(0,6)	-	(0,2)	(2,5)	(24,0)
Gross profit on sales	**18,3**	**5,4**	**7,4**	**4,5**	**(0,7)**	**(0,2)**	**1,6**	**(1,9)**	**34,5**
Gross profit on sales margin	*36,3%*	*8,5%*	*1,2%*	*20,0%*	*"n/a"*	*"n/a"*	*"n/a"*	*"n/a"*	*4,6%*
General overheads	(1,4)	(1,7)	(3,8)	(2,2)	(0,5)	(0,2)	(2,3)	-	(12,1)
Other operating activities	(0,3)	(0,3)	0,3	0,0	0,3	(1,3)	(0,1)	-	(1,3)
including impairment losses	-	-	-	-	0,2	(1,3)	-	-	(1,1)
Operating profit	**16,6**	**3,4**	**3,9**	**2,3**	**(0,8)**	**(1,7)**	**(0,8)**	**(1,9)**	**21,0**
EBITDA	**30,8**	**8,9**	**3,9**	**3,4**	**(0,5)**	**(0,4)**	**(0,6)**	**0,7**	**46,1**
EBITDA Margin	*61,2%*	*13,9%*	*0,6%*	*15,0%*	*"n/a"*	*"n/a"*	*"n/a"*	*100,0%*	*6,1%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	(0,7)	(0,7)
Adjusted EBITDA	**30,8**	**8,9**	**3,9**	**3,4**	**(0,5)**	**(0,4)**	**(0,6)**	**-**	**45,4**
Adjusted EBITDA Margin	*61,2%*	*13,9%*	*0,6%*	*15,0%*	*"n/a"*	*"n/a"*	*"n/a"*	*"n/a"*	*6,0%*
Profit (loss) on financial activities	(12,3)	(0,6)	(1,1)	(0,5)	(0,1)	(0,0)	1,4	-	(13,1)
Profit (loss) before tax	**4,3**	**2,9**	**2,8**	**1,9**	**(0,9)**	**(1,8)**	**0,6**	**(1,9)**	**7,9**
Income tax									(11,4)
Net profit (loss) for period									**(3,5)**
Normalizing adjustments:									
Purchase price allocation (PPA)									1,5
Foreign exchange differences									(0,3)
Loan valuation using the amortized cost method									0,7
Impairment losses									1,1
Net result on disposal of assets									-
Adjusted net profit									**(0,5)**
Change of adjusted EBITDA yoy	**(0,2)**	**28,7**	**(4,6)**	**(0,9)**	**(0,3)**	**0,3**	**(0,4)**	**-**	**22,6**

3. Legal environment

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

4. The Group's organisational structure

For a description of the Issuer's group, refer to Note 7 to the Consolidated Financial Statements

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

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

Major economic and financial data [PLN m]	12M 2018	12M 2017	Change
Sales revenue	3 448,7	2 762,4	686,3
EBITDA	189,1	184,3	4,8
Adjusted EBITDA with the elimination of the effect of purchase price allocation	188,4	181,6	6,9
Net profit (loss)	3,4	(87,7)	91,1
Adjusted net profit with the elimination of the effect of purchase price allocation, unrealized f/x differences, impairment losses, loan valuation and net gain/loss on disposal of assets	34,7	20,1	14,5

In comparison with 2017, performance in 2018 was driven by the following factors:

a) EBITDA (up by PLN 4.8m):

- Better performance of the wind energy segment (up by PLN 9.6m) resulting from higher selling prices of green certificates and electricity and lower operating costs (mainly real estate tax), partially offset by lower production and created provision for higher real estate tax in the amount of PLN 6.3m for 2017 in Q4 2018;
- Better performance of the conventional energy segment (up by PLN 37.2m), was the result of higher compensation for stranded costs (positive impact of the annual adjustment of long-term price curves), higher revenues from gas compensation in 2018 (higher index rate) and the adjustment of gas compensation for 2017;
- Weaker performance in the trading segment (down by PLN 29.1m) due to a worse result on electricity trading which was the result of closing position in connection with an extraordinary price increase in the first half of 2018 and higher costs of wind farm profiling;
- Weaker performance of the distribution segment (down by PLN 1.9m) due to lower margin on energy sales, lower revenues from connection fees and a delayed entry into force of the new distribution tariff.
- Weaker performance of the biomass segment (down by PLN 3.0m) due to the deteriorating situation on the biomass market and the resulting decision of the Group to withdraw from that segment of activity;
- Lower expenses in the development segment (down by PLN 0.4 m) allocated to profit and loss account;

- Higher unallocated Group management costs (up by PLN 6.3m) in connection with additional costs, among others of consultancy services in connection with the sale of shares in offshore wind farm project companies and the service of two call options exercised over Q2 and Q3 2018 and the impact of VAT settlement for 2017 and 2018.

b) Adjusted EBITDA (up by PLN 6.9m):

- EBITDA effect described above (result up by PLN 4.8m);
- Elimination of the purchase price allocation effect (up by PLN 2.0m).

c) Net profit (loss) (up by PLN 91.1m):

- The EBITDA effect (up by PLN 4.8m);
- Lower depreciation and amortisation (down by PLN 1.6m), primarily resulting from depreciation of Biomasa Południe project due to an impairment loss recognised in 2017;
- Effect of impairment losses (down by PLN 90.4m) primarily resulting from an impairment loss connected with the development business recognised in 2017;
- Lower financial revenues (down by PLN 0.7m) due to lower foreign exchange gains (PLN 1.0m) partially offset by higher financial revenues from interest (PLN 0.2m);
- Positive net result on the disposal of assets (PLN 7.2m);
- Higher income tax (up by PLN 16.9 m) mainly due to the Group's higher gross profit, no tax efficiency of the transaction of sale of shares in offshore wind farm projects and the fact that no deferred tax asset was recognised related to, among others, impairment losses on assets and valuation of green certificates.

d) Adjusted net profit (loss) after elimination of the purchase price allocation effect, unrealised exchange differences, impairment losses, loan valuation and net result on the disposal of assets (up by PLN 14.5m):

- Effect of net profit (loss) (up by PLN 91.1m);
- Elimination of the effect of acquisition price settlement (up by PLN 1.7m)
- Elimination of the effect of unrealised exchange differences (up by PLN 1.1m);
- Reversal of the effect of impairment losses (down by PLN 76.5m);
- Elimination of the effect of loan valuation (up by PLN 4.4m);
- Elimination of the net result on the disposal of assets (down by PLN 7.2m).

6. Brief description of the Issuer's significant achievements or failures in the reporting period, including identification of key events.

For a description of the Issuer's significant achievements or failures in the reporting period, including identification of key events, see Section 2 of this report.

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

For information on factors with a material bearing on financial performance, see Sections 2 and 5 of this report.

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

No.	Shareholder	Number of shares held	Number of votes	Shareholding
1	Kulczyk Holding Sarl*	23 467 043	23 467 043	51,64%
2	China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF**	7 266 122	7 266 122	15,99%
3	NN OFE	2 576 969	2 576 969	5,67%
4	Generali OFE	2 981 728	2 981 728	6,56%
5	Aviva OFE	3 732 000	3 732 000	8,21%
6	Others	5 419 685	5 419 685	11,93%
	Total	**45 443 547**	**45 443 547**	100,00%

*) On 3 July 2018, Dominika Kulczyk entered into an agreement whereby she acquired 100% of shares in Kulczyk Holding S.à r.l., a Luxembourg law company, from Kulczyk Investments S.A., a Luxembourg law company ("KI") which holds 100% of shares in Mansa Investments Sp. z o.o.

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

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

The Group dissolved and wound up Grupa PEP-Projekty Energetyczne 1 sp. z o.o., ENS Consulting sp.k., pursuant to a resolution of 29 June 2018.

The Group, pursuant to the decision on withdrawal from the biomass business and from restructuring biomass projects, sold the assets of Biomasa Południe and Biomasa Północ.

