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

***Polenergia S.A.***

**FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**FOR THE YEAR ENDED ON 31 DECEMBER 2018**

**INCLUDING THE REPORT OF THE INDEPENDENT AUDITOR ON THE AUDIT PERFORMED**

*Michał Michalski – President of the Management Board*

*Robert Nowak - Member of the Management Board*

*Iwona Sierżęga – Member of the Management Board*

*Agnieszka Grzeszczak – Director Accounting Department*

Warsaw, 4 March 2019

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(PLN K)

## 1. Balance sheet

### As at 31 December 2018

**Assets**

| | Notes | 2018-12-31 | 2017-12-31 |
|---|---|---|---|
| **I. Fixed assets** | | **844 764** | **963 876** |
| Non-current fixed assets | 16 | 1 375 | 1 237 |
| Intangible Assets | 15 | 123 | 429 |
| Financial assets | 17 | 836 002 | 951 260 |
| Long term receivables | | 2 160 | 2 503 |
| Deferred income tax asset | 24.2 | 5 104 | 8 447 |
| **II. Current assets** | | **247 842** | **215 001** |
| Inventories | 18 | 10 362 | 10 362 |
| Trade debtors | 19 | 10 865 | 12 823 |
| Income tax receivable | 19 | 3 986 | - |
| Other short term receivables | 19 | 7 922 | 595 |
| Prepayments | 20 | 3 152 | 3 879 |
| Short term financial assets | 21 | 3 000 | 19 246 |
| Cash and equivalent | 22 | 208 555 | 168 096 |
| **Total assets** | | **1 092 606** | **1 178 877** |

**Liabilities**

| | Notes | 2018-12-31 | 2017-12-31 |
|---|---|---|---|
| **I. Shareholders' equity** | | **1 074 139** | **1 118 067** |
| Share capital | 23.1 | 90 887 | 90 887 |
| Share premium account | | 601 539 | 680 405 |
| Reserve capital from option measurement | | 13 207 | 13 207 |
| Other capital reserves | | 349 478 | 349 478 |
| Capital from merger | | 89 782 | 89 782 |
| Retained loss | | (26 826) | (26 826) |
| Net loss | | (43 928) | (78 866) |
| **II. Long term liabilities** | | **301** | **50 483** |
| Bank loans and borrowings | 26 | - | 42 295 |
| Provisions | 25 | 21 | 21 |
| Other liabilities | | 280 | 8 167 |
| **III. Short term liabilities** | | **18 166** | **10 327** |
| Trade liabilities | 27 | 760 | 1 883 |
| Other liabilities | 27 | 10 260 | 1 283 |
| Provisions | 25 | 767 | 784 |
| Prepayments | 28 | 6 379 | 6 377 |
| **Total equity and liabilities** | | **1 092 606** | **1 178 877** |

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## 2. Profit and loss account

### For the year ended 31 December 2018

| | Notes | For 12 months ended 2018-12-31 | For 12 months ended 2017-12-31 | unaudited For 3 months ended 2018-12-31 | unaudited For 3 months ended 2017-12-31 |
|---|---|---|---|---|---|
| Sales revenues | 30 | 17 215 | 19 184 | 6 610 | 6 951 |
| **Sales revenue** | | **17 215** | **19 184** | **6 610** | **6 951** |
| Cost of goods sold | 31 | (12 794) | (14 892) | (3 382) | (3 447) |
| **Net sales profit (loss)** | | **4 421** | **4 292** | **3 228** | **3 504** |
| Other operating revenues | 32 | 12 | 44 | 10 | 44 |
| General overheads | 31 | (17 209) | (11 118) | (4 260) | (3 912) |
| Other operating expenses | 33 | (3 693) | (184) | (3 632) | (116) |
| Financial income | 34 | 108 460 | 115 047 | 47 588 | 55 768 |
| including dividend | | 65 465 | 106 451 | 14 000 | 53 551 |
| Financial costs | 35 | (126 956) | (187 960) | (34 705) | (55 261) |
| **Profit (loss) before tax** | | **(34 965)** | **(79 879)** | **8 229** | **27** |
| Income tax | 24.1 | (8 963) | 1 013 | (70) | (630) |
| **Net profit (loss)** | | **(43 928)** | **(78 866)** | **8 159** | **(603)** |
| Earnings (loss) per share: | | | | | |
| – basic from earnings (loss) for the reporting period | | -0,97 | -1,74 | 0,18 | -0,01 |
| – diluted from earnings (loss) for the reporting period | | -0,97 | -1,74 | 0,18 | -0,01 |

