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

Polenergia S.A. Group

DIRECTORS' REPORT ON THE OPERATIONS OF THE POLENERGIA GROUP FOR THE YEAR ENDED ON 31 DECEMBER 2019

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Warsaw, 9 March 2020

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1. Consolidated profit and loss account for a 12-month period ended on 31 December 2019

In 2019 the Polenergia Group's results in terms of the adjusted (normalized) EBITDA and net profit amounted to PLN 279.1m and PLN 115.7m, respectively, which means year on year growth of PLN 90.7m (48%) and PLN 81.0m (234%), respectively.

	Polenergia Group Income Statement (PLN m)	12M 2019	12M 2018	Difference YOY	Difference YOY [%]	Q4 2019	Q4 2018	Difference YOY	Difference YOY [%]
	Sales revenues, including:	**2 596,6**	**3 448,7**	**(852,1)**	**-25%**	**649,0**	**888,0**	**(239,0)**	**-27%**
	trading segment	1 952,8	2 843,2	(890,5)		482,5	709,5	(227,0)	
	other	643,8	605,5	38,3		166,5	178,5	(12,0)	
	Cost of goods sold, including:	**(2 384,4)**	**(3 319,5)**	**935,1**	**28%**	**(584,4)**	**(834,0)**	**249,6**	**30%**
	trading segment	(1 928,0)	(2 847,0)	919,0		(473,6)	(706,0)	232,3	
	other	(456,4)	(472,5)	16,0		(110,7)	(128,0)	17,3	
	Gross profit on sales	**212,1**	**129,2**	**82,9**	**64%**	**64,6**	**53,9**	**10,6**	**20%**
	Selling expenses and general overheads	(39,0)	(42,3)	3,4	8%	(12,1)	(11,8)	(0,3)	-3%
	Other operating revenue/expense	7,5	8,9	(1,4)	-16%	4,9	7,5	(2,5)	-34%
A	**Operating profit (EBIT)**	**180,6**	**95,8**	**84,9**	**89%**	**57,4**	**49,6**	**7,8**	**16%**
	Depreciation/Amortization	101,5	95,5	5,9		25,3	23,7	1,6	
	Impairment losses	17,2	9,8	7,4		16,2	(5,3)	21,5	
	Profit on loss of control over subsidiaries***	(20,2)	(12,0)	(8,2)		(20,2)	-	(20,2)	
	EBITDA	**279,1**	**189,1**	**90,0**	**48%**	**78,7**	**68,0**	**10,6**	**16%**
	Normalizing adjustments:								
	Purchase price allocation (PPA)	-	(0,7)	0,7	100%	-	-	-	
	Adjusted EBITDA*	**279,1**	**188,4**	**90,7**	**48%**	**78,7**	**68,0**	**10,6**	**16%**
B	Financial income	5,8	5,7	0,1		1,3	0,9	0,4	
C	Financial costs	(49,5)	(60,8)	11,3		(12,6)	(13,0)	0,3	
A+B+C	**Gross profit (loss)**	**136,9**	**40,7**	**96,2**	**236%**	**46,1**	**37,6**	**8,5**	**23%**
	Income tax	(27,8)	(37,3)	9,5	25%	(11,6)	(20,9)	9,3	45%
	Net profit (loss)	**109,0**	**3,4**	**105,7**	**3125%**	**34,5**	**16,6**	**17,8**	**107%**
	Normalizing adjustments:								
	Purchase price allocation (PPA)	8,2	7,7	0,6		2,1	2,1	-	
	Foreign exchange differences	0,0	0,1	(0,1)		(0,1)	(0,1)	0,0	
	Loan valuation using the amortized cost method	1,4	7,1	(5,7)		0,4	0,3	0,0	
	Impairment losses **	17,2	23,6	(6,4)		16,2	8,5	7,6	
	Net profit / loss on sale of offshore WF ***	(20,2)	(7,2)	(13,0)		(20,2)	-	(20,2)	
	Adjusted net profit (loss)*	**115,7**	**34,7**	**81,0**	**234%**	**32,8**	**27,5**	**5,3**	**19%**
	Adjusted EBITDA*	**279,1**	**188,4**	**90,7**	**48%**	**78,7**	**68,0**	**10,6**	**16%**
	Adjusted EBITDA Margin*	10,7%	5,5%	5,3%		12,1%	7,7%	4,5%	
	Adjusted EBITDA (excl. trading segment)	**264,3**	**204,4**	**59,9**	**29%**	**73,1**	**68,7**	**4,4**	**6%**
	Adjusted EBITDA margin (excl. trading segment)	41,1%	33,8%	7,3%		43,9%	38,5%	5,4%	

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

**) The reversal of impairment losses in Wind Farm and impairment loss of assets in Biomass and Conventional Energy in 2018 and impairment loss in Development segment in 2018 and 2019.

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

Sales revenues of the Group for 2019 were lower by PLN 852.1m due to lower revenues in the trading segment (by PLN 890.5m), partly offset by higher revenues mainly in the wind farm segment by PLN 62.4m.

The adjusted EBITDA in the period in question amounted to PLN 279.1m and exceeded by PLN 90.7m the one in the corresponding period of the preceding year, mainly due to better performance of the wind power segment (by PLN 83.0m) resulting from higher production volume and higher prices of electricity and green certificates, as well as due to better performance of the trading segment (by PLN 30.8m) resulting from higher electricity trading margin and performance on the wind farm portfolio. The growth of the adjusted EBITDA was partly offset by the drop in performance in the conventional energy segment by PLN 29.2m as a result of lower revenues from stranded costs compensation and gas costs compensation, as well as no revenues from yellow certificates after the expiration of the existing gas cogeneration support system.

In the fourth quarter of 2019, the Group's sales revenues dropped by 27% year on year, affected by lower sales revenues in the trading segment.

Adjusted EBITDA for said period amounted to PLN 78.7m, and was higher by PLN 10.6m year on year, due to a better performance of the wind power segment and the trading segment, partly offset by worse performance in the conventional energy segment.

2. Detailed comments regarding financial performance for the 12-month period ended on 31 December 2019 and other significant information on the position of the Group

In 2019 the wind power segment experienced a PLN 83.0m increase in EBITDA, with the EBITDA increase of PLN 24.8m in the fourth quarter alone. Better performance is mainly the consequence of higher production volumes and higher sales prices of electricity and green certificates, lower operating expenses (due to the provision for real estate tax for 2017 that was established in December 2018) and no lease costs in the EBITDA result as required by the change of the accounting standards (after IFRS 16 came into force). In addition, in 2019 the Group changed its accounting policy in terms of the disclosure of revenues from the certificates of origin granted by way of reducing the cost of goods sold (annual adjustment of PLN 11.5m was recognized in the fourth quarter).

EBITDA in the conventional energy segment dropped by PLN 29.2m, with the reduction by PLN 22.0m in the fourth quarter alone. The drop in performance results from lower revenues form stranded costs compensation mainly due to the change in allocation of such stranded costs compensation in December 2018, lower revenues from the gas costs compensation (change of the Wg index and lower adjustment of gas costs for 2018 recognized in July 2019) and lack of revenues from yellow certificates following the expiration, with the end of 2018, of the existing support system for gas cogeneration.

EBITDA for 2019 of the trading segment is higher by PLN 30.8m than the result of the preceding year, with EBITDA higher by PLN 6.3m only in the fourth quarter alone, due to better result on trading in electricity (better trading risk management and lower price volatility on the market), execution of the structured contract and higher margin on the wind farm portfolio (higher sales prices of green certificates and better performance on electricity as a result of the growth of volume). In addition, the result on the wind farm portfolio includes revaluation of the green certificate inventory. The above-mentioned phenomenon was partly compensated by lower performance on other contracts in view of the termination of a long-term contract with a third party for the trading services related to production assets.

EBITDA of the distribution segment was cumulatively higher by PLN 0.6m year on year which was mainly caused by higher distribution margin compensated for by lower other operating revenues and lower margin on sales of electricity. In the fourth quarter the result remained on the existing level as in a corresponding period of the preceding year.

Following the transfer of assets of Biomasa Południe and Biomasa Północ plants in 2018 and in view of the ongoing restructuring process in the biomass segment, the Group refrained from disclosing the result of the biomass segment in its financial reports under a separate item. The financial performance of Biomasa Wschód has been recorded under Unallocated item. Biomasa Wschód has been continuing its performance under the contracts for the delivery of pellet, with ongoing pursuit of the buyer for this plant.

The balance under Unallocated item in 2019 was higher by PLN 6.0m year on year predominantly due to higher EBITDA on biomass operations (by 3.7m) and lower costs resulting from the VAT adjustment for the period 12.2017-11.2018, lower costs of headquarters' third party services and the costs borne in 2018 as a result of the sale of interest in companies dealing with offshore wind farm projects and the exercise of two call options on shares. The balance under Unallocated item higher by PLN 1.9m in the fourth quarter stems mainly from the recognition of a higher performance (by PLN 1.3m) on biomass operations in connection with the stabilization on the biomass market and the restructuring process of the companies belonging to the biomass segment in progress since 2018, together with the sale of the assets of Biomasa Południe plant.

EBITDA of the development segment was similar to one achieved in the preceding year.