In addition, in 2018 an agreement was concluded on the transfer of 50% of shares in wind business companies dealing with offshore wind farm development and construction projects to Equinor (formerly Statoil Holding Netherlands B.V.), as well as a preliminary agreement on the transfer of 50% of shares in Polenergia Bałtyk I S.A. dealing with offshore wind farms development and construction project to Wind Power AS, a company that belongs to the Equinor group.

In May 2018 the Polenergia S.A. Group also acquired assets of Krzęcin Wind Farm.

10. General information

The Polenergia Group (the "Group"), formerly Polish Energy Partners S.A. (with the company name change entered in the National Court Register on 11 September 2014), comprises Polenergia S.A. (the "Company", the "parent") and its subsidiaries. The Company was established under a notarial deed of 17 July 1997. The Company is entered in the National Court Register maintained by the

District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, under KRS No. 0000026545. The Company's Industry Identification Number (REGON) is 012693488. The Company's registered office is at ul. Krucza 24/26 in Warsaw.

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

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

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

11. Organisation of the Issuer's group, consolidated entities, as well as changes in the Issuer's group organisation and reasons for such changes

For a description of the Issuer's group, refer to Note 7 to the Consolidated financial statements. All companies presented in Note 7 are consolidated with the full method, except MFW II, MFW III and Polenergia Bałtyk I, which are measured with the equity method.

In 2018 the Group acquired Krzęcin Wind Farm assets with installed capacity of 6 MW, thus increasing the aggregate capacity in its portfolio to 249MW.

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

	Item	Description	2018 value	2017 value	Change
1.	Return on equity – ROE	$\frac{\text{net profit (loss)}}{\text{average annual equity}}$	0.3%	-7.2%	*+7.5%*
2.	Net margin	$\frac{\text{net profit (loss)}}{\text{revenue from sales}}$	0.1%	-3.2%	*+3.3%*
3.	Liquidity – liquidity ratio I	$\frac{\text{total current assets}}{\text{current liabilities}}$	1.29	1.05	*+0.24*
4.	Average collection period (days)	average annual trade receivables x 365 days	13	18	*-5*

	revenue from sale of products and merchandise			
5. Debt to assets	(total equity and liabilities - equity) *100 / total assets	61.2%	55.6%	*+5.6%*

Profitability ratios improved due to the increase of the net financial result year on year. Higher value of return on equity indicates better effectiveness of funds employed, while higher value of return on equity indicates higher profit on zloty of revenues from sales.

The Group's liquidity, measured with liquidity ratio I, improved due to higher ratio of the value of current assets to current liabilities. Improved liquidity compared to 2017 is also shown by a decreased average collection period.

The structure of the Group's balance sheet as at the end of 2018 changed as a result of an increase in the share of liabilities in the balance sheet total, which mainly resulted from performed valuation of electricity contracts in the trading segment.

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

Competition risk

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

The Group collects detailed information on market specificities and competition's projects, which allows assessing profitability of competition's projects and a potential auction price level. The Group's in-depth analyses allow for an adequate assessment of market situation. At the same time, highly competitive projects are developed with the application of advanced investment expenditure and cost optimisation processes, and locations characterised by above-average wind conditions and relatively low connection costs are selected for development.

As regards electricity and natural gas sales, the Polenergia Group is exposed to the risk of losing business to competitors which have access to power and gas infrastructure on the TPA (third party access) basis. This results in stronger competition among suppliers of electricity and natural gas to end users and may lead to margin decrease.

With respect to the production of pellets and generation of electricity from biomass, the Group may be forced to compete with other entities for the raw agricultural and forestry materials used in these operations. As the supply of agricultural and forestry raw materials is limited, an increase in their prices or a shortage of supply cannot be ruled out. Due to the decision to discontinue business in the biomass segment and the sale of assets of two out of three plants effected in 2018, the exposure to the competition risk decreased.

Risk related to the economic situation in Poland

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

Risk of foreign exchange rate movements

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

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

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

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

Companies of the Polenergia Group do not hedge against non-monetary differences resulting from the fair value measurement of their non-monetary assets and liabilities denominated in foreign currencies as at the reporting date. Sensitivity of the Group's profit/loss before tax, estimated by the Management Board, (due to changes in the fair value of monetary assets and liabilities) to reasonably possible movements in the euro exchange rate, all other factors being equal, is presented in in Note 40 to the consolidated financial statements.

Interest rate risk

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

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

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

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

Sensitivity of the Group's profit/loss before tax, estimated by Polenergia, (due to changes in the fair value of monetary assets and liabilities) to reasonably possible interest rate movements, all other factors being equal, is presented in Note 40 to the Consolidated financial statements.

Raw materials price risk

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

The Polenergia Group uses methane-rich natural gas for the generation of electricity and heat at the Nowa Sarzyna CHP Plant. PGNiG S.A. is= the only supplier of gas fuel to the Nowa Sarzyna CHP Plant, pursuant to a twenty year comprehensive agreement. Any potential problems on the part of PGNiG with supplying the amount of gas fuel necessary to satisfy the existing demand may lead to limitations on its supply to customers. In such cases, the Polenergia Group may fail to fulfil its obligation to supply heat to its own customers.

The risk of supply limitations is negligible, but in connection with the liberalisation of gas prices, PGNiG is expected to be exempted from the requirement to apply tariff prices for large customers, including for ENS. ENS limits the risk of gas price changes by securing a fixed price of gas fuel for longer periods of time, e.g. 8 or 12 months in advance.

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

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

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

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

Risk related to the Polish energy market

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

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

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

Risk related to tariff approval by the President of URE

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

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

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

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

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

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

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

Factors relevant to the Group's operations also include decisions issued by competent authorities, in particular the President of URE, which are characterised by a high level of arbitrariness and thus are often subject to legal disputes.

On 28 December 2018 the Act amending the Act on Excise Tax and certain other acts was enacted, Dz. U. 2018 item 2538, (hereinafter: the Act). Risks related to the Act's entry into force are difficult to estimate as it does not clearly present all procedures provided for in the Act, but merely outlines the framework for anticipated actions.

The ambiguity in provisions of the Act is additionally confirmed by a need to urgently amend the Act, announced on 30 January 2019 by the Ministry of Energy following discussions with the European Commission, and lacking expected secondary legislation referred to in the Act, which should allow introducing all the price reduction mechanisms provided for in the Act.

The Act's impact on the operations of Polenergia Dystrybucja is being analysed. At the date of preparing this report the consequences of the Act and its amendment are difficult to estimate. The main risk factor is margin reduction on electricity sales to end users. They will be affected the most by detailed legal regulations, in which the level of compensation for loss of revenue due to price reduction imposed by the Act will be set.

Under the new (auction-based) scheme for RES installations, to receive support for energy generation from RES a producer will have to win an auction, the results of which will also determine the extent of the support. The support granted under the auction-based scheme, in principle, will protect the producer against market risk for 15 years. If projects developed by the Group do not win an auction, they will not receive the support.

Mandatory purchases of energy by the so-called obliged suppliers (utilities supplying energy to end users) had important implications for RES installations commissioned before 1 July 2016. The obligation arose on condition that a renewable energy producer offered all electricity produced and fed into the grid over a period of at least 90 consecutive calendar days. Since 1 January 2018, medium-sized and large RES installations (with an installed capacity of 500 kW or more) have been deprived of the right to sell energy to the obliged supplier at a regulated price under the mandatory purchase obligation. The change had a major impact on RES producers, because since 1 January 2018 they have been left unprotected against fluctuations in energy prices. The removal of the mandatory purchase obligation will have serious implications for medium-sized and large renewable energy producers, including the vast majority of domestic wind energy producers.

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

Risk of volatility of market prices of electricity

The Group's financial performance depends on the level of market prices of electricity. The Group constantly monitors the situation on the energy market and takes decisions to secure the sale of electricity from the wind energy segment.

The Group also conducts operations consisting in electricity trading on the wholesale market. The result on that business is dependent on the changes of market prices of energy and the structure of open positions on the market. A significant and unexpected increase in volatility of electricity prices in the first half of 2018 resulted in a loss on electricity trading. In order to limit its risk exposure, the Group took measures consisting in closing items resulting in a loss, limiting the electricity trading operations until the situation on the energy market stabilises and extending the scope of monitoring and reporting results and risk measures.