## 3. Statement of other comprehensive income

### For the year ended 31 December 2018

| | For 12 months ended 31.12.2018 | For 12 months ended 31.12.2017 | For 3 months ended 31.12.2018 | For 3 months ended 31.12.2017 |
|---|---|---|---|---|
| **Net profit /(loss) for period** | **(43 928)** | **(78 866)** | **8 159** | **(603)** |
| **Other comprehensive income** | - | - | - | - |
| **COMPREHENSIVE INCOME FOR PERIOD** | **(43 928)** | **(78 866)** | **8 159** | **(603)** |

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## 4. Changes in equity statement

### For the year ended 31 December 2018 pochowanr ---

| | Share capital | Share premium account | Reserve capital from option measurement | Other capital reserves | Capital from merger | Retained loss | Net loss | Total equity |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2018** | **90 887** | **680 405** | **13 207** | **349 478** | **89 782** | **(105 692)** | **-** | **1 118 067** |
| **Comprehensive income for reporting period** | | | | | | | | |
| Net loss for reporting period | - | - | - | - | - | - | (43 928) | (43 928) |
| **Transactions with owners of the parent recognized directly in equity** | | | | | | | | |
| Allocation of profit/loss | - | (78 866) | - | - | - | 78 866 | - | - |
| **As at 31 December 2018** | **90 887** | **601 539** | **13 207** | **349 478** | **89 782** | **(26 826)** | **(43 928)** | **1 074 139** |

### For the year ended 31 December 2017

| ` | Share capital | Share premium account | Reserve capital from option measurement | Other capital reserves | Capital from merger | Retained loss | Net loss | Total equity |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2017** | **90 887** | **765 438** | **13 207** | **349 478** | **89 782** | **(111 859)** | **-** | **1 196 933** |
| **Comprehensive income for reporting period** | | | | | | | | |
| Net loss for reporting period | - | - | - | - | - | - | (78 866) | (78 866) |
| Allocation of profit/loss | - | (85 033) | - | - | - | 85 033 | - | - |
| Dividend distribution | - | - | - | - | - | - | - | - |
| **As at 31 December 2017** | **90 887** | **680 405** | **13 207** | **349 478** | **89 782** | **(26 826)** | **(78 866)** | **1 118 067** |

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## 5. Statement of cash flows