As a result of the foregoing events, the adjusted EBIDTA margin excepting the trading segment amounted to 41.1% and was higher by 7.3 percentage points higher than one recognized the preceding year. In the fourth quarter, in turn, this index amounted to 43.9% and was higher by 5.4pp year on year.

The result on financial operations in 2019 was better compared against the preceding year by PLN 11.3m predominantly due to lower finance costs (by PLN 11.3m). The reduction of the finance costs was mainly attributable to financial liabilities valuation (PLN 7.2m), in particular the loan valuation in Amon and Talia projects using the effective interest rate in the second quarter of 2018 following completion of debt reprofiling, and lower interest expense (by PLN 4.1m).

Lower income tax (by PLN 9.5 m) is mainly the result of lack of tax efficiency on transactions of sale of shares in offshore wind farm companies in 2018, no recognition of a deferred tax asset resulting, among others, from the impairment losses on assets and the revaluation of the green certificate inventory. In addition, in 2019 the Group settled the loss in Amon and Talia wind farms that had been written off earlier.

In addition, the net profit was impacted by impairment losses of non-financial fixed assets in the development and implementation activity segment amounting to PLN 17.2 m. Among others, in accordance with the communication of 30 December 2019 (current report 40/2019) following the analysis of risks connected with project implementation, it was decided to recognize an impairment loss of PLN 16m with respect to the company Polenergia Farma Wiatrowa Bądecz Sp. z o.o.

Other material information on the position of the Group

In 2019 new service contracts were entered into for five wind farms that permit extending the period of wind turbines servicing.

On 29 March 2019 Amon Sp. z o.o. and Talia Sp. z o.o. subsidiaries entered into service agreements with Siemens Gamesa Renewable Energy Sp. z o.o. for the term of 23 years. Execution of said agreements permits extending the service term of the wind turbines of the a/m wind farms up to 30 years.

On 8 May 2019 the subsidiaries Polenergia Farma Wiatrowa 1 Sp. z o.o., Polenergia Farma Wiatrowa 4 Sp. z o.o. and Polenergia Farma Wiatrowa 6 Sp. z o.o. signed annexes to the service agreements with Siemens Gamesa Renewable Energy Sp. z o.o. Said agreements cover the servicing of turbines until 31 January 2045 for the projects of Gawłowice, Rajgród and Skurpie. Execution of said annex permits extending the service term of the wind turbines of the a/m wind farms up to 30 years.

The year 2019 having come to an end, Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. subsidiary stopped benefiting from the gas cost compensation, with the stranded cost compensation continuing only for 5/12 of 2020. On 4 April 2019 Elektrociepłownia Nowa Sarzyna Sp. z o.o. entered into an agreement with the related party Polenergia Obrót S.A for the sale of electricity with a one-year term since 1.01.2020 until 31.12.2020. Also, on 4 April 2019, Elektrociepłownia Nowa Sarzyna, acting under the framework agreement with PGNiG Supply & Trading GmbH Sp. z o.o. Oddział w Polsce, entered into a contract for the supply of gas fuel with a one-year term since 1.01.2020 until 1.01.2021.

Biomass projects restructuring has been continued. The company Grupa PEP – Biomasa Energetyczna Południe Sp. z o.o. has been wound up, while the pursuit for the investing company for Polenergia Biomasa Energetyczna Wschód Sp. z o.o. is continued, in cooperation with the lending bank. The company Polenergia Biomasa Energetyczna Wschód Sp. z o.o. entered into agreements with Enea Elektrownia Połaniec and Energa Elektrownie Ostrołęka for the supply of pellet in 2020 and is currently preparing to participate in the tender for the supply in subsequent years. In addition, a memorandum of understanding was signed with the lending bank under which the investment loan repayment schedule was modified to reflect the company's position.

Litigation between Amon Sp. z o.o. and Talia Sp. z o.o. versus Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. is pending. Detailed information about the current status of litigation cases have been provided under section 15 hereof.

On 5 November Polenergia Farma Wiatrowa Szymankowo Sp. z o.o. subsidiary entered into loan agreements with the European Bank for Reconstruction and Development, mBank S.A. and ING Bank Śląski S.A., under which an investment loan totaling PLN 107,000,000 will be extended for the financing of construction of a wind farm and the VAT loan up to PLN 20,000,000 in the construction period.

In addition, Polenergia Farma Wiatrowa Szymankowo Sp. z o.o. entered into the agreements with:

- Siemens Gamesa Renewable Energy Sp. z o.o. and Siemens Gamesa Renewable Energy A/S for the delivery, deployment and launching of 11 wind turbines G132 HH 134 of 3.465 MW each (38.115 MW in total) whose delivery and deployment and the go-live of the wind farm have been envisaged for the period between August 2020 and March 2021;
- Siemens Gamesa Renewable Energy Sp. z o.o. for the servicing and availability of wind turbines providing for the performance of servicing said wind turbines for the 25-year period commencing on the go-live date;
- Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego S.A. for the construction of Szymankowo wind farm project.

On 19 December 2019 Polenergia Farma Wiatrowa 3 Sp. z o.o. subsidiary developing the Dębsk wind farm project with the target total capacity of 121 MW, Polenergia Farma Wiatrowa Szymankowo Sp. z o.o. subsidiary developing the Szymankowo project with the target total capacity of 38.1 MW and Polenergia Farma Wiatrowa Dębice/Kostomłoty Sp. z o.o subsidiary developing the Kostomłoty wind farm project with the target total capacity of 27 MW won the auction for the sale of energy from renewable energy sources and were granted the right to cover the negative balance with reference to the price for a part of the produced electricity quoted in the auction for a 15-year period. On the other hand, the subsidiaries Polenergia Farma Wiatrowa Piekło Sp. z o.o. and Polenergia Farma Wiatrowa 16 Sp. z o.o. developing a 13.2 MW Piekło wind farm project did not win the auction. The Group does not exclude participation of that project in the next auction.

On 22 October 2019 the subsidiary Farma Wiatrowa 17 Sp. z o.o. developing 8 photovoltaic power plants with total capacity of 8 MW, entered into a facility agreement with ING Bank Śląski S.A. for the term financing up to PLN 40,000,000 and the loan to service VAT payments up to PLN 4,500,000. The Bank will grant a loan to the Company to refinance the capital expenditures for the development of 8 photovoltaic farms with total capacity of 8 MW amounting to max. PLN 15,500,000 and will provide financing for the construction of further photovoltaic farms with total capacity of up to 12 MW (Sulechów II) and to service VAT payments up to PLN 29,000,000, subject to, among others, the successful bid of the project in the auction for renewable energy sources and subject to an investment decision regarding the project.

The construction of the Sulechów I project has been completed. An operating permit was issued for this project and the President of Energy Regulatory Office (URE) issued a license to the Company developing Sulechów I for the generation of electricity for the period 24 January 2020 - 31 December 2030.

On 20 December 2019 the subsidiaries Polenergia Farma Wiatrowa 17 Sp. z o.o. and Polenergia Farma Wiatrowa Grabowo Sp. z o.o. developing the Sulechów II and Sulechów III photovoltaic farm projects with the total capacity of 20.7 MW did not win the auction for the sale of energy from renewable energy sources. The Group intends to have three photovoltaic projects with the total capacity of ca. 29 MW ready to participate in the auction in 2020. Further projects with the capacity of ca. 80 MW are at their early stage of development.

On 26 February 2020 the subsidiaries Polenergia Farma Wiatrowa 23 Sp. z o.o. and Dipol Sp. Z o.o. entered into facilities agreement with mBank S.A. up to PLN 31,800,000 purposed to refinancing of Dipol

Sp. z o.o. outstanding debt, filling up debt service reserve accounts of Polenergia Farma Wiatrowa 23 Sp. z o.o. and Dipol Sp. z o.o., and refinancing of Polenergia S.A. equity contributed to Polenergia Farma Wiatrowa 23 Sp. z o.o. and Dipol Sp. z o.o. The loan agreement provide for the repayment of term loans no later than 7 years from facilities agreement signing date.

On 10 December 2019 Polskie Sieci Elektroenergetyczne S.A. published preliminary results of the main market capacity auction for the supply year 2024, which was concluded in round 5, with the closing price of PLN 256.87/1 kW/1 year. In view of the published result of the main auction for the supply year 2024, a capacity contract was entered into by the Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o subsidiary. The total capacity commitment required from said contract is 111 MW. In light of the above, Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. has capacity contracts in place for the years 2021 - 2024.

In the distribution segment, the President of the Energy Regulatory Office (URE) approved the new tariff for electricity distribution for the company Polenergia Dystrybucja, calculated based on the reasonable and planned cost of business for a 12-month period. On 27 February 2020 the President of Energy Regulatory Office approved for Polenergia Dystrybucja the new tariff governing the sales of electrical energy to households. Also, the approved investment plan for the years 2019-2022 totaling PLN 51m has been under implementation.