High volatility of electricity prices observed on the market in 2018 directly translated to the costs of profiling in the Group's wind farms. Higher profiling costs are a risk which is beyond the control of the Group, which may have a material effect on the Group's performance.

Risk of volatility of market prices of green certificates

The Group's financial performance depends on the level of market prices of green certificates. The Group constantly monitors the situation on green certificates market and takes decisions to secure the sale of green certificates from the wind energy segment.

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

In addition, on 30 August 2017, the Minister of Energy's regulation of 11 August 2017 on changing the quantitative share of total electricity under redeemed certificates of origin certifying electricity generation from renewable energy sources in 2018–2019 came into force. Pursuant to the regulation, in 2018 the requirement to redeem certificates of origin for energy generated from agricultural biogas will be 0.5% of electricity sales to end users and 17.50% in the case of certificates of origin for energy generated from other renewable energy sources. In 2019, the requirement will be set at 0.5% and 18.5% respectively.

Despite these changes there is still a significant oversupply of green certificates on the market, which may have a negative effect on the market price level. In January 2019, the Council of Ministers announced a list of planned legislative and programming works, which included amending bill to the Act on Renewable Energy Sources and certain other acts, aimed at, among others, reducing the amount of emission charge, and, consequently, the price of property rights for the coming years, by introduction of a new method for calculating the unit emission charge in the index.

If the prices of green certificates decrease, then a risk exists that the Group will generate poorer financial results and will not meet some of the financial ratios defined in the agreements under which financing has been secured for individual wind farm projects. If the prices of green certificates stay low for a long time, there may be temporary 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.

Risk concerning RES auctions

Under the new (auction-based) scheme, to receive support for energy generation from RES a producer will have to win an auction, the results of which will also determine the extent of the support. Thus a risk exists that the Group's wind farm projects ready for construction will receive insignificant support or no support at all. On the other hand, support granted under the auction-based scheme will protect the producer against market risk for 15 years. The entry into force of the most recent amendment of the Act on Renewable Energy Sources paves way for next auctions, the organisation of which was suspended in 2017.

In 2018, subsidiaries which develop wind farm projects with an aggregate capacity of 199 MW did not win auctions for sale of energy generated from Renewable Energy Sources. In an auction organised on 15 November 2018, a subsidiary of the Polenergia Group won an RES auction for the sale of energy from photovoltaic plant projects with an aggregate capacity of 8MW.

As announced by the Ministry of Energy, in 2019 auctions for renewable energy sources will be announced. If they are not announced or if auctions are announced with unsatisfactory prices/volumes for particular mixes, or if auctions are not won by the Group's projects, building permits will expire within 3 years. The Group does not exclude participation in an auction for wind farms in 2019.

Risk associated with Polish biomass market

Polenergia Biomasa Energetyczna Wschód – a subsidiary of Polenergia S.A., uses agricultural biomass (straw) to produce pellets for the energy sector. Demand for produced pellet is strongly dependent on legal regulations relating to biomass combustion in renewable energy sources and prices of green certificates (so called RES) and CO2 emission prices. The current prices of CO2 and green certificates allow for profitable production of electricity from biomass. A drop in prices of green certificates may have a negative effect on the demand for pellet and, consequently, on financial performance of Polenergia Biomasa Energetyczna Wschód.

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

On the Polish energy market investment in conventional generation capacities is hampered. This is mainly on account of high capital expenditure associated with coal-fired units, low margins on electricity generation (in particular, natural gas and hard coal-based generation), and increasingly lower capacity utilisation in large commercial generation units. Measures implemented by PSE in recent years (supplemental non-spinning reserve) and several investment decisions made by energy companies controlled by the Polish State Treasury have forestalled the risk of insufficient reserve capacities for several years. However, there is a need to implement long-term measures to mitigate the risk of disruptions on the capacity market after 2020 by stimulating investment in the construction of new generation capacities and retaining the existing sources in operation. On 8 December 2017, the Polish Parliament enacted the Capacity Market Act, which was signed by President on 28 December. In the second half of 2018 the first capacity auctions were held for supplies in the years 2021-2023. Depending on specific solutions and auction parameters to be adopted for subsequent years, the economic viability of existing facilities (such as the Nowa Sarzyna CHP Plant and Mercury Power Plant) may change significantly. Furthermore, it cannot be ruled out that the capacity market will exert an adverse impact on electricity prices on the market, which can potentially affect projects whose economic viability rests on revenue from sale of electricity (wind farms).

Risk related to the level of real estate tax on wind farms for 2017

Given the very unclear wording of the Act of 20 May 2016 on Wind Farm Projects, uncertainty arose as to the calculation of wind farm real estate tax. Although, according to expert reports held by the Group, the Act should not affect the amount of real estate tax paid by the Group companies, nevertheless most Group companies received adverse interpretations confirming that the real estate tax base had increased as of the beginning of 2017. The Group received one positive reply to these requests. As part of concurrent efforts, two projects received a positive interpretation allowing the Group to use the current market value of a wind farm as the tax base.

According to the negative interpretations, as of 2017 the real estate tax on wind farms should be calculated based on new rules. In the Group's opinion, legal grounds for the negative interpretations are incorrect, based on which it filed an appeal against them to the Provincial Administrative Court and, subsequently, to the Supreme Administrative Court.

The Supreme Administrative Court issued a negative decision on two projects, the remaining complaints will be decided in 2019. The Group will most likely be required to incur higher costs on account of the real; estate tax for 2017 in the amount of PLN 7.0m (including interest), unless the Group obtains a favourable decision in court proceedings (currently most of which are being resolved, in parallel, by the Supreme Administrative Court), in which the subject of the dispute is the method of RET tax base calculation for 2017. Given the above, the Group's Management Board decided to create a provision in Q4 2018 in the amount of PLN 6.3m (PLN 7.0m including interest) for real estate tax for 2017. If the Supreme Administrative Court recognizes the market value of a wind farm as the tax base for the purposes of calculating the amount of RET for 2017, as at 1 January 2017 the Group will have no tax arrears in RET.

The Minister of Energy abolished discriminatory tax treatment of wind farms with retroactive effect as of 1 January 2018 and, under the amended regulations, only the building part of a wind farm is considered a structure. Consequently, the Group companies requested competent authorities to acknowledge the overpayment of the real estate tax for 2018 and were granted consent to receive overpayment refund.

Regulatory risk

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

It should also be stressed that, in addition to general laws regulating each business, the operations conducted by the Polenergia Group are governed by specific regulations under the Polish Energy Law, the Act on Renewable Energy Sources and the related secondary legislation. These regulations are not formulated precisely, and so in many cases they do no lend themselves to straightforward interpretation, which may cause problems with their application. They are subject to frequent changes, which makes the Polenergia Group's legal environment not entirely stable. Consequently, there is a risk that future changes in the state policy and related changes in legal regulations may have an adverse effect on the operations of Polenergia S.A. and Polenergia Group companies.

Risk related to unstable tax system

The lack of unequivocal interpretation of tax regulations is particularly inconvenient in case of changes in tax regulations. This may be illustrated by regulations on thin capitalisation, enacted as of 2018, which do not provide a method for setting of the limit which allows recognising interest as tax deductible cost. Throughout 2018, the Ministry of Finance provided interpretations and explanations on the said matter, which are in contradiction with non-final judgments of the regional administrative court (WSA).

As of beginning of 2019, the criteria for application of the General Anti-Avoidance Rule (GAAR) changed, tax scheme reporting obligation was introduced, and additional tax liability was introduced (sanctions). All the changes were strongly criticised by the market, as the regulations are not clearly formulated, which allows a lot of space for their interpretation by tax authorities to the detriment of taxpayers. 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 authorisation of this report, Polenergia S.A. and its subsidiaries secured all relevant environmental permits.