### For the year ended 31 December 2018

| | Notes | For 12 months ended 2018-12-31 | 2017-12-31 |
|---|---|---|---|
| **A.Cash flow from operating activities** | | | |
| **I. Profit (loss) before tax** | | **(34 965)** | **(79 879)** |
| **II.Total adjustments** | | **18 048** | **88 879** |
| Depreciation/Amortization | 31 | 748 | 859 |
| Foreign exchange losses | | 25 | - |
| Interest and profit shares (dividends) | | (72 121) | (108 165) |
| Loss on investing activities | | 95 841 | 185 858 |
| Income tax | | (9 606) | - |
| Changes in provisions | | (17) | 67 |
| Changes in receivables | 36 | 2 139 | 8 543 |
| Changes in liabilities excluding bank loans and borrowings | 36 | 310 | 1 824 |
| Changes in prepayments/accruals | | 729 | (107) |
| Other adjustments | | - | - |
| **III.Net cash flows from operating activities (I+/-II)** | | **(16 917)** | **9 000** |
| **B.Cash flows from investing activities** | | | |
| **I. Cash in** | | **349 746** | **88 818** |
| 1. Disposal of intangibles and tangible fixed assets | | 140 | 46 |
| 2. From financial assets, including: | | 329 634 | 88 772 |
| - sale of financial assets | | 108 612 | - |
| - dividends and profit shares | | 22 662 | 76 451 |
| - repayment of loans given | | 189 043 | 1 656 |
| - interest | | 1 418 | 318 |
| - other inflows on financial assets | 36 | 7 899 | 10 347 |
| 4. Other investment inflows | 36 | 19 972 | - |
| **II.Cash out** | | **291 959** | **96 655** |
| 1. Acquisition of intangibles and tangible fixed assets | | 719 | 162 |
| 2. For financial assets, including: | | 291 240 | 96 493 |
| - acquisition of financial assets | | 71 040 | 17 993 |
| - loans given | | 220 200 | 78 500 |
| **III.Net cash flows from investing activities (I-II)** | | **57 787** | **(7 837)** |
| **C.Cash flows from financing activities** | | | |
| **I.Cash in** | | **-** | **-** |
| **II.Cash out** | | **386** | **331** |
| 1. Financial lease payables | | 341 | 291 |
| 2.Interest | | 45 | 40 |
| **III.Net cash flows from financing activities (I-II)** | | **(386)** | **(331)** |
| **D.Total net cash flows (A.III +/- B.III +/- C.III)** | | **40 484** | **832** |
| **E. Increase/decrease in cash in the balance sheet, including:** | | **40 459** | **832** |
| - change in cash due to f/x differences | | **(25)** | **-** |
| **F.Cash at beginning of period** | | **168 096** | **167 264** |
| **G.Cash at end of period (F+/- E), including:** | | **208 555** | **168 096** |
| - restricted cash | 36 | 5 | 20 |

## 6. General

Polenergia S.A. (former Polish Energy Partners S.A.), (business name altered by way of an inscription in the National Court Register (KRS) dated 11 September 2014), (the “Company”), was founded by way of executing a Notarized Deed on 17 July 1997. The Company 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, 24/26 Krucza St.

The Company scope of business includes:

- production and distribution of electricity (classified under PKD 40.10),
- production and distribution of heat (steam and hot water) (PKD 40.30),
- general construction and civil engineering (PKD 45.21),
- construction systems (PKD 45.3),
- other forms of lending, save for business which requires a concession or a license or which has been exclusively reserved for banks (PKD 65.22),
- research and development in natural and technical sciences (PKD 73.10),
- development and sale of real estate on the Company's own account (PKD 70.11),
- real property management provided to third parties (PKD 70.32),
- accounting and bookkeeping services (PKD 74.12),
- construction, urban and technology- related design (PKD 74.20),
- business and management advisory services (PKD 74.14),
- other commercial business, not classified elsewhere (PKD 74.84),
- other forms of education, not classified elsewhere (PKD 80.42),
- wholesale of solid, liquid and gaseous fuel and derivative products (PKD 51.51).

### 6.1. Company lifetime

The lifetime of the Company is unlimited.

### 6.2. Periods covered by these financial statements

These financial statements cover the year ended on 31 December 2018 and comprise comparable financial data for the year ended on 31 December 2017.

### 6.3. Composition of the Management Board and the Supervisory Board

Composition of the Company Management Board as at 31 December 2018:

Jacek Głowacki - President of the Management Board

Michał Michalski – Member of the Management Board

Robert Nowak - Member of the Management Board

On 9 April 2018 the Supervisory Board appointed the existing Vice-President Mr. Jacek Głowacki President of the Company Management Board.

On 9 April 2018 Mr. Bartłomiej Dujczyński resigned from his position of the Member of the Company Management Board.

On 8 August 2018 Mr. Robert Nowak and Mr. Jacek Suchenek were appointed Members of the Management Board.

On 30 November 2018 Mr. Jacek Suchenek resigned from his position of the Member of the Company Management Board.

On 23 January 2019 the Company received a resignation of Mr. Jacek Głowacki from his position as the President of the Management Board. Concurrently, during the meeting on 23 January 2019, the Supervisory Board appointed Mr. Michał Michalski President of the Management Board and Ms. Iwona Sierżęga Member of the Management Board.