Given the very unclear wording of the Act on Wind Farm Projects of 20 May 2016, uncertainty arose as to the taxable base of wind farm property tax. Although, according to expert reports held by the Group, the provisions of the Act should not affect the amount of property tax paid by the Group companies, most Group companies received adverse tax rulings confirming that the property tax base had increased as of the beginning of 2017 (also the judgments of the County Administrative Court (WSA) and the Supreme Administrative Court (NSA) were adverse for the Companies). The Group received only one positive reply to these requests. Concurrently, two projects received positive interpretation, in parallel inquiry, which permitted taking the taxable base of the fair market value of a wind power plant (hereinafter the “FMV case”), with the remaining projects continuing the dispute in court, including before WSA and NSA

The Act of 7 June 2018 on the amendment of the Renewable Energy Sources Act and certain other acts (PL OJ 2018 item 1276) removed the doubts regarding the amount of the real estate tax as of 2018, while leaving the same issue open for the year 2017. The Management Board made a decision for those companies that received adverse rulings to pay the real estate tax arrears for 2017 including default interest. Nevertheless, for two projects, i.e. Mycielin and Rajgród, NSA ended the FMV case with a favorable decision for the companies by way of corroborating that the position taken in the request for individual ruling was correct. As a result, the community authorities are bound to issue favorable interpretations, and the companies will be entitled to claim overpayment of the real estate tax. As refers two last projects (Gawłowice and Skurpie), the decision of NSA on the FMV case is expected during 2020.

The Group prepares 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 Baltic Sea with total capacity up to 3000 MW for construction. The date of construction of those farms will depend on when the relevant regulatory framework is in place. According to the contract executed in 2018 Q2 with Statoil Holding Netherlands B.V (currently Equinor), the Group currently holds 50% of shares in the companies MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o. According to the current report 10/2019 dated 5 March 2019, one of the conditions precedent was fulfilled in that an unconditional consent of the President of the Completion and Consumer Protection Authority was obtained for the establishment of a joint venture.

On 28 January 2019 the company MFW Bałtyk II Sp. z o. o. was granted connection terms allowing to connect an offshore wind farm with the total capacity of 240 MW. The fact the abovementioned connection terms have been obtained means that a potential increase of the total capacity of the offshore wind farms developed by MFW Bałtyk II Sp. z o. o. and MFW Bałtyk III Sp. z o. o. from 1200 MW to 1440 MW is possible.

On 30 January 2019 the company Polenergia Bałtyk I S.A. was granted the connection terms for the developed project of an offshore wind farm Bałtyk Północny. According to those terms, connection has been provided for of an offshore wind farm of the total capacity of 1560 MW. The fact the abovementioned connection terms have been obtained means that a potential increase of the total capacity of the 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 is possible. Further, on 14 March 2019 MFW Bałtyk III sp. z o.o. obtained a decision on the environmental conditions for the construction of offshore electricity transmission infrastructure to connect the intended offshore electrical energy stations with the National Energy System. The total output power to be transmitted through the infrastructure is up to 1440 MW.

On 9 December 2019 the company Polenergia S.A. entered into the final contract with Wind Power AS for the sale of 50% of shares in the Company's subsidiary MFW Bałtyk I Sp. z o.o. holding 100% shares in Polenergia Bałtyk I S.A. On 10 December 2019 the sales price payment was booked by the Issuer in the amount of PLN 34,007,412 which was tantamount to the transfer of title to 50% of shares in the company MFW Bałtyk I sp. z o.o. to Wind Power AS.

On the following pages a presentation is given of the distribution of the total Group result within 12 months of 2019 and the fourth quarter of 2019 broken down into the operating segments.

12M 2019 (PLN m)	Wind Power	Conventional Energy	Trading	Distribution	Developer and implementation activity	Unallocated	Purchase price allocation	TOTAL
Sales revenues	211,5	318,4	1 952,8	93,8	0,0	20,2	-	2 596,6
Operating costs	(96,8)	(249,2)	(1 928,0)	(79,6)	(0,6)	(20,1)	(10,1)	(2 384,4)
including depreciation/amortization	(63,3)	(20,5)	(0,1)	(5,0)	-	(2,3)	(10,1)	(101,5)
Gross profit on sales	**114,6**	**69,2**	**24,8**	**14,1**	**(0,6)**	**0,1**	**(10,1)**	**212,1**
Gross profit on sales margin	*54,2%*	*21,7%*	*1,3%*	*15,1%*	*"n/a"*	*"n/a"*	*"n/a"*	*8,2%*
General overheads	(3,1)	(7,2)	(10,4)	(6,2)	(0,4)	(11,1)	-	(38,4)
Other operating activities	3,8	(1,9)	0,4	2,2	(17,3)	19,8	-	7,0
including imairment losses	-	-	-	-	(17,3)	0,0	-	(17,2)
Operating profit	**115,4**	**60,1**	**14,7**	**10,1**	**(18,3)**	**8,8**	**(10,1)**	**180,6**
EBITDA	**178,7**	**80,7**	**14,8**	**15,1**	**(1,0)**	**(9,1)**	**-**	**279,1**
EBITDA Margin	*84,5%*	*25,3%*	*"n/a"*	*16,1%*	*"n/a"*	*"n/a"*	*"n/a"*	*10,7%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	-
Adjusted EBITDA	**178,7**	**80,7**	**14,8**	**15,1**	**(1,0)**	**(9,1)**	**-**	**279,1**
Adjusted EBITDA Margin	*84,5%*	*25,3%*	*"n/a"*	*16,1%*	*"n/a"*	*"n/a"*	*"n/a"*	*10,7%*
Profit (loss) on financial activities	(43,9)	(1,2)	(2,2)	(2,3)	0,8	5,0	-	(43,8)
Profit (loss) before tax	**71,5**	**58,9**	**12,5**	**7,8**	**(17,5)**	**13,8**	**(10,1)**	**136,9**
Income tax								(27,8)
Net profit (loss) for period								**109,0**
Normalizing adjustments:								
Purchase price allocation (PPA)								8,2
Foreign exchange differences								0,0
Loan valuation using amortized cost method								1,4
Impairment losses								17,2
Net profit / loss on sale of offshore WF								(20,2)
Adjusted net profit								**115,7**

12M 2018 (PLN m)	Wind Power	Conventional Energy	Trading	Distribution	Developer and implementation activity	Unallocated	Purchase price allocation	TOTAL
Sales revenues	149,1	348,1	2 843,2	86,2	0,0	21,4	0,7	3 448,7
Operating costs	(112,7)	(252,3)	(2 847,0)	(73,1)	(0,4)	(23,8)	(10,1)	(3 319,5)
including depreciation/amortization	(56,9)	(21,6)	(0,1)	(4,6)	-	(2,1)	(10,1)	(95,5)
Gross profit on sales	**36,4**	**95,8**	**(3,8)**	**13,1**	**(0,4)**	**(2,4)**	**(9,4)**	**129,2**
Gross profit on sales margin	*24,4%*	*27,5%*	*"n/a"*	*15,2%*	*"n/a"*	*"n/a"*	*"n/a"*	*3,7%*
General overheads	(2,6)	(6,4)	(12,3)	(5,8)	(0,3)	(14,3)	-	(41,6)
Other operating activities	72,5	(1,1)	(0,0)	2,5	(8,3)	(17,5)	(40,0)	8,2
including imairment losses	67,5	-	-	-	(8,4)	(28,9)	(40,0)	(9,8)
Operating profit	**106,3**	**88,3**	**(16,0)**	**9,8**	**(9,0)**	**(34,1)**	**(49,4)**	**95,8**
EBITDA	**95,7**	**109,9**	**(16,0)**	**14,5**	**(0,6)**	**(15,1)**	**0,7**	**189,1**
EBITDA Margin	*64,2%*	*31,6%*	*"n/a"*	*16,8%*	*"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**	**(0,6)**	**(15,1)**	**-**	**188,4**
Adjusted EBITDA Margin	*64,2%*	*31,6%*	*-0,6%*	*16,8%*	*"n/a"*	*"n/a"*	*"n/a"*	*5,5%*
Profit (loss) on financial activities	(55,0)	(2,1)	(6,5)	(1,8)	0,1	10,3	-	(55,1)
Profit (loss) before tax	**51,3**	**86,2**	**(22,5)**	**8,0**	**(8,9)**	**(23,9)**	**(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 amortized cost method								7,1
Impairment losses								23,6
Net profit / loss on sale of offshore WF								(7,2)
Adjusted net profit								**34,7**
Change of adjusted EBITDA yoy	**83,0**	**(29,2)**	**30,8**	**0,6**	**(0,4)**	**6,0**	**-**	**90,7**