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

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

Plants owned by the Polenergia Group:

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

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

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

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

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

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

Under the Regulation of the Council of Ministers of 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 as follows:

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

The emission allowances allocated for 2018 were transferred to the operator’s account in April 2018.

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 as follows:

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

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

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

Risk of new projects failing

The Polenergia Group is pursuing a significant number of projects in the segment of onshore and offshore wind farms 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 Renewable Energy Project Development Department. Such analyses include a series of assumptions, related to power generation volume, revenue, production costs, required investment amount and costs of financing. There is a risk that Polenergia S.A. may adopt assumptions more favourable than actual conditions, which would cause the Polenergia Group to achieve a lower than expected return on investment in a specific project. Moreover, the costs of preparing a project, even before the development stage, are also significant, especially in the wind farm construction segment. A project's failure would prevent the Group from recovering such costs.

The Renewable Energy Project Development Department 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 is extremely careful in selecting the locations for wind farm projects in order to minimise the risk of achieving an unsatisfactory return on investment and the risk of incurring significant costs of project preparation without ascertaining the feasibility of the project.

Risk that investment plans are not executed or are delayed

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

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

In light of the regulations of the amended Act on Wind Farm Projects, construction of a new wind power plant on the basis of previously obtained building permit is only possible within five years of the Act's entry into force (i.e. until 2021).

Onshore wind farm projects with an aggregate capacity of 199 MW and photovoltaic power plant projects with an aggregate capacity of 8 MW took part in auctions for the sale of energy from renewable sources held on 5 and 15 November 2018, respectively. Companies which develop wind farm projects did not qualify among producers whose offers won the auction. On the other hand, the company developing photovoltaic projects with an aggregate capacity of 8MW won an auction and thus acquired a right to have its negative balance covered with respect to the price offered during the auction for electricity generated over a period of 15 years. Construction and commissioning of photovoltaic farms is planned for 2019.

The Group continues work aimed at developing a portfolio of wind farm projects with a capacity of 199 MW based on revenues from the energy market or long-term contracts. The Group also does rule out participation in an auction for wind farms in 2019.

Risk of default on financial covenants and termination of credit facility agreement

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

Given the volatile situation on the market of electricity and green certificates, there is a risk that the Group may default on certain project covenants. The Group monitors the debt ratios and compliance with covenants at individual companies, remaining in contact with the financing institutions.

In 2018, Mycielin and Polenergia Biomasa Energetyczna Wschód projects did not meet the assumed levels of financial ratios.

The Mycielin project did not generate the assumed financial ratios as at 30 June 2018. The banks waived the covenant relating to the financial ratios for the company running the project; therefore, the failure to meet them does not necessitate reclassification of this facility from non-current to current liabilities. As at the reporting date, 31 December 2018, the financial covenants of the Mycielin project were fulfilled.

Due to the deteriorated market situation and termination of a long-term pellet supply agreement, the Biomasa Wschód project failed to comply with the debt coverage ratio covenant in 2018. Thus an event of default under the credit facility agreement took place, and the full liability was shown in the balance sheet of the Polenergia Group under the Group's current liabilities. The Company commenced negotiations with the financing bank, as a result of which the credit facility agreement was annexed and repayment schedule modified. Benefiting from the resumed growth in demand for pellets, the Company conducts its business based on short-term transaction agreements concluded with Enea Elektrownia Połaniec. Revenues generated on operating activity allow for securing ongoing debt service.

The Company is financed under a project finance model, with no recourse to the Group. In 2018 an impairment loss on assets of Polenergia Biomasa Energetyczna Wschód was recognised. Discussions are conducted with prospective investors in cooperation with the financing bank.

At the end Q1 2018, subsidiaries Amon Sp. z o.o. and Talia Sp. z o.o. failed to meet financial covenants. As a result of an agreement concluded on 28 June 2018 with the financing banks' syndicate, the conditions of the credit facility agreement were adapted to the projects' financial situation. After the conclusion of the agreement Amon and Talia met the financial covenants provided for in the amended credit facility agreement.

For details of the default on covenants, refer to Note 28 to the Consolidated financial statements.

Risk of credit facility agreements

The contracted credit facilities provide for a number of financial covenants which have to be met by individual projects, and the defaulting on which may result in immediate maturity and/or increased costs of financing.

The Group constantly monitors the debt ratios and the risk of default under credit facility agreements in individual companies, keeping in touch with the financing institutions. Due to the deteriorating situation on the market of electricity and green certificates in the years 2016-2017, the Group successfully completed debt reprofiling with respect to part of its wind farm projects, as discussed below.

On 28 June 2018, the Company's subsidiaries, i.e. Amon Sp. z o.o. with registered office in Łebcz ("Amon") and Talia Sp. z o.o. with registered office in Łebcz ("Talia") agreed and signed agreements with a financing syndicate (Raiffeisen Bank Polska S.A., Bank Zachodni WBK S.A., DNB Bank Polska S.A. Powszechna Kasa Oszczędności Bank Polski S.A.) amending investment credit facilities of 1 June 2010, originally concluded in connection with execution of a project which consisted in construction of Łukaszów Wind Farm and Modlikowice Wind Farm, with an aggregate installed capacity of 58 MW. The objective of introduced changes was to stabilise the financial standing of Amon and Talia in a long run by partial loan prepayment from the funds gathered on the Debt Service Reserve Account ("DSRA"), reducing principal-interest instalments set out in the loan service schedule and adapting existing securities to currently applicable regulations and borrowers' standing. After concluding the above mentioned amendment agreements, the outstanding amount, following prepayment from DSRA stipulated in the documents, was ca. PLN 179m. Financial documents schedule debt service until December 2026. The credit facility bears interest at WIBOR rate increased by the banks' margin. As a result of signing the above agreement, Amon and Talia's loans were shown under non-current liabilities in the part for repayment after 31 December 2019. Introduced modifications were necessary given the market situation, specifically the price level of green certificates and electricity. Amon and Talia were a party to long-term agreements for the receipt of electricity and green certificates, in which the recipient was a subsidiary of the group Tauron Polska Energia S.A. ("Tauron"). The agreements were terminated by the contracting partner, as a result of which Amon and Talia brought action against Tauron.

On 12 July 2018, the Company's subsidiaries, i.e. Polenergia – Farma Wiatrowa 1 Sp. z o.o. with registered office in Warsaw, Polenergia – Farma Wiatrowa 4 Sp. z o.o. with registered office in Warsaw, Polenergia – Farma Wiatrowa 6 Sp. z o.o. with registered office in Warsaw (jointly: "GSR") concluded agreements with a financing syndicate (European Bank of Reconstruction and Development, Bank Ochrony Środowiska S.A.) amending investment credit facilities of 4 October 2013, originally concluded by GSR in connection with execution of a project which consisted in construction of Gawłowice Wind Farm, Skurpie Wind Farm and Rajgród Wind Farm, with an aggregate installed capacity of 117.3 MW. The companies are parties to long-term agreements for the receipt of electricity and green certificates, in which the recipient is Polenergia Obrót S.A.

Given the changed market situation, in particular the decrease of green certificate prices, low level of electricity prices observed on the turn of 2017, and uncertainty concerning the amount of real estate tax charges, the Companies initiated a process of renegotiation of the above loan agreements. The discussions allowed to reduce the total prices applicable in intra-group agreements on the receipt of electricity and green certificates and to change the debt service schedule, which improved the Issuer's standing.

The agreement concluded on 12 July 2018 between the European Bank of Reconstruction and Development, Bank Ochrony Środowiska S.A., the Company and GSR, amended the loan agreements and other relevant financing documents concerning the investment credit facility contracted by the Companies. A prerequisite for the above mentioned agreement to become effective was to make debt prepayment, stipulated therein, in the amount of PLN 23.7m. The financial documents provide for an extension of the above described loan service schedule by three years, i.e. until December 2032. The credit facility bears interest at WIBOR rate increased by the banks' margin.