Composition of the Company Management Board as the day of signing these financial statements:

Michał Michalski – President of the Management Board

Iwona Sierżęga – Member of the Management Board

Robert Nowak - Member of the Management Board

Composition of the Company Supervisory Board as at 31 December 2018:

Dominika Kulczyk - Chair of the Supervisory Board

Hans E. Schweickardt - Deputy Chair of the Supervisory Board

Marta Schmude-Olczak - Member of the Supervisory Board

Brian Bode - Member of the Supervisory Board

Kajetan D'Obyrn - Member of the Supervisory Board

Arkadiusz Jastrzębski - Member of the Supervisory Board

Michał Kawa - Member of the Supervisory Board

Orest Nazaruk - Member of the Supervisory Board

On 6 July 2018 resignation was filed from the position of the Supervisory Board Member by Mr. Tomasz Mikołajczak, Mr. Łukasz Rędziniak, Mr. Dominik Libicki, Mr. Mariusz Nowak and Mr. Dawid Jakubowicz. All the above-mentioned persons resigned from the Supervisory Board effective as at 12 July 2018.

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

On 19 July 2018 resignation was filed from the position of the Supervisory Board Member by Ms. Dagmara Gorzelana.

On 7 January 2019 Mr. Michał Kawa resigned from his position of the Member of the Company Supervisory Board.

On 8 January 2019 Extraordinary General Meeting dismissed Mr. Kajetan D'Obyrn from the Supervisory Board and appointed Ms. Marjolein Helder and Mr. Sebastian Kulczyk Members of the Supervisory Board.

## 7. Going concern assumption

These financial statements have been prepared based on the going concern assumption for the Company in foreseeable future, that is for no fewer than 12 months following the end of reporting period day, i.e. following 31 December 2018.

## 8. Identification of consolidated financial statements

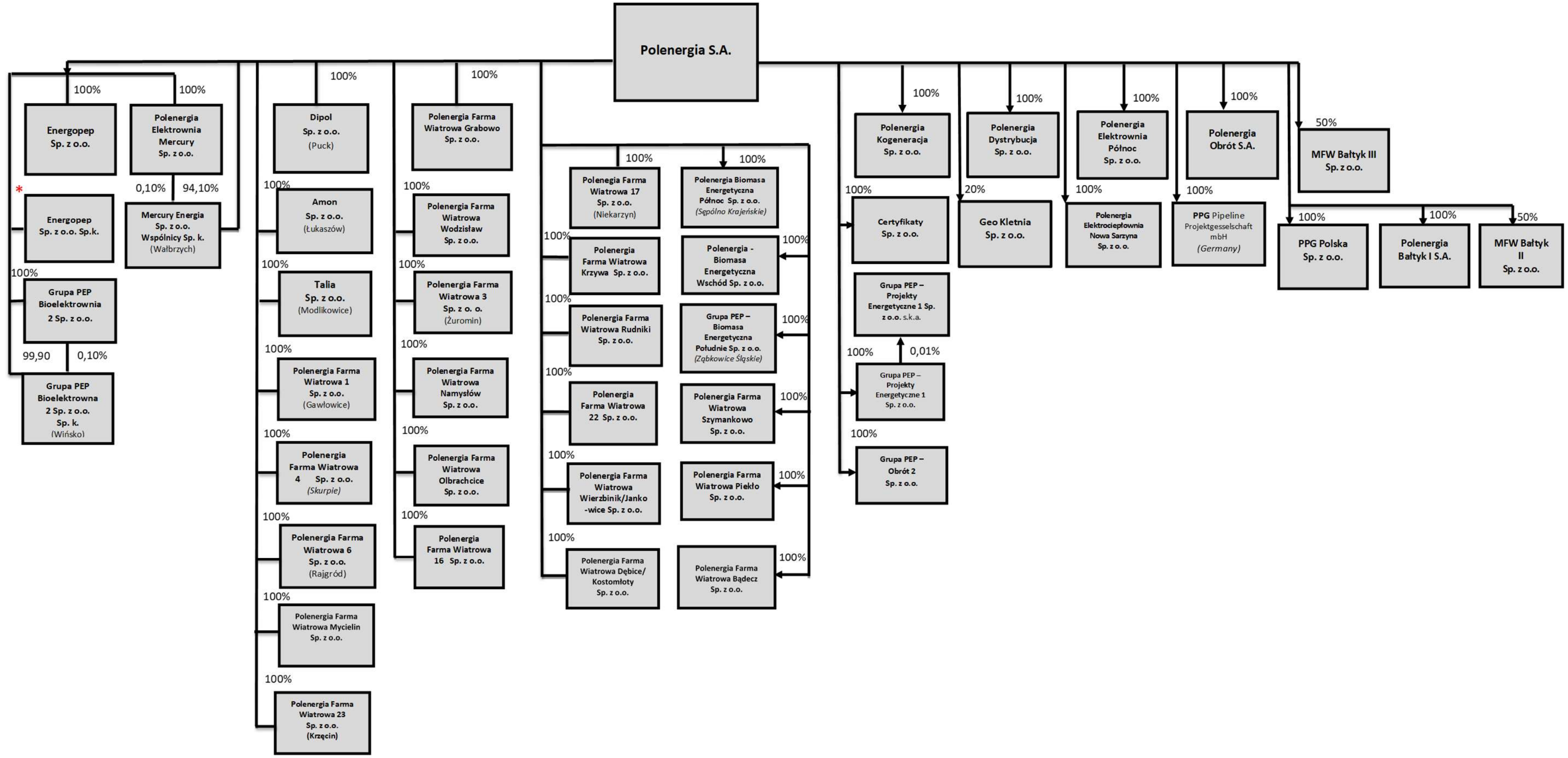
The Company prepared consolidated financial statements for the year ended on 31 December 2018 which was approved for publication on 4 March 2019.