Q4 2019 (PLN m)	Wind Power	Conventional Energy	Trading	Distribution	Development and implementation activity	Unallocated	Purchase price allocation	TOTAL
Sales revenues	55,3	79,4	482,5	24,2	0,0	7,5	-	649,0
Operating costs	(16,5)	(65,9)	(473,6)	(20,9)	(0,3)	(4,7)	(2,5)	(584,4)
including depreciation/amortization	(16,2)	(4,7)	(0,0)	(1,3)	-	(0,5)	(2,5)	(25,3)
Gross profit on sales	**38,9**	**13,5**	**8,8**	**3,3**	**(0,3)**	**2,9**	**(2,5)**	**64,6**
Gross profit on sales margin	*70,2%*	*17,0%*	*1,8%*	*13,7%*	*"n/a"*	*"n/a"*	*"n/a"*	*102,8%*
General overheads	(0,8)	(2,4)	(3,4)	(2,1)	(0,1)	(3,3)	-	(12,0)
Other operating activities	1,0	(0,3)	0,1	(0,1)	(16,2)	0,1	-	(15,4)
including imairment losses	-	-	-	-	(16,2)	0,0	-	(16,1)
Operating profit	**39,1**	**10,9**	**5,6**	**1,2**	**(16,6)**	**(0,4)**	**(2,5)**	**37,2**
EBITDA	**55,3**	**15,6**	**5,6**	**2,4**	**(0,4)**	**0,1**	**-**	**78,7**
EBITDA Margin	*100,0%*	*19,6%*	*1,2%*	*10,1%*	*"n/a"*	*1,9%*	-	*12,1%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	-
Adjusted EBITDA	**55,3**	**15,6**	**5,6**	**2,4**	**(0,4)**	**0,1**	**-**	**78,7**
Adjusted EBITDA Margin	*100,0%*	*19,6%*	*1,2%*	*10,1%*	*"n/a"*	*1,9%*	*"n/a"*	*12,1%*
Profit (loss) on financial activities	(10,5)	(0,9)	0,0	(0,6)	0,0	0,7	-	(11,3)
Profit (loss) before tax	**28,6**	**10,0**	**5,6**	**0,5**	**(16,6)**	**20,5**	**(2,5)**	**46,1**
Income tax								(11,6)
Net profit (loss) for period								**34,5**
Normalizing adjustments:								
Purchase price allocation (PPA)								2,1
Foreign exchange differences								(0,1)
Loan valuation using amortized cost method								0,4
Impairment losses								16,2
Net profit / loss on sale of offshore WF								(20,2)
Adjusted net profit								**32,8**

Q4 2018 (PLN m)	Wind Power	Conventional Energy	Trading	Distribution	Development and implementation activity	Unallocated	Purchase price allocation	TOTAL
Sales revenues	50,0	101,5	709,5	21,5	0,0	5,5	-	888,0
Operating costs	(35,0)	(67,3)	(706,0)	(19,0)	(0,2)	(4,0)	(2,5)	(834,0)
including depreciation/amortization	(14,2)	(5,4)	(0,0)	(1,2)	-	(0,3)	(2,5)	(23,7)
Gross profit on sales	**14,9**	**34,2**	**3,5**	**2,5**	**(0,2)**	**1,5**	**(2,5)**	**53,9**
Gross profit on sales margin	*29,9%*	*33,7%*	*0,5%*	*11,8%*	*"n/a"*	*"n/a"*	*"n/a"*	*6,1%*
General overheads	(0,6)	(1,7)	(4,2)	(1,9)	(0,1)	(3,1)	-	(11,6)
Other operating activities	69,5	(0,3)	(0,0)	0,7	(8,7)	(15,2)	(40,0)	5,9
including imairment losses	67,5	-	-	-	(8,8)	(13,4)	(40,0)	5,3
Operating profit	**83,8**	**32,2**	**(0,7)**	**1,3**	**(9,0)**	**(16,8)**	**(42,5)**	**48,3**
EBITDA	**30,6**	**37,6**	**(0,7)**	**2,5**	**(0,2)**	**(1,7)**	**-**	**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**	**(0,2)**	**(1,7)**	**-**	**68,0**
Adjusted EBITDA Margin	*61,1%*	*37,0%*	*-0,1%*	*11,6%*	*"n/a"*	*"n/a"*	*"n/a"*	*7,7%*
Profit (loss) on financial activities	(11,9)	(0,6)	(2,0)	(0,5)	0,0	2,9	-	(12,0)
Profit (loss) before tax	**71,9**	**31,6**	**(2,7)**	**0,8**	**(9,0)**	**(13,9)**	**(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 amortized cost method								0,3
Impairment losses								8,5
Net profit / loss on sale of offshore WF								-
Adjusted net profit								**27,5**
Change of adjusted EBITDA yoy	**24,8**	**(22,0)**	**6,3**	**(0,0)**	**(0,3)**	**1,9**	**-**	**10,6**

3. Legal regime

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

4. Organizational structure of the Group

For a description of the issuer's group structure, 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, as well as discussion of the Issuer's development prospects at least during the next financial year.

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

Major economic and financial data (PLN m)	12M 2019	12M 2018	Difference
Sales revenues	2 596,6	3 448,7	(852,1)
EBITDA	279,1	189,1	90,0
Adjusted EBITDA with the elimination of the effect of purchase price allocation	279,1	188,4	90,7
Net profit (loss)	109,0	3,4	105,7
Adjusted net profit with the elimination of the effect of purchase price allocation, unrealized f/x differences, impairment losses, loas valuation and net gain/loss on disposal of assets	115,7	34,7	81,0

The year-on-year changes in the performance in 2019 were driven by the following factors:

a) On the level of EBITDA (increase by PLN 90.0 m):

- Better performance in the wind power segment (by PLN 83.0 m) was the consequence of higher production volumes, higher sales prices of electricity and green certificates and lower operating expenses (due to the provision for real estate tax for 2017 which was established in December 2018) and no lease costs in the EBITDA (after IFRS 16 came into force).
- The drop in performance in the conventional energy segment (by PLN 29.2 m) was the result of lower revenues from stranded costs compensation and gas costs compensation, as well as no revenues from yellow certificates after the expiration of the existing gas cogeneration support system.
- Better performance in the trading segment (by PLN 30.8 m) due to better result on electrical energy trading, higher margin on the wind farm portfolio and revaluation of the green certificate inventory, partly offset by lower performance on other contracts in view of the termination of a long-term contract with a third party for the trading services related to production assets.
- Better performance in the distribution segment (by PLN 0.6 m) due to higher distribution margin, offset by lower other operating revenues and lower energy sales margin.
- Higher balance under Unallocated item (by PLN 6.0 m) due to better performance on biomass operations, the effect of the VAT adjustment for the period 12.2017-11.2018, lower costs of headquarters' third party services in 2019 and the costs resulting from the sale of interest in companies dealing with offshore wind farm projects and the exercise of the call options on shares in 2018.

- Lower costs in the development segment (by PLN 0.4 m) allocated to profit and loss account.

b) On the level of adjusted EBITDA (increase by PLN 90.7 m):

- The EBITDA effect described above (better result by PLN 90.0 m);
- Elimination of the purchase price allocation effect (plus PLN 0.7 m).

c) On the level of net profit (increase by PLN 105.7 m):

- The EBITDA effect (better result by PLN 90.0m);
- Higher depreciation (by PLN 5.9) resulting mainly from higher depreciation in the wind farm segment given the reversal of impairment losses at the Mycielin wind farm and the change of presentation method of lease cost required by the change of the accounting standards (after IFRS 16 came into force);
- Impact of impairment losses (delta of PLN 7.4 m) resulting mainly from higher value of the impairment loss at the Bądecz wind farm project recognized in 2019 compared to the biomass projects in 2018;
- Impact of the transfer of shares in offshore wind farm projects (increase by PLN 8.2 m);

  As a consequence, higher operating profit (by PLN 84.9 M).
- Higher financial revenues (by PLN 0.1 m) and lower financial costs (by PLN 11.3 m) attributable to financial liabilities measurement, in particular the loan measurement in Amon and Talia projects using the effective interest rate in the second quarter of 2018 following completion of debt reprofiling and lower interest expense;
- Lower income tax (by PLN 9.5 m) is mainly the result of lack of tax efficiency on transactions of sale of interest in offshore wind farm companies in 2018, no recognition of a deferred tax asset resulting, among others, from the impairment losses on assets and the revaluation of the green certificate inventory, as well as the 2019 settlement of the loss recognized earlier in Amon and Talia wind farms.

d) On the level of adjusted net profit (loss) with the removal of the effects of acquisition price allocation, unrealized f/x differences, impairment losses, loan measurement and discount measurement (increase by PLN 81.0 m):

- Impact of net profit (loss) (better result by PLN 105.7 m);
- Elimination of the purchase price allocation effect (plus PLN 0.6 m);
- Elimination of the effect of unrealized exchange differences (minus PLN 0.1 m);
- Elimination of the effect of measurement of bank loans (minus PLN 5.7 m);
- Elimination of the effect of impairment losses (minus PLN 6.4 m);
- Elimination of the net gain/loss on the sale of assets (minus PLN 13.0 m).

6. Concise outline of significant achievements or failures of the issuer in the reporting period including a list of related major events.

An outline of significant achievements or failures of the issuer in the reporting period including a list of related major events has been delivered in section 2 hereof.

7. Description of factors and events, in particular those of non-typical nature, of significant impact on the financial performance achieved

The factors of significant impact on the financial performance have been referred to in sections 2 and 5 hereof.

8. Identification of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the general meeting of shareholders of the Issuer as at the day of delivery of the quarterly report, including the specification of the number of shares held by such companies, their percentage share in the share capital, number of votes attaching to them and their percentage share in the total number of votes at the general meeting, as well as identification of changes in the ownership structure of substantial share interest of the Issuer in the period since the delivery of the most recent past quarterly report

No	Shareholder	Number of shares held	Number of votes	Shareholding
1	Mansa Investments Sp. z o.o. *)	23 467 043	23 467 043	51,64%
2	China - Central and Eastern Europe Investment Co-operation Fund SVS SICAV-SIF**	7 266 122	7 266 122	15,99%
3	Nationale Netherlanden	2 570 000	2 570 000	5,66%
4	Generali OFE	3 000 000	3 000 000	6,60%
5	Aviva OFE	3 732 687	3 732 687	8,21%
6	Others	5 407 695	5 407 695	11,90%
	Total	**45 443 547**	**45 443 547**	**100,00%**

*) On 3 July 2018, Dominika Kulczyk entered into an agreement under which she acquired from Kulczyk Investments S.A., a company incorporated under the laws of Luxembourg ("KI"), 100% of shares in Kulczyk Holding S.à r.l., a company incorporated under the laws of Luxembourg, holding indirectly (through Mansa Investments sp. z o.o.)