Furthermore, due to the reduction of GSR debt schedule resulting from concluding the above agreement, the following agreements were amended on 12 July 2018: agreements between Polenergia Obrót S.A. and GSR on the sale of electricity generated from renewable energy sources, agreements on sale of GSR' property rights incorporated in green certificates due to electricity being generated in a renewable energy source and agreements on provision of commercial balancing services. The change concerned the price of supplied electricity, green certificates and the cost of commercial balancing, as well as the term of agreements, which was extended by 3 years.

It should be noted that the above described change of loan agreements does not affect the way in which loans are presented in the Consolidated statements of the Polenergia Group.

Due to the situation on the biomass market, Grupa PEP – Biomasa Energetyczna Wschód Sp. z o.o. with registered office in Warsaw, which operates a pellet production plant in Zamość, did not reach the level of DSCR financial ratio required under the investment credit facility agreement. The project's investment credit facility, in view of the requirements imposed by the accounting standards, was reported in the balance sheet of the Polenergia Group in full in the Group's short-term liabilities.

Risk related to financial standing of customers

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

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

Risk concerning the dispute with Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. and Tauron Polska Energia S.A.

The Company's subsidiaries – Amon Sp. z o.o. and Talia Sp. z o.o., each of them acting individually, brought court action to declare invalid the termination notices issued by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o.(company operating in the Tauron Group) under:

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

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

Thereafter, Amon Sp. z o.o. and Talia Sp. z o.o. changed their actions in such way that in addition to the original claim they brought a new claim, seeking payment of damages for failure to perform, alternatively, for undue performance of the said Agreements, and next they extended the said claim to subsequent periods of non-performance by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o.. Consequently, Amon Sp. z o.o. is currently seeking payment of PLN 40,478 thousand, and Talia Sp. z o.o. of PLN 26,769 thousand. The assumption is that an analogous extension will be made as further claims originate in subsequent periods arising from the above mentioned agreements.

This did not result in Amon and Talia being unable to sell the electricity and certificates of origin, because electricity can be sold to an obligated supplier at a price determined by the President of URE, and green certificates can be sold through the power exchange or otherwise to other parties. Also, market prices are volatile. As it is not possible to foresee future market prices, the consequences of the change of the customer for electricity and green certificates sold by Talia and Amon - cannot be reliably predicted. The matters are ongoing.

At the end of April, Amon sp. z o.o. and Talia sp. z o.o. brought action against Tauron Polska Energia S.A. in connection with a breach of long-term agreements of sale of energy and property rights concluded by Tauron's subsidiary – Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. - with Amon and Talia.

Amon seeks payment of the amount of PLN 47,556,025.51 by way of damages with interest and costs of proceedings and determination of Tauron's liability for future losses, the amount of which was estimated at over PLN 158m, therefore the value of the matter in dispute with respect to claims asserted by Amon exceeds PLN 205m.

Talia seeks payment of the amount of PLN 31,299,188.52 by way of damages with interest and costs of proceedings and determination of Tauron's liability for future losses, the amount of which was estimated at nearly PLN 107m, therefore the value of the matter in dispute with respect to claims asserted by Talia exceeds PLN 138m.

In the opinion of Amon and Talia, Tauron – as the sole shareholder in PKH and as the entity which took measures aimed at terminating long-term agreements, giving groundless notices on the termination of these agreements and PKH's discontinuation of energy and property rights purchases under these agreements, and as an entity which entrusted specific actions to PKH and its liquidators and knowingly benefited from the damage caused to Amon and Talia – is responsible for the damage suffered and still being suffered by Amon and Talia in connection with the breach of the long-term agreements. Thus, in the assessment of Amon and Talia, their claims are viable and deserve to be awarded in conformity with the action brought by both companies.

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

Risk related to customers' actions

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

Due to the nature of its business which involves supplying electricity to end consumers, the Company's subsidiary, Polenergia Dystrybucja Sp. z o.o., is enforcing claims against a number of customers in relation to sale and distribution of electricity, for a total amount of approximately PLN 360 thousand. The above amount is not reflected in the company's statement of financial position. Furthermore, Polenergia Dystrybucja Sp. z o.o. filed a claim against one of its electricity suppliers, demanding a refund of overpayments for delivered electricity. The amount of the claim is approximately PLN 550 thousand. The defendant recognised the claim, but also filed for a set-off of receivables for energy supplied in a different period. Polenergia Dystrybucja Sp. z o.o. regards the defendant's counterclaim as groundless and believes to have paid the supplier all amounts due from it for the energy supplied. On 4 September 2018 the Regional Court in Gdańsk adjudged the claim in full in favour of Polenergia Dystrybucja Sp. z o.o. An appeal was filed from the said judgment, with respect to part of the judgment, therefore the award of the remaining part of the claim in the amount over PLN 171 thousand in favour of Polenergia Dystrybucja Sp. z o.o. became final.

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

Moreover, the Company's subsidiary Elektrownia Północ Sp. z o.o. is in dispute with the other party to a preliminary property sale agreement, seeking to oblige that party to execute the final sale agreement. On 5 September 2018 the Regional Court in Gdańsk dismissed the action in its judgment. Polenergia Elektrownia Północ Sp. z o.o. had initiated proceedings against the same party for payment of penalty for breach of contract. The amount in dispute was PLN 100 thousand. The proceeding ended with a judgment of the Court of Appeal in Gdańsk of 7 February 2018 which dismissed the defendant's appeal. Enforcement proceedings, conducted on the basis of the judgment, allowed collecting of nearly full amount of debt but PLN 8 thousand.

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

Seasonality risk

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

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

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

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

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

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

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

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

Risk related to loss of key personnel

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

The risk of loss of key personnel is mitigated through:

- a strong corporate culture at Polenergia S.A., ensuring employee loyalty to the Group.
- a remuneration system that serves to incentivise staff and reward loyalty, and,
- knowledge management and extensive training programmes.

Operating risk in facilities

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

Risk related to application of hedge accounting to cash flow hedges

As at 31 December 2018, the Group held the following interest rate hedging instruments for cash flow hedge accounting purposes:

Maturity date of the hedging instrument	Value of the hedge (PLN '000)	Interest rate hedged	Instrument
29/04/2019	9,108	4.95%	IRS
15/06/2021	124,975	3.00%	IRS

The fair value of the hedging instrument as at the reporting date was PLN 3,581 thousand, disclosed in long term liabilities.

The purpose of the hedging transactions is to mitigate the effect of interest rate movements on future, highly probable credit instalment payments.

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

As at 31 December 2018, the Group recognised PLN 642 thousand (2017: PLN 2,311 thousand) in total income being a component of equity, on account of the effective portion of the hedging instrument's fair value.

14. 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 WSE 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

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

The Group does not have in place any remuneration or diversity policy. The Group does not broadcast its General Meetings as this is not justified by the shareholding structure or expectations of shareholders notified to the Group. The Group's Statutes do not provide for the option to cast votes at the General Meeting by post, nor is it possible to vote by means of remote communication.

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

The Management Board is responsible for the 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 Department, under the supervision of the Chief Financial and Administration Officer, who is also a Management Board member.

All financial data contained in the financial statements is sourced from the financial and accounting system, in which all business events are recorded in accordance with the Group'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 authorised persons in terms of their formal, accounting and factual correctness.

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

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

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

Prior to publication, 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 Group prepares management reports including an analysis of key financial data and ratios and a comparison of current financial performance with the adopted budget, along with an explanation of material deviations from the budget, if any. Every quarter, management reports are distributed among the members of the Management and Supervisory Boards.

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

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

d) Shareholders holding directly or indirectly major holdings of shares, along with an indication of the numbers of shares and percentages of the 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	Kulczyk Holding Sarl*	23 467 043	23 467 043	51,64%
2	China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF**	7 266 122	7 266 122	15,99%
3	NN OFE	2 576 969	2 576 969	5,67%
4	Generali OFE	2 981 728	2 981 728	6,56%
5	Aviva OFE	3 732 000	3 732 000	8,21%
6	Others	5 419 685	5 419 685	11,93%
	Total	**45 443 547**	**45 443 547**	100,00%

*) On 3 July 2018, Dominika Kulczyk entered into an agreement whereby she acquired 100% of shares in Kulczyk Holding S.à r.l., a Luxembourg law company, from Kulczyk Investments S.A., a Luxembourg law company (“KI”) which holds 100% of shares in Mansa Investments Sp. z o.o.