## 9. Approval of the financial statements

These financial statements were approved for publication by the Management Board on 4 March 2019.

## 10. Company investments

As at 31 December 2018 the Company held investments in the following subsidiaries:




* 0,1% przysługuje spółce Energopep Sp. z o.o., 33,9 % POL-SA, 33% POL-D, 33% Dipol;

## 11. Accounting principles (policy) applied

The accounting principles (policies) applied in preparation of the financial statements are consistent with those applied in preparation of the Company financial statements for the year ended 31 December 2017, except for the adoption of new and amended standards referred to in Note 11.1. The new accounting principles applied as of 1 January 2018 have been outlined in relevant Notes.

### 11.1. New and modified standards and interpretations applied

**New and modified standards and interpretations applied:**

These consolidated financial statements apply for the first time the following modifications to the existing standards which took effect as of 1 January 2018:

**a) IFRS 9 "Financial Instruments"**

IFRS 9 has replaced IAS 39. This standard implements the following financial asset classification: financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and those measured at amortized cost. The classification of a financial asset is made at the time it is initially recognized and depends on the model the company has adopted for financial instrument management and the features of contractual cash flows from such instruments.

IFRS 9 requires a new model for write downs: a model of expected credit losses.

Most of the requirements under IAS 39 regarding classification and measurement of financial liabilities have been incorporated into IFRS 9 unchanged. The key change is the requirement imposed on companies to disclose, under other comprehensive income, the effect of changes of their own credit risk on account of financial liabilities determined by the financial performance to be measured at fair value through profit or loss and to recognize under profit or loss, on an one-off basis - the effects of renegotiations of facility agreements which do not trigger elimination of the relevant liability from accounting books.

The Company applied IFRS 9 retrospectively, but took advantage of an option not to recompute data for comparable periods. As a result, the comparative data is still based on the accounting principles applied by the Company earlier and referred to in the annual financial statements for the financial year ended on 31.12.2017.

It transpires from the analyses that IFRS 9 had no material impact on the financial statements of the Company. In view of such negligible impact of IFRS 9 on the financial statements, the Company does not disclose any detailed change reconciliation as at the date of implementing said standard in a separate note. The Company has not identified any changes in classification of its financial assets and liabilities following implementation of IFRS 9, therefore the classification under IAS 39 remains valid.

Assets that include loans and debtors under IAS 39 are measured under IFRS 9 at amortized cost, while assets measured at fair value through profit and loss account have not changed. The Company has not identified any other asset categories.