**) The parent company for Capedia Holding Limited is China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF.

9. Identification of effects of changes in the entity's structure, including changes resulting from mergers, acquisitions or disposals of the group entities, long-term investments, splits, restructuring or discontinuation of operations

The Group initiated the merger process of the company Grupa PEP-Projekty Energetyczne 1 sp. z o.o. with the company Grupa PEP-Projekty Energetyczne 2 sp. z o.o. under the merger plan dated 26 August 2019.

Further to its decision to discontinue the operations in the biomass segment and to abandon restructuring of the biomass projects, the Group wound up the company Polenergia Biomasa Południe sp. z o.o.

In addition, in 2019 Polenergia S.A. executed a preliminary agreement for the transfer 50% of shares in Polenergia Bałtyk I sp. z o.o. dealing with the development of the Polenergia Bałtyk I S.A. offshore wind farm to Wind Power AS of Norway.

10. General

The Polenergia S.A. Group (the "Group") comprises Polenergia S.A. (the "Company", the "parent"), formerly Polish Energy Partners S.A. and its subsidiaries. The Company has been established with a Notarized Deed of 17 July 1997 and has been registered with the National Court Register kept by the District Court for the city of Warsaw, Commercial Division XII of the National Court Register under number KRS 0000026545. The Company was assigned the statistical number REGON

012693488. The registered office of the Company is located in Warsaw at Krucza 24/26 and was registered on 20 November 2013.

Stock of Polenergia S.A. is listed at the Warsaw Stock Exchange.

Polenergia S.A Group consists of vertically integrated companies operating in the area of energy generation using both renewable and conventional sources, as well as in the areas of distribution and trading in electrical energy. The Group was formed in the process of consolidating two asset groups controlled by Kulczyk Holding S.àr.ls (former Polenergia Holding S.àr.l) with registered office in Luxembourg i.e. Polish Energy Partners S.A. (with focus on wind farm electricity generation) and Grupa Polenergia (with focus on the generation, distribution, sale of and trading in electrical energy and certificates of origin and developing new projects in the area of energy generation).

Lifetime of the Company, as well as all member companies of the Group is unlimited.

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

For a description of the Issuer's group, refer to Note 7 to the consolidated financial statements. All Companies referred to in said Note have been consolidated according to the full method, except for the Companies Polenergia Bałtyk I S.A., MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o. which have been measured using the equity method.

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

	Name	Description	2019	2018	Change
1.	Return on equity	Net profit/loss / average annual equity	10.3%	0.3%	*+10.0 p.p.*
2.	Net return on sales	Net profit/loss / sales revenue	5.0%	0.1%	*+4.9 p.p.*
3.	Liquidity - liquidity ratio I	total current assets / short term liabilities	2.44	1.29	*+1.15*
4.	Average collection period (days)	average annual trade receivables x 365 days / revenue from sale of products and merchandise	14	13	*+1*
5.	Debt to assets ratio	(total equity and liabilities - equity) * 100 / total assets	47.4%	61.2%	*-13.8 p.p.*

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

The Group's liquidity, measured with the liquidity ratio I, improved due to higher rate of current assets to short-term liabilities as a result of a significant reduction in short-term liabilities. The receivables collection period denoting the waiting time for payment of receivables, has improved slightly compared to the preceding year.

The Group's balance sheet structure as at the end of 2019 was changed due to the reduction in short-term liabilities and the carrying amount which has predominantly been caused by the change of the measurement of contracts for electrical energy 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 optimization processes, and locations characterized by above-average wind or sunlight 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 in this segment.

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 unfavorable 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.

Within the development segment a part of liabilities is denominated in EUR, including, without limitation, investment liabilities in the Szymankowo wind farm under construction. The currency risk in the Szymankowo project will be hedged in the financial market prior to making the investment credit available. The Group monitors the currency market on an ongoing basis and settles positions at the most favorable exchange rates.

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. In the case of significant transactions of Polenergia Obrót in foreign currency, currency exchange hedging transactions are concluded. Risk management at Polenergia Obrót is governed by its 'Risk Management Policy', in accordance with the rules prescribed by that document.

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) has an immaterial effect on the result.

Interest rate risk

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

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.

When launching the financing of new projects, i.e. the Szymankowo wind farm and Sulechów photovoltaic farm projects, transactions to hedge interest rate change risk will be concluded in the amount of min. 75% of the credit value.

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

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

Raw materials price risk

The 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. Until December 2019 PGNiG S.A. was the only supplier of gas fuel to the Nowa Sarzyna CHP Plant, pursuant to a twenty year comprehensive agreement. For 2020 EC Nowa Szarzyna contracted gas from PGNIG Supply & Trading ("PST"). Any potential problems on the part of the PGNiG Group companies 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 and electricity to its customers. The risk of supply limitations is negligible. ENS limits the risk of gas price changes by securing a fixed price of gas fuel for the contractual term. In case of problems with the supply of gas by PST, ENS has the option to use a concluded framework contract with Polenergia Obrót S.A. for gas supplies, which reduces the risk of gas supplies necessary for the production of electricity and heat.

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 can not 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.

<u>Risk related to the operation of the Polish energy market</u>

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 licenses 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 unfavorable 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. Tariffs are still mandatory for electricity supplied to households (while maintaining the option of changing energy suppliers by households), and the current wording of the Energy Law regulations, as a principle provide in principle for the coverage of reasonable costs of operations. At the same time it should be stressed, however, that prices of electricity generated by the Polenergia Group are not subject to approval by the President of URE.

Any possible legislative changes may prove unfavorable to the Group; however, Polenergia has very limited ability to influence decisions taken in this respect at the EU and national levels. Polenergia representatives cooperate with the working teams at industry associations to monitor and minimize the risk of regulatory changes that are adverse for the Group.

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.

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 materializes, 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 distribution tariff relates to Polenergia Kogeneracja, while the risk associated with the electricity sale and distribution tariff − to Polenergia Dystrybucja.

The potential impact of the mentioned 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 (e.g. 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 the Energy Regulatory Office, which are characterized by a high level of arbitrariness and thus are often subject to legal disputes.

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

Risk of volatility in electricity market prices

The Group’s financial performance is dependent on the market prices of electricity. The Group keeps monitoring the electricity market, making decisions to secure a customer base for electricity generated by the wind energy and conventional energy segment on an ongoing basis.

The Group also trades in electricity on the wholesale market. The performance on that business depends on trends in electricity market prices and the structure of open positions on the market. The volatility of electricity prices indirectly impacts the electricity production profile hedging costs in the Group’s wind farms. The risk of volatility of profiling costs remains outside the Group's control to a large extent; such risk may have a material effect on the results obtained by the Group.

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

Risk of volatility in market prices of green certificates

The Group’s financial performance is mainly dependent on the market prices of green certificates. The Group keeps monitoring the green certificate market, making decisions to secure a customer base for green certificates generated by the wind power segment on an ongoing basis and taking advantage of the possibility of making transaction on the bilateral contracts market and the stock market segment.

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

The Act of 19 July 2019 amending the Renewable Energy Sources Act and certain other acts Dz.U. of 2019, item 1524), did not introduce any changes in the method of calculating the emission charge. The Act imposes the obligation to redeem the certificates of origin for electricity produced from agricultural biogas for 2020 which stayed at the level of 0.50% volume of the sale of electricity to end customers, whereas in case of certificates of energy originating from other RES, the threshold is at 19.5%, that is 1 p.p. more with respect to 2019.

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

If the prices of green certificates decline, the Group will be at risk of underperforming and failing to satisfy financial covenants under credit facility agreements concluded to finance specific wind farm projects. A long-term decline in the prices of green certificates could periodically impair the Group’s ability to meet its obligations under certain credit facility agreements or necessitate drawing on guarantees provided by Polenergia S.A. for certain projects.

Risk related to seasonality of activity

Wind conditions, which determine the output of wind farms and sunlight conditions which determine the output of photovoltaic farms are variable depending on the season of the year, and the variability in several years’ cycles. Wind conditions in autumn and winter are significantly better than in spring and summer, and sunlight conditions in spring and summer are significantly better than in autumn and winter.

Decisions on selecting the locations to build wind farms and photovoltaic farms are made by Polenergia S.A. based on professional wind and sunlight 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 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 Polenergia Group's property, plant and equipment may result in temporary suspension of production 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 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 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.

<u>Risk of adverse weather conditions affecting electricity generation at the wind farms operated by the Group</u>

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

The volume of electricity generated by a photovoltaic farm depends primarily on local sunlight characteristics These may prove less favorable 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, and financial standing or growth prospects.