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

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

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

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

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 systems whereby, with the Company’s cooperation, the financial rights attaching to securities are separated from the holding of securities.

g) Any restrictions on transfer of ownership rights to the 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 authorised 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 authorisation of the persons granting the power of proxy to represent the shareholder should be attached.

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

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

Key powers of the General Meeting

The powers of the General Meeting are stipulated in Art. 20.1. of the Company's 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 accounts;

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

f) changing the Company's business objects;

g) amending the Company's 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 authorised 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 activities of the Issuer's management, supervisory or administrative bodies and of their committees; changes in their composition over the last financial year

<u>Supervisory Board</u>

Composition

No.	Name and surname	Position
1.	Dominika Kulczyk	Chair of the Supervisory Board
2.	Hans Schweickardt	Deputy Chairman of the Supervisory Board
3.	Arkadiusz Jastrzębski	Member of the Supervisory Board
4.	Marta Schmude - Olczak	Member of the Supervisory Board
5.	Orest Nazaruk	Member of the Supervisory Board
6.	Brian Bode	Member of the Supervisory Board
7.	Michał Kawa	Member of the Supervisory Board until 7.01.2019
8.	Kajetan D'Obyrn	Member of the Supervisory Board until 8.01.2019
9.	Marjolein Helder	Member of the Supervisory Board from 8.01.2019
10.	Sebastian Kulczyk	Member of the Supervisory Board from 8.01.2019

On 6 July 2018, the Management Board of Polenergia S.A. received resignations from the functions of members of the Supervisory Board from Mr Tomasz Mikołajczak, Mr Łukasz Rędziniak, Mr Dominik Libicki, Mr Mariusz Nowak and Mr Dawid Jakubowicz. All the above mentioned persons filed resignations from the functions of members of the Supervisory Board effective as of 12 July 2018.

On 13 July 2018, an Extraordinary General Meeting of the Company appointed five members of the Supervisory Board, i.e. Ms Dominika Kulczyk, Ms Marta Schmude – Olczak, Mr Hans Schweickardt, Mr Kajetan D'Obyrn and Mr Michał Kawa.

On 19 July 2018, a resignation from the function of a member of the Supervisory Board of the Company was received from Ms Dagmara Gorzelana.

On 7 January 2019, a resignation from the function of a member of the Supervisory Board of the Company was received from Mr Michał Kawa.

On 8 January 2019, an Extraordinary General Meeting of the Company removed Mr Kajetan D'Obyrn from the composition of the Supervisory Board and appointed Ms Marjolein Helder and Mr Sebastian Kulczyk as members 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 - uninterruptedly, for a period of more than two years at the time of exercising their right - has the right to appoint and remove two 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 a stake of at least 33% of Company shares for a longer period of time;

b) China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF of Luxembourg, the Grand Duchy of Luxembourg, (the 'Fund') has the right to appoint and remove one member of the Supervisory Board by submitting to the Company a relevant written statement;

c) other members of the Supervisory Board are appointed and removed by the General Meeting;

d) the right to appoint and remove members of the Supervisory Board referred to in a) and b) above may not be exercised jointly by the same entity or entities which are members of a single group.

At least two members of the Supervisory Board should meet the independence criteria described in the Code of Best Practice for WSE Listed Companies, attached as an Appendix to Resolution No. 19/1307/2012 of the WSE Board of 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 Audit Committee

No.	Name and surname	Position

1.	Orest Nazaruk	Chairman of the Audit Committee
2.	Brian Bode	Member of the Audit Committee
3.	Michał Kawa	Member of the Audit Committee until 7.01.2019
4.	Hans Schweickhardt	Member of the Audit Committee from 7.01.2019

Following the resignation of Mr Dawid Jakubowicz from the function of a member of the Supervisory Board, Mr Michał Kawa, appointed as a Supervisory Board member on 13 July 2018, joined the Audit Committee.

Following the resignation of Mr Michał Kawa from the function of a member of the Supervisory Board, Mr Hans Schweickardt, appointed as a Supervisory Board member on 13 July 2018, joined the Audit Committee.

Information on the Audit Committee

Mr Orest Nazaruk and Mr Brian Bode meet the independence criteria defined in the Act on Auditors. Mr Orest Nazaruk has knowledge in the field of audits of financial statements and accounting, he also has knowledge and qualifications in the sector in which the Company operates.
The audit firm which audited the financial statements, in 2018 provided additional, permitted services consisting in a review of interim financial statements and confirming the fulfilment of concluded loan agreements on the basis of analyses of financial information derived from audited financial statements.

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

- reputation and experience in provision of audit services;
- prior experience (negative/positive) from 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 minimising the costs and audit-related organizational effort of the Polenergia Group;

The recommendation on the selection of the audit firm to carry out the audit fulfilled the applicable conditions.
Din the last financial year the Audit Committee met three times.

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, on draft resolutions proposed to the General Meeting and on other important materials presented to shareholders in connection with the General Meeting;

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

A "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 at the middle rate quoted by the National Bank of Poland for the transaction date (the "NBP exchange rate"), on a company, business or venture that is not a Project;

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

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

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

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

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

j) when all members of the Management Board have been removed from office or suspended from duties or when the Management Board is unable to operate for other reasons, delegation of one or more Supervisory Board members to temporarily perform the duties of the Management Board;

k) granting consent for sale, lease, exchange, or other disposal of the Company's assets, including the Company's interest in a Project, as part of a single transaction or a series of related transactions, with a market value exceeding the equivalent of USD 100,000 (one hundred thousand US dollars), as calculated at the NBP exchange rate;

l) granting consent to the Company for the taking out of bank loans, taking out or advancing of other loans, and taking on other debt, save for (i) liabilities incurred in the ordinary course of business in respect of the provision of services or the delivery of goods, (ii) taxes not yet due and payable, (iii) other current liabilities, where the portion not provided for in the Company's approved budget does not exceed the PLN equivalent of USD 250,000 (two hundred and fifty thousand US dollars), as translated at the NBP exchange rate;

m) granting consent to the Company for incurring expenditure in an amount exceeding the PLN equivalent of USD 250,000.00 (two hundred and fifty thousand US dollars), as translated at the NBP exchange rate, as part of a single transaction or series of related transactions, other than expenditure provided for in the Company's approved annual budget or arising in the Company's ordinary course of business, with the proviso that capital expenditure is not treated as expenditure incurred in the Company's ordinary course of business;

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

i) an entity in which the Company holds, directly or indirectly, shares or other equity interests, unless the shares or equity interests represent 100% (one hundred per cent) of the share capital of such entity;

ii) a member of the Company's Management Board;

Iii) a member of the Company's Supervisory Board;

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;

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

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

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

u) granting consent for the execution, material amendment or termination of an agreement with a value exceeding the PLN equivalent of USD 500,000 (five hundred thousand US dollars), as translated at the NBP exchange rate, and which is made for the provision of energy services, purchase of energy, facility management, lease of assets, turn-key procurement and delivery, equipment maintenance and operation, contracting a bank loan or other borrowings or supply of fuel, as well as any other agreements relating to a Project involving the Company, including any changes to orders under turn-key procurement and delivery agreements, unless any of the above is provided for in the Company's approved budget;

w) approving the terms and conditions of project financing and any material amendments to such terms and conditions;

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

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

Management Board

Composition

No.	Name and surname	Position
1.	Jacek Głowacki	President of the Management Board until 23.01.2019
2.	Michał Michalski	Management Board Member, President of the Management Board since 23.01.2019

3.	Robert Nowak	Management Board Member
4.	Iwona Sierżęga	Management Board Member since 23.01.2019

On 9 April 2018, the Supervisory Board appointed the Company's Deputy President, Mr Jacek Głowacki, to the position of the President of the Management Board of the Company.

On 9 April 2018, Mr Bartłomiej Dujczyński submitted his resignation from the position of a Management Board member.

On 8 August 2018, Mr Robert Nowak and Mr Jacek Suchenek were appointed to the positions of Management Board members.

On 30 November 2018, Mr Jacek Suchenek submitted his resignation from the position of a Management Board member.

On 23 January 2019, the Company received a resignation from Mr Jacek Głowacki from the position of the President of the Management Board. At the same time the Company's Supervisory Board, at a meeting held on 23 January 2019, appointed Mr Michał Michalski to the position of the President of the Management Board and Ms Iwona Sierżęga to the position of Management Board member.

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

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

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

b. two or more proceedings regarding liabilities and receivables, the total value of which is respectively at least 10% of the Issuer's equity, specifying the total value of proceedings separately in the group of liabilities and receivables, together with the Issuer's position in this case and, regarding the largest proceedings in the group of liabilities and the group of receivables – with an indication of their subject, the value of the subject of the dispute, the date of initiation of the proceedings and parties to the proceedings

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

c. other proceedings

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

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

This did not result in Amon and Talia being unable to sell the electricity and certificates of origin, because electricity can be sold to an obligated supplier at a price determined by the President of URE, and green certificates can be sold through the power exchange or otherwise to other parties. Also, market prices are volatile. As it is not possible to foresee future market prices, the consequences of the change of the customer for electricity and green certificates sold by the subsidiaries - Talia and Amon - cannot be reliably predicted. The proceedings are pending.

At the end of April, the Company's subsidiaries, Amon sp. z o.o. and Talia sp. z o.o., brought action against Tauron Polska Energia S.A. in connection with a breach of long-term agreements of sale of energy and property rights concluded by Tauron's subsidiary – Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. - with Amon and Talia.

Amon seeks payment of the amount of PLN 47,556,025.51 by way of damages with interest and costs of proceedings and determination of Tauron's liability for future losses, the amount of which was estimated at over PLN 158m, therefore the value of the matter in dispute with respect to claims asserted by Amon exceeds PLN 205m.

Talia seeks payment of the amount of PLN 31,299,188.52 by way of damages with interest and costs of proceedings and determination of Tauron's liability for future losses, the amount of which was estimated at nearly PLN 107m, therefore the value of the matter in dispute with respect to claims asserted by Talia exceeds PLN 138m.

In the opinion of Amon and Talia, Tauron – as the sole shareholder in PKH and as the entity which took measures aimed at terminating long-term agreements, giving groundless notices on the termination of these agreements and PKH's discontinuation of energy and property rights purchases under these agreements, and as an entity which entrusted specific actions to PKH and its liquidators and knowingly benefited from the damage caused to Amon and Talia – is responsible for the damage suffered and still being suffered by Amon and Talia in connection with the breach of the long-term agreements. Thus, in the assessment of Amon and Talia, their claims are viable and deserve to be awarded in conformity with the action brought by both companies.

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

The Company's subsidiary – Biomasa Energetyczna Północ Sp. z o.o. is seeking receivables of approximately PLN 420,000. The above amount is not reflected in the company's statement of financial position.

Due to the nature of its business which involves supplying electricity to end consumers, the Company's subsidiary, Polenergia Dystrybucja Sp. z o.o., is enforcing claims against a number of customers in relation to sale and distribution of electricity, The aggregate value of asserted claims is ca. PLN 360,000. The above amount is not reflected in the company's statement of financial position. Furthermore, Polenergia Dystrybucja Sp. z o.o. filed a claim against one of its electricity suppliers, demanding a refund of overpayments for delivered electricity. The amount of the claim is approximately PLN 550 thousand. The defendant recognised the claim, but also filed for a set-off of receivables for energy supplied in a different period. Polenergia Dystrybucja Sp. z o.o. regards the defendant's counterclaim as groundless and believes to have paid the supplier all amounts due from it for the energy supplied. On 4 September 2018 the Regional Court in Gdańsk adjudged the claim in full in favour of Polenergia Dystrybucja Sp. z o.o. An appeal was filed from the said judgment, with respect to part of the judgment, therefore the award of the remaining part of the claim in the amount over PLN 171.000 in favour of Polenergia Dystrybucja Sp. z o.o. became final.

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

Moreover, the Company's subsidiary Polenergia Elektrownia Północ Sp. z o.o. is in dispute with the other party to a preliminary property sale agreement, seeking to oblige that party to execute the final sale agreement. On 5 September 2018 the Regional Court in Gdańsk dismissed the action in its judgment. Elektrownia Północ Sp. z o.o. had initiated proceedings against the same party for payment of penalty for breach of contract. The amount in dispute was PLN 100,000. The proceeding ended with a judgment of the Court of Appeal in Gdańsk of 7 February 2018 which dismissed the defendant's appeal. Enforcement proceedings, conducted on the basis of the judgment, allowed collecting of nearly full amount of debt but PLN 8,000.

16. 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 PRODUCT SALES REVENUE (BY TYPE OF BUSINESS) [PLN M]		2018-12-31	2017-12-31	Change
Net revenues from sale of energy		2 848,7	2 179,1	669,6
Electricity volume sold	[MWh]	15 236 720,1	13 710 027,3	1 526 692,8
Net revenue from electricity distribution		45,8	45,0	0,8
Electricity volume distributed	[MWh]	294 752,3	290 462,3	4 290,0
Net revenue from certificates of origin		77,1	62,2	14,9
Number of certificates (green certificates) sold	[MWh]	1 014 293,8	1 149 168,2	-134 874,4
Number of certificates (yellow certificates) sold	[MWh]	122 353,7	124 091,1	-1 737,4
Net revenue from sale of CO2 emission allowance		8,8	23,0	-14,2
Quantitu of emission allowance sold	[t CO2]	512 840,0	1 076 000,0	-563 160,0
Net revenues from sale of heat		21,2	20,3	0,9
Volume of heat sold	[GJ]	433 182,5	447 411,6	-14 229,1
Net revenue from consulting projects		3,4	2,2	1,2
Rrevenue from lease and operator services		0,9	2,0	-1,1
Revenue from sale of merchandise		0,9	4,0	-3,1
Revenue from sale of pellets		16,9	26,4	-9,5
Revenue from stranded costs and cost of gas		174,3	109,1	65,2
Net revenue from sale of gas		238,5	270,7	-32,2
Volume of gas sold	[MWh]	2 584 536,2	3 413 587,5	-829 051,3
Net revenue from distribution of gas		5,8	6,5	-0,7
Volume of gas distributed	[MWh]	311 423,0	401 668,0	-90 245,0
Other revenues		6,4	11,9	-5,5
Total net revenues from sale of products		3 448,7	2 762,4	686,3

17. 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 Group generates revenues from sales of goods and services both on domestic and foreign markets, while revenues generated in Poland represent a vast majority (89% in 2018).

GEOGRAPHICAL DISTRIBUTION OF REVENUE

	For 12 months ended		Change
	2018-12-31	2017-12-31	yoy
- Domestic market	3 079 209	2 405 623	673 586
- International markets	369 503	356 755	12 748
Total revenue	**3 448 712**	**2 762 378**	**686 334**

For details of geographic revenue distribution, see Note 32 to the Consolidated financial statements.

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

Customer	Transaction	Type of link with the Group	2018

Warsaw Commodity Clearing House	Electricity, property rights	no link	59%

The main raw materials used by the Group to produce heat, electricity and biomass pellets are currently natural gas and straw.
The Group is not dependent on any single straw supplier. The Group purchases natural gas from PGNiG S.A., but is also able to purchase gas fuel on the free market. The Group is dependent on the transmission networks of the PGNIG Group.

Below are presented other suppliers of goods and services which accounted for 10% or more of the Group's total revenue in 2018.

Supplier	Goods purchased	Type of link with the Group	2018
Warsaw Commodity Clearing House	Electricity, property rights	no link	50%

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

In compliance with the requirements set out in the Minister of Finance's Regulation dated 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.

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

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

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

For related-party transactions, see Note 44 to the Separate financial statements.

21. 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 bank and other borrowings, see Note 28 to the Consolidated financial statements.