<u>Risk related to RES auctions</u>

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

In 2019 subsidiaries developing three wind farms projects of the power totaling 186.1 MW won the auction for the sale of energy from RES. At the same time the subsidiaries developing 13.2 MW wind farm project and the subsidiaries developing two photovoltaic projects of the total capacity of 20.7 MW did not obtain support.

As notified by the Minister of Energy, auctions are planned to be carried out in 2020 for the purchase of electricity from wind farms and photovoltaic farms. Subsidiaries developing 13.2 MW Piekło wind farm do not exclude the participation of the project in a successive auction.

In the situation where a wind farm or photovoltaic farm project does not obtain support in a long term, the method of its business implementation is subject to verification.

The Group is also planning to prepare three photovoltaic projects totaling ca 29 MW to participate in the 2020 auction. Further projects of ca 80 MW total capacity are in an early phase of development. The ongoing photovoltaic projects, in case they do not win the auction, may participate in the auction next year without a risk of losing building permits.

Risk of regulatory changes concerning the support system for conventional generation sources – ‘capacity market’

The Polish energy market is characterized by a material over-exploitation in the scope of conventional production capacities. The above is mainly due to low level of replacement investments in the recent years. Measures in the Capacity Market implemented by PSE in recent years (mainly 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 a few years. On 8 December 2017 the Sejm adopted the Capacity Market Act signed by the President on 28 December. In the second half of 2018 the first capacity auctions were held for supplies in the years 2021-2023, while in December 2019 the auction for 2024 was carried out. Depending on adopted specific solutions and auction parameters for the coming years, from 2025, 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 market prices, which can potentially affect projects whose economic viability rests on revenue from sale of electricity (wind farms), and which are exposed to the risk of electricity prices.

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, labor 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 capital Group. In addition, changes to Polish legislation are being 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 unfavorable interpretations adopted by public administration 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 the unstable tax regime

The fact that many tax regulations lack an unambiguous interpretation is particularly problematic if such regulations change. The new thin capitalization rules implemented in the legal system from the beginning of 2018 may serve as an example: it is unclear how the limit for the eligibility of interest as deductible expenses should be determined. With reference to the above, the Ministry of Finance issued interpretations and clarifications which are contradictory to the non-final judgments of the Higher Administrative Court (WSA). This issue will probably be resolved in 2020 by the Supreme Administrative Court.

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

Risk related to the necessity of meeting environmental requirements

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

Further, under the EU CO2 Emissions Trading Scheme, participation permits had to be obtained for installations used in the course of the operations of Polenergia and other Group companies

Trade in emission allowances is an environmental policy instrument designed to reduce pollutant emissions. Both EU membership and the Kyoto protocol require Poland to participate in the Emissions Trading Scheme. The emissions trading mechanism was introduced on 1 January 2005 upon the entry into force of Directive 2003/87/EC, transposed into Polish legislation by virtue of the Act on Trading in Allowances for Emissions of Greenhouse Gases and Other Substances of 22 December 2004. The current period EU ETS 2013-2020 is governed by the Act on Trading in Allowances for Emissions of Greenhouse Gases of 12 June 2015.

Plants owned by the Polenergia Group:
a. EL Mercury (KPRU number: PL 0879 05) and
b. EC Nowa Sarzyna (KPRU number: PL 0472 05)

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

Ad a. 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 EU 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.

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

Under the Regulation of the Council of Ministers of 31 March 2014 listing installations other than those for electricity generation covered by the greenhouse gas emissions trading scheme in the trading period beginning on 1 January 2013, along with the number of allowances allocated to them, the number of free emission allowances allocated to the Nowa Sarzyna CHP Plant was 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 2019 were transferred to the operator's account in April 2019.

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 ton-kilometer 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.

In consideration of the new settlement period started in 2021, in May 2019 EC Nowa Szarzyna filed an application to allocate free of charge emissions permit for the period 2021-2025. The European Commission has been working on the verification of the applications. Moreover, in compliance with the requirements of the Act amending the system of Trading in Allowances for Emissions of

Greenhouse Gases and other acts, EC Nowa Szarzyna filed the greenhouse gas emissions monitoring methodology plan and obtained the approval thereof (on 2 December 2019).

Risk of new projects failing

The Polenergia Group has been pursuing a significant number of projects in the segment of onshore and offshore wind farms and investments in distribution infrastructure development. Projects pursued by the Polenergia Group require significant capital expenditure. The expenditure is particularly high in case of development projects and construction of onshore and offshore wind farms. The Polenergia Group makes decisions to commence the development stage of a project on the basis of detailed financial models, technical analyses and expert reports prepared by its dedicated Group Development Service. Such analyses include a series of assumptions, related to power generation volume, revenue, production costs, required investment amount and costs of financing. There is a risk that Polenergia S.A. may adopt assumptions more favorable than the actual conditions, which would cause the Polenergia Group to achieve a lower than expected return on investment in a specific project Moreover, the costs of preparing a project, even before the development stage, are also significant, especially in the wind farm construction segment. A project's failure would prevent the Group from recovering such costs.

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

Risk that investment plans are not executed or are delayed

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

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

In compliance with the Act on Wind Farm Projects amended on 29 August 2019, with reference to building permits concerning wind power plants and issued prior to the effective date of the Act (16 July 2016), for which no permit for use was issued within 5 years from 16 July 2016, i.e. until 16 July 2021, the three years' period in which the investor is obliged to commence construction works should be counted from 16 July 2021.

The Companies developing three wind farm projects totaling 186 MW were qualified as auction winning producers. The construction of Szymankowo wind farm has started, and Polenergia Farma Wiatrowa Szymankowo Sp. z o.o. Subsidiary entered into credit facility agreements to finance the construction of the wind farm. Construction works in Dębsk and Kostomłoty wind farms are planned to commence in 2020.

Risk related to credit facility agreements

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

The Group has continued to analyze the indebtedness level and the risk of non-fulfillment of the requirements set forth in the credit facility agreements on an on-going basis, and remained in contact with the financing institutions. Detailed information concerning the conclusion of new credit facility agreements and changes to the existing agreement in 2019 are included in Note 28 to the Consolidated Financial Statements.

The Polenergia Biomasa Energetyczna Wschód project, due to worsening market situation and terminated long term agreement for pellet delivery, ceased to meet the debt service cover ratio in 2018. As a result the breach of the credit facility agreement occurred, and the entire liability was disclosed in the balance sheet of Polenergia Group in the Group's short term liabilities. The Company took up negotiations with the financing bank, as a result an annex to the credit facility agreement was entered into and the repayment time schedule was modified. The Company runs business based on the contracts for the delivery of pellets entered into with Enea Elektrownia Połaniec and Energa Elektrownie Ostrołęka. The revenues from operational activity enable the ongoing debt service on account of the credit facility.

The Company is financed following the "project finance: principle, without recourse to the Group. In 2018 the impairment loss was booked for the assets of Polenergia Biomasa Energetyczna Wschód. In consideration of the Group's decision to withdraw from the biomass segment, the search for a potential investor has been in progress.

Risk related to financial standing of customers

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

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

Risk related to the dispute with Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o.

Amon Sp. z o.o. and Talia Sp. z o.o., the Company's subsidiaries, each filed an action to state ineffectiveness of the declarations of termination by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. (the company running business within the Tauron Group), of the Agreements on Sale of Property Rights Incorporated in Certificates of Origin for Electricity Generated in a Renewable Energy Source − the Łukaszów (Amon) and Modlikowice (Talia) and the Agreements on Sale of Electricity Generated in a Renewable Energy Source in the a/m wind farms.

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

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

On 25 July 2019 the preliminary and partial decision issued by the Regional Court in Gdańsk, allowing the claim by Amon in the part on stating the ineffectiveness of the statement by PKH on terminating the agreements on sale of energy and property rights.

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

The risk related to a potential dismissal of the actions by Amon Sp. z o.o. and Talia Sp. z o.o. consists in preventing compensation from PKH from being obtained, or in case of a partial dismissal of actions, in obtaining compensation in the amount lower than assumed.

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

Amon is claiming payment of PLN 47,556,025.51 in damages, together with interest and litigation costs, and determination of Tauron's liability for future losses, estimated at over PLN 158m, so that the total amount claimed in the action by Amon exceeds PLN 205m.

Talia is claiming payment of PLN 31,299,188.52 in damages, together with interest and litigation costs, and determination of Tauron's liability for future losses, estimated at just under PLN 107m, so that the total amount claimed in the action by Talia exceeds PLN 138m.

The risk related to a potential dismissal of the actions by Amon Sp. z o.o. and Talia Sp. z o.o. consists in preventing compensation from Tauron Polska Energia S.A. from being obtained, or in case of a partial dismissal of actions, in obtaining compensation in the amount lower than assumed.

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

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

On 27 September and 13 December 2019 two hearings were held before the Regional Court in Warsaw in the action brought by Eolos Sp. z o.o, and witnesses were heard. The next hearing is scheduled for 8 April 2020.

Risk related to customers' actions

In 2019 Polenergia Biomasa Energetyczna Północ Sp. z o.o., the Company subsidiary, reached court settlements in the court proceedings concerning the payment of receivables in the amount of ca PLN 420k and PLN 65k. Pursuant to the wording thereof, in the first case the payment of the receivables amounting to EUR90k was scheduled to be made in six installments in the second half of 2019. On 12 February 2020 the Company received the last installment on the account of the payment of the receivables. In the second case the payment was split into three installments, and the third installment is to be settled at the end of October 2020.