22. 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 Notes 17 and 39.1 to the Separate financial statements.

23. 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 29.1 to the Separate financial statements and Note 31.1 to the Consolidated financial statements.

The sureties and guarantees obtained are presented below:

Responsible entity/issuer of surety or guarantee	Basis	Value	Period
KSG Agro Polska Sp. z o.o./KSG Agro SA	Licence agreement	-	31/12/2025
Consortium of ERBUD SA & PBDI SA/ Sopockie Towarzystwo Ubezpieczeniowe Ergo Hestia	Construction work contract – construction of Gawłowice Wind Farm	PLN 1,648,755.75	13/12/2019
Consortium of ERBUD SA & PBDI SA/ Sopockie Towarzystwo Ubezpieczeniowe Ergo Hestia	Construction work contract – extension of Gawłowice Wind Farm	PLN 225,217.87	09/12/2020
Electrum sp. z o.o. /PKO Bank Polski SA	Electrical work contract – extension of Gawłowice Wind Farm	PLN 30,743.85	until 16/04/2019
Consortium of ERBUD SA & PBDI SA/ Sopockie Towarzystwo Ubezpieczeniowe Ergo Hestia	Construction work contract – construction of Rajgród Wind Farm	PLN 966,07.76	27/12/2019
Siemens sp. z o.o./ Siemens Aktiengesellschaft	Turbine supply contract – Gawłowice Wind Farm	25% of contract value	20/02/2020
Siemens sp. z o.o./ Siemens Aktiengesellschaft	Turbine supply contract – Rajgród Wind Farm	25% of contract value	29/12/2019
Siemens sp. z o.o./ Siemens Aktiengesellschaft	Turbine supply contract – Skurpie Wind Farm	25% of contract value	20/11/2020
Electrum sp. z o.o. / PKO Bank Polski SA	Electrical work contract – construction of Skurpie Wind Farm	PLN 1,209,705.00	until 31/01/2019

Responsible entity/issuer of surety or guarantee	Basis	Value	Period
Electrum sp. z o.o. / PKO Bank Polski SA	Electrical work contract – extension of Skurpie Wind Farm	PLN 61,856.70	until 15/01/2019
Consortium: ERBUD SA & PBDI SA/ Sopockie TU Ergo Hestia	Construction work contract – construction of Skurpie Wind Farm	PLN 1,305,296.00	29/09/2020
Consortium: ERBUD SA & PBDI SA/ Sopockie TU Ergo Hestia	Construction work contract – extension of Skurpie Wind Farm	PLN 170,532.42	30/11/2020
Consortium of ERBUD S.A. & PBDI S.A. / Sopockie Towarzystwo Ubezpieczeniowe Ergo Hestia	Construction work contract – warranty for defects in Mycielin Wind Farm	PLN 3,627,449.50	10/07/2021
Polenergia Obrót SA./ Kulczyk Investment for CEZ	Guarantee for concluded trade contracts of Polenergia Obrót S.A.	EUR 1,000,000.00	31/01/2018, however it remains valid for the contracts concluded prior to that the above expiry date; the last contract expires on 31.01.2020
Polenergia Obrót SA./ Kulczyk Investment for ENEA	Guarantee for concluded trade contracts of Polenergia Obrót S.A.	PLN 5,000,000.00	05/07/2018, however it remains valid for the contracts concluded prior to that the above expiry date; the last contract expires on 31.01.2020
Polenergia Obrót SA./ Kulczyk Investment for EDF	Guarantee for concluded trade contracts of Polenergia Obrót S.A.	1,000,000.00 EUR	31/03/2019
Righr Power as/ TRMEW	Trade contract sureties – Polenergia Obrót S.A.	PLN 2,000,000.00	31/12/2020
Alpiq AG/ Alpiq Energy SE	Trade contract sureties – Polenergia Obrót S.A.	PLN 7,000,000.00	31/03/2020

Responsible entity/issuer of surety or guarantee	Basis	Value	Period
ENEA Trading Sp. z o.o./ENA S.A.	Surety for liabilities under the Framework Contract for sale of electricity to Polenergia Obrót S.A.	PLN 5,000,000.00	30/06/2019
Freepoint Commodities Europe LLP / Freepoint Commodities LLC	Trade contract – Polenergia Obrót S.A.	EUR 5,000,000.00	unspecified
ELEKTRIX / mBank	Trade contract with Polenergia Obrót S.A.	PLN 300,00.00	31/01/2019
Control Process S.A.	Alior Bank	PLN 1,600,000.00	19/12/2019
ZPUE S.A./Bank Zachodni WBK	Contract for design and execution - Polenergia Dystrybucja	PLN 187,500.00	31/12/2019
ZPUE S.A./Bank Zachodni WBK	Contract for design and execution - Polenergia Dystrybucja	PLN 15,200.00	31/05/2020
PGNiG Obrót Detaliczny SP. z o.o./Bank Gospodarstwa Krajowego	Contract DPG-POLK-PGNiG-2016 for gaseous fuel distribution - Polenergia Kogeneracja Sp. z o.o.	PLN 1,427,731.00	30/09/2019

24. 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.

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

The Company does not publish performance forecasts for a given year.

26. 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. All liabilities of the Issuer and the Group are settled in a timely manner.

On the other hand, volatility in prices of electricity and green certificates may 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. For details on the guarantees, see Note 29.1 to the Separate financial statements.

27. 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 31 December 2018, the Group planned to spend an estimated total amount of ca. PLN 77m on property, plant and equipment in 2019. The amount will largely be allocated to an investment programme in the distribution segment and PV and on project development, including in offshore and onshore wind power generation. In case decision on construction of onshore wind farms is made, the amount of expenditure may increase.

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.

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

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

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

External and internal factors affecting the Group's growth

More information on the Issuer's growth prospects in the context of changes in its business environment and the new RES Act is presented in the section concerning risk factors and on 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 optimising its operating costs and improving asset efficiency,
- developing new projects, particularly offshore wind power projects and maintaining and developing its portfolio of onshore wind farms, with respect to which participation in further auctioning is not ruled out and continuing the biomass segment restructuring,
- developing new projects in photovoltaics, including construction of projects that won auctions in 2018 and preparing further projects to participate in 2019 auctions,
- 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.

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

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

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

In the financial year 2018, there were no changes to the basic management rules of the Issuer or its Group.

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

Mr Robert Nowak is party to an employment contract concluded with the Company. The contract is for an indefinite term. It may be terminated upon three months' notice. Furthermore, Mr Robert Nowak is a party to a non-competition agreement that obliges the Company to pay him an amount equal to100% of his remuneration for 12 months as compensation for refraining from any activities that would compete with the Company's business.

Mr Michał Michalski is party to an employment contract concluded with the Company. The contract is for an indefinite term. It may be terminated upon 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.

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

For information on the remuneration of members of the Management and Supervisory Boards, see Note 47 to the Consolidated financial statements.

33. 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.

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

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

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

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

36. Employee stock ownership plan control system

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

37. Additional information on:

a) the date of entering into an agreement between the Issuer and an auditor on the audit or review of financial statements or Consolidated financial statements, and the term of the agreement

Agreement of 27 June 2018 between Polenergia S.A. and PricewaterhouseCoopers Sp. z o.o. sp. with its registered office at Al. Lecha Kaczyńskiego 14, Warsaw, Poland, providing for:

- review of the interim Separate and Consolidated financial statements for the periods ended 30 June 2018 and 30 June 2019.
- audit of the Separate and Consolidated financial statements for the years ended 31 December 2018 and 31 December 2019.

Moreover, individual Group companies concluded agreements with PricewaterhouseCoopers Sp. z o.o. with its registered office at Al. Lecha Kaczyńskiego 14 Warsaw, Poland, for the audit of their financial statements for the years ended 31 December 2018 and 31 December 2019.

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

In 2018, 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 fulfilment 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 audit firm is chosen by the Supervisory Board upon the recommendation from the Audit Committee.

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

For detailed information on the auditor's fees, see Note 49 to the Consolidated financial statements

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

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