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

In view of specific nature of its business consisting in supply of electricity to end customers, Polenergia Dystrybucja Sp. z o.o., the Company subsidiary, recovers receivables from a number of customers on account of the sale and distribution of electricity. The value of receivables to be recovered totals about PLN 360k. 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 electricity delivered. The amount of the claim is approximately PLN 550k. The defendant recognized the claim, but also filed a counterclaim pointing to an alleged set-off of its receivables for energy supplied in a different period. Polenergia Dystrybucja Sp. z o.o. considers the counterclaim as ungrounded. In the Company's opinion the Company paid the total amount of receivables for the supplied energy. On 4 September 2018 the Regional Court in Gdańsk adjudged the entire amount of pursued claim in favor of Polenergia Dystrybucja Sp. z o.o. An appeal was made against a part of the judgment, as a result the remaining part of the claim totaling over PLN 171k became final and adjudged in favor of Polenergia Dystrybucja Sp. z o.o material and was paid on 7 November 2019. The Appeal Court in Gdańsk dismissed the appeal.

The Supreme Court dismissed the cassation appeal of the opponent against the judgment of the Appeal Court in Gdańsk of 7 February 2018, in the case brought by Polenergia Elektrownia Północ Sp. z o.o., the Company subsidiary, for the payment of liquidated damages for breach of agreement. Based on the a/m judgment, following enforced debt collection, almost the entire amount of receivables was collected.

In December 2019 Polenergia Elektrownia Północ Sp. z o.o., the Company subsidiary, filed an action in the Regional Court in Gdańsk for the payment of PLN 500k on account of liquidated damages.

On 11 December 2019 the Appeal Court in Poznań maintained the judgment of the Regional Court in Konin of 9 May 2019 in the scope of the obligation to redress the damage with respect to Energopep Sp. z o.o.Sp.k., the Company subsidiary, by the two accused in the proceedings. The obligation to redress the damage involves the amount of PLN 512k. At the same time the Court changes the judgment of the 1st instance court by conditionally suspending the performance of imprisonment for a trial period of 5 years, and putting the accused under guardian's supervision. One of the accused was served the civil law judgment by the Appeal Court in Poznań on 4 April 2019 for untimely filing the petition in bankruptcy with the obligation to pay PLN 100k to Energopep Sp. z o.o. Sp. k. The accused filed a cassation appeal against such judgment to the Supreme Court.

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

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

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

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 materialized, this could adversely affect Group's performance and execution of its strategy.

The risk of loss of key personnel is mitigated through:

- a strong corporate culture, ensuring employee loyalty to the Group,
- a remuneration system that serves to incentivize staff and reward loyalty, and
- knowledge management and extensive training programs.

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, Polenergia capital 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 subcontractor.

Risk related to application of hedge accounting to cash flow hedges

As at December 31th 2019, the Group held the following instruments hedging against interest rate risk for cash flow hedge accounting purposes:

Date of maturity of hedging instrument	Hedge value in kPLN	Interest rate hedged	Instrument
2021-06-15	115,620	3.07%	IRS

The fair value of the hedging instruments as at the reporting date amounted to PLN 2 236k, disclosed in long term liabilities.

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

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

As at December 31th 2019, the Group recognized PLN 1,049k (2018: PLN 642k) in other comprehensive 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

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, and 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 standalone 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 and Investor Relations 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 authorized 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 authorization provided for in the Group's Statutes.

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

After the accounting closing of each calendar month, the 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.

**) The controlling entity of Capedia Holdings Limited is China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF

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 authorized to make decisions on share issue.

i) Rules governing amendments to the Statutes of the Issuer

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

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

Manner of operation

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

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

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

General Meetings are convened by posting a notice on the Company's website and in the manner prescribed for disclosure of current information in accordance with the provisions of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to 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;

m) making all decisions concerning claims for redress of any damage inflicted on formation of the Company, or in the management or supervision of the Company;

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

o) considering matters put forward by the Supervisory or Management Boards, or by shareholders.

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

Shareholders' rights and the manner of exercising those rights

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

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

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

k) Composition and 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 E. Schweickardt	Deputy Chairman of the Supervisory Board
3.	Arkadiusz Jastrzębski	Member of the Supervisory Board since 17.04.2019
4.	Adrian Dworzyński	Member of the Supervisory Board since 17.04.2019
5.	Marta Schmude	Member of the Supervisory Board
6.	Orest Nazaruk	Member of the Supervisory Board
7.	Brian Bode	Member of the Supervisory Board
8.	Marjolein Helder	Member of the Supervisory Board since 8.01.2019
9.	Sebastian Kulczyk	Member of the Supervisory Board since 8.01.201919

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.

On 17 April 2019 the mandate of Mr. Arkadiusz Jastrzębski as the Supervisory Board member expired. The Ordinary General Meeting of the Shareholders appointed Mr. Adrian Dworzyński to the Supervisory Board on 17 April 2019.

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

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

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

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

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

d) the right to appoint and remove members of the Supervisory Board referred to in a) and b) above may not be exercised jointly by the same entity or entities which are members of a single 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.	Hans E. Schweickhardt	Member of the Audit Committee from 7.01.2019

Following the resignation of Mr. Michał Kawa from the function of a member of the Supervisory Board, Mr. Hans E. 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 and 2019 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 minimizing 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.
During 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;

n) 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;

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

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

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

t) granting consent for the execution, material amendment or termination of an agreement with a value exceeding the PLN equivalent of USD 500,000 (five hundred thousand US dollars), as translated at the 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;

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

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

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

<u>Management Board</u>

Composition

No.	Name and surname	Position
1.	Michał Michalski	President of the Management Board
2.	Iwona Sierżęga	Management Board Member
3.	Robert Nowak	Management Board Member until 16.12.2019
4.	Piotr Maciołek	Management Board Member since 22.01.2020
5.	Tomasz Kietliński	Management Board Member since 22.01.2020
6.	Jarosław Bogacz	Management Board Member since 22.01.2020

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.

On 16 December 2019 the Company received a resignation from Mr. Robert Nowak from the position of the Management Board member.

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

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

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

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

On 25 July 2019 the preliminary and partial judgment was issued by the Regional Court in Gdańsk in the action filed by Amon Sp. Z o.o, the Company subsidiary, against Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. In the judgment the Court allowed the action by Amon in the part stating of ineffectiveness of the termination by Polska Energia– Pierwsza Kompania Handlowa of the Agreement on Sale of Energy and Property Rights incorporated in Certificates of Origin for Electricity Generated in a Renewable Energy Source – the Wind Farm in Łukaszów of 23 December 2009, and the Agreement on Sale of Electricity generated in a Renewable Energy Source − the Wind Farm in Łukaszów of 23 December 2009, entered into with Amon. Consequently, such notices of termination do not have any legal effect of terminating the two agreements. As a result the said agreements remain in force after the notice period, i.e. after 30 April 2015, and all their provisions remain binding. At the same time the Court considered as grounded, as a principle, the claims for compensation lodged by Amon against PKH on account of failure to perform by PKH of the agreement for the Sale of Property Rights. The judgment is not final and is subject to appeal. On 7 February 2020 Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. filed an appeal against the preliminary and partial judgment of 25 July 2019 issued by the Regional Court in Gdańsk, IX Economic Department.

On 20 August 2019 Amon Sp. z o.o., the Company subsidiary, brought in an action to the Regional Court in Gdańsk against Tauron Polska Energia S.A. subsidiary – Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. due to the premature termination of long term agreements on sale of energy and property rights, entered into by PKH with Amon. Amon demands the payment of PLN 29,009k as compensation, with interest and costs of proceedings. The new action brought in by Amon results from the preliminary and partial judgment issued by the Regional Court in Gdańsk on 25 July 2019, allowing the claim by Amon in the part stating the ineffectiveness of the termination by PKH of the agreements on sale of energy and property rights.

Moreover, Talia sp. z o.o., the Company subsidiary, made a third change to the action brought to the Regional Court in Gdańsk in connection with the breach of long term agreements on sale of energy and property rights entered into by PKH with Talia. In virtue of the a/m submission, Talia demands the payment of PLN 19,308,887.95 compensation with interest.

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

On 24 January 2020 the first hearing was held before the Regional Court in Katowice in the action brought by Amon Sp. z o.o. and Talia Sp. z o.o. against Tauron Polska Energia S.A. in connection with the premature termination of long term agreements on sale of energy and property rights entered into by Pierwsza Kompania Handlowa Sp. z o.o., a subsidiary of Tauron – Polska Energia, with Amon and Talia. The Court scheduled following hearings for 2 and 16 March 2020, and witnesses were summoned to participate therein.

On 27 September and 13 December 2019 two hearings were held before the Regional Court in Warsaw in the case brought by Eolos Sp. z o.o against Certyfikaty Sp. z o.o. and Polenergia Obrót S.A., the Company subsidiaries. AT the hearing on 13 December the Court obliged both Parties to present detailed positions in consideration of the Supreme Court judgments indicated by the Court in the scope of Eolos claim. The time limit for filing the submission by Eolos expired, and the submission was not made. The date of the next hearing is scheduled on 8 April 2020.

In 2019 Polenergia Biomasa Energetyczna Północ Sp. z o.o. , the Company subsidiary, reached court settlements in the court proceedings concerning the payment of receivables in the amount of ca PLN 420k and PLN 65k. Pursuant to the wording thereof, in the first case the payment of the receivables amounting to EUR90k was scheduled to be made in six installments in the second half of 2019. On 12 February 2020 the Company received the last installment on the account of the payment of the receivables. In the second case the payment was split into three installments, and the third installment is to be settled at the end of October 2020.

Moreover, on 2 January 2020 Polenergia Biomasa Energetyczna Północ Sp. z o.o. reached another settlement following the mediation, based whereupon the contracting party paid PLN 150k by 31 January 2020.

On 7 November 2019 the Appeal Court in Gdańsk dismissed the appeal by an electricity supplier against Polenergia Dystrybucja Sp. z o.o., the Company subsidiary. As a result the entire judgment issued by the Regional Court in Gdańsk of 4 September 2018 in the case concerning the return of overpayment for delivered energy became final and the amount of PLN 548k became due, of which the part undisputed in the appeal was already paid.

The Supreme Court dismissed the cassation appeal of the opponent against the judgment of the Appeal Court in Gdańsk of 7 February 2018, in the case brought by Polenergia Elektrownia Północ Sp. z o.o., the Company subsidiary, for the payment of liquidated damages for breach of agreement. Based on the a/m judgment, following enforced debt collection, almost the entire amount of receivables was collected.

In December 2019 Polenergia Elektrownia Północ Sp. z o.o., the Company subsidiary, filed an action in the Regional Court in Gdańsk for the payment of PLN 500k on account of liquidated damages.

On 11 December 2019 the Appeal Court in Poznań maintained the judgment of the Regional Court in Konin of 9 May 2019 in the scope of the obligation to redress the damage with respect to Energopep Sp. z o.o.Sp.k., by the two accused in the proceedings. The obligation to redress the damage involves the amount of PLN 512k. At the same time the Court changes the judgment of the 1st instance court by conditionally suspending the penalty of imprisonment for a trial period of 5 years, and putting the accused under guardian's supervision. One of the accused was served the civil law judgment by the Appeal Court in Poznań on 4 April 2019 for untimely filing the petition in bankruptcy with the obligation to pay PLN 100k to Energopep Sp. z o.o. Sp. k. The accused filed a cassation appeal against such judgment to the Supreme Court.

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]		31.12.2019	31.12.2018	Zmiana
Net revenues from sale of energy		2 289,5	2 848,7	-559,1
Electricity volume sold	[MWh]	10 450 758,2	15 236 720,1	-4 785 961,9
Net revenues from electricity distribution		45,8	45,8	-0,1
Electricity volume distributed	[MWh]	292 896,4	294 752,3	-1 855,9
Net revenues from certificates of origin		76,4	77,1	-0,7
Number of certificates (green certificates) sold	[MWh]	923 136,4	1 014 293,8	-91 157,3
Number of certificates (yellow certificates) sold	[MWh]	0,0	122 353,7	-122 353,7
Net revenues from sale of CO2 emission allowance		0,8	8,8	-8,0
Quantity of emission allowance sold	[t CO2]	300 350,0	512 840,0	-212 490,0
Net revenues from sale of heat		21,9	21,2	0,7
Volume of heat sold	[GJ]	436 499,2	433 182,5	3 316,7
Net revenues from consulting projects		4,9	3,4	1,5
Revenues from lease and operator services		1,7	0,9	0,8
Revenues from sale of merchandise		0,0	0,9	-0,9
Revenues from sale of pellets		15,1	16,9	-1,8
Revenues from stranded costs and cost of gas		96,7	174,3	-77,6
Net revenues from sale of gas		30,6	238,5	-207,9
Volume of gas sold	[MWh]	399 481,8	2 584 536,2	-2 185 054,4
Net revenues from distribution of gas		4,9	5,8	-0,9
Volume of gas distributed	[MWh]	349 647,0	311 423,0	38 224,0
Other revenues		8,3	6,4	1,9
Total net revenues from sale of products		2 596,6	3 448,7	-852,1

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 (91% in 2019).

GEOGRAPHICAL DISTRIBUTION OF REVENUE

	For 12 months end		Zmiana
	31.12.2019	31.12.2018	r/r
- Domestic market	2 374 245	3 079 209	-704 964
- International market	214 098	369 503	-155 405
Total revenue	**2 596 577**	**3 448 712**	**-860 369**

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	2019
Warsaw Commodity Clearing House	Electricity, property rights	no link	54%

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. Group, but is also able to purchase gas fuel on the free market.

Below are presented other suppliers of goods and services which accounted for 10% or more of the Group's total revenue in 2019.

Supplier	Goods purchased	Type of link with the Group	2019
Warsaw Commodity Clearing House	Electricity, property rights	no link	51%

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

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

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 43 to the Consolidated financial statement.

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 statement.

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 18 and 38 to the Standalone financial statement.

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 28.1 to the Standalone financial statement and Note 31 to the Consolidated financial statement.

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	License agreement	-	31/12/2025
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
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 – Skurpie Wind Farm	25% of contract value	20/11/2020
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

Responsible entity/issuer of surety or guarantee	Basis	Value	Period
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 expired 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 expired on 31.01.2020
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
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 2,000,000.00	30/06/2022
Freepoint Commodities Europe LLP / Freepoint Commodities LLC	Trade contract – Polenergia Obrót S.A.	EUR 5,000,000.00	unspecified
Control Process S.A.	Alior Bank	PLN 1,600,000.00	31/12/2020
FORTUM Marketing and Sales Polska SA	Commercial Contract with Polenergia Obrót S.A.	PLN 2,000.000	28.02.2021
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 1,473,447.00	30/06/2020
PBDI S.A./ AXA Ubezpieczenia TUiR S.A	Performance Bond for the contract b -Polenergia FW Szymankowo	4.557.150,00 PLN	30.09.2021.
Bilfinger Tebodin Poland Sp. z o.o. / Skandinawska	Contract engineer services agreement - Polenergia FW Szymankowo	230.400,00 PLN On 15.06.202 the amount of	30.05.2023

Responsible entity/issuer of surety or guarantee	Basis	Value	Period
Enskilda Banken AB S.A. O/Polska		guarantee is reduced to PLN 61.120,00	
Siemens Gamesa Renewable Energy Sp. z o.o. / Siemens Gamesa Renewable Energy S.A.	PCG wind turbines delivery, assembly and startup agreement – Polenergia FW Szymankowo	Max 27.932.918,00 EUR reduced upon the completion of the contractual milestones	30.11.2021

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 the obligations resulting from 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 28.1 to the Standalone 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 2019, the Group planned to spend an estimated total amount of ca. PLN 371m on property, plant and equipment in 2020. The amount will largely be allocated to an investment program in the wind farm and distribution segments and on project development, including in offshore and onshore wind power generation and photovoltaic generation.

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 hereof. 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

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

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

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

<u>Description of the Group's business growth prospects</u>

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

Currently, the Group is focused on:

- further optimizing its operating costs and improving asset efficiency,
- developing new projects and maintaining the existing projects, both in offshore and onshore wind farms area,
- developing the projects from onshore wind farm portfolio which won auctions in 2019 and preparing further projects to participate in 2020 auctions,
- developing new projects, and maintaining existing projects in photovoltaics, including preparing further projects to participate in 2020 auctions,
- further developing business in trading segment,
- implementing an investment project in the distribution area (which targets an increase of the Regulatory Assets Base and a growth in the number of customers connected to the company's network on a permanent basis),
- pursuing initiatives in photovoltaics for existing customers and vehicle charging stations.
- intensifying efforts to grow energy sales to customers not connected to the company's network.

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 2019, 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 was party to an employment contract concluded with the Company, which was terminated with mutual consent of the parties as at 30 April 2019. The contract was for an indefinite term.

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.

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

Mr. Robert Nowak is party to an employment contract concluded with the Company. The contract is for an indefinite term. It may be terminated upon 6 months' notice. Furthermore, Mr. Robert Nowak is a party to a non-competition agreement that obliges the Company to pay him an amount equal to 100% of his remuneration for 6 months as compensation for refraining from any activities that would compete with the Company's business. The contract with Mr. Robert Nowak was terminated in December 2019 and the termination notice expires on 30 June 2020.

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

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

Mr. Jarosław Bogacz is appointed to the position of the Management Board Member by a resolution of the Supervisory Board from 22 January 2020 and is party to a non-competition agreement that obliges the Company to pay him an amount equal to 100% of his remuneration for 6 months as compensation for refraining from any activities that would compete with the Company's business.

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, recognized as costs or resulting from distribution of profit; if the Issuer is the parent, shareholder in a jointly-controlled entity or significant investor - separate information on the value of remuneration and bonuses received for the performance of functions in the governing bodies of subsidiaries; if relevant information is presented in the

financial statements - the obligation is deemed fulfilled by including a reference to the part of the financial statements in which such information is provided

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

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 Polna 11 Street, 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 Polna 11 Street, 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 and 2019 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) the remuneration paid or payable to the auditor for the financial year

For detailed information on the auditor's fees, see Note 48 to the Consolidated financial statement

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 statement.