**b) IFRS 15 "Revenue from Contracts with Customers"**

IFRS 15: Revenue from Contracts with Customers" has replaced IAS 18 and IAS 11 and their relevant interpretations. The principles in IFRS 15 refer to any and all contracts yielding revenues. The core principle of the new standard is that revenue is recognized at the moment of transfer of control over the goods or services to a customer in the amount of the transaction price. Any goods or services which are sold in packages but can be identified separately in a package must be recognized individually, on top of that any discounts and rebates affecting the transaction price must in principle be allocated to individual elements of the package. If the consideration is variable, according to the new standard, variable amounts are recognized under revenue, if it is highly probable that no reversal of revenue recognition will take place in the future as a result of remeasurement. In addition, according to IFRS 15, any cost borne in order to win and secure a contract with a customer must be activated and recognize over time for a period of consuming benefits from such contract.

The Company adopted IFRS 15 as of 1 January 2018 which triggered changes in accounting principles applied. IFRS 15 was originally issued in May 2014. It was amended in September 2015 to defer its effective date until 1 January 2018 and in April 2016 in order to clarify a number of issues identified by the Joint IASB FASB Transition Resource Group for Revenue Recognition. According to the transition provisions of IFRS 15, the Company adopted new guidelines and applied a modified retrospective approach in that the cumulative impact of the inception of the new standard is disclosed as an adjustment of the opening balance of retained profit in the inception period, i.e. as at 1 January 2018. No adjustment has been made to the comparative previous years data. Those entities which apply the modified retrospective approach should apply it retrospectively solely with respect to those contracts which had not been performed as at 1 January 2018. The entities which apply the modified retrospective approach may also resolve to adopt a practical solution for the contract amendments.

Adoption of IFRS led to no changes in revenue recognition.

**c) Clarifications to IFRS 15 "Revenue from Contracts with Customers"**

Clarifications to IFRS 15 "Revenue from Contracts with Customers" provide additional information on core model framework of IFRS 15 on identification of individual performance obligations, determining whether the entity has the status of intermediary (agent) or whether it is the major supplier of goods and services (principal), as well as the recognition of license revenue. In addition to such clarifications, exemptions and simplified procedures have also been envisaged for entities applying this standard for the first time.

The modification has had no material impact in the Company's financial statements that would result from the first application of the new standard.

**d) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions**

The amendment to of IFRS 2 provides, without limitation, for guidelines with respect to fair value measurement of share-based payment transactions settled in cash, guidelines with respect to the change of classification of cash-settled share-based transactions for equity-settled share-based transactions, as well as guidelines with respect to recognition of tax liability of an employee arising from share-based transactions.

The modification has had no material impact in the Company's financial statements that would result from the first application of the new standard.

**e) Amendments to IFRS 4: Application of IFRS 9 “Financial Instruments” along with IFRS 4 “Insurance Contracts”**

Amendments to IFRS 4 “Insurance Contracts” address the issue of application of new standard IFRS 9 “Financial Instruments”. The published Amendments to IFRS 4 add to the already existing options and are meant to prevent previous fluctuation of performance of entities in the insurance sector in connection with the implementation of IFRS 9.

The modification has had no material impact in the Company’s financial statements that would result from the first application of the new standard.

**f) Annual Improvements to IFRS Standards 2014–2016 Cycle**

“Annual Improvements to IFRS Standards 2014 - 2016 Cycle” have modified 3 standards: IFRS 12 “Disclosure of Interests in Other Entities”, IFRS 1 “First-time Adoption of IFRS” and IAS 28 “Investments in Associates”. Modifications provide clarifications and changes with respect to the scope of standards, recognition and measurement, as well as changes in terminology and editing.

Amendments to IFRS 12 apply to annual periods commencing 1 January 2017, while all other modifications became mandatory as of 1 January 2018.

The modification has had no material impact in the Company’s financial statements that would result from the first application of the new standard.

**g) Amendments to IAS 40: Transfers of Investment Property Classification**

Amendments to IAS 40 specify the requirements with respect to transfers to or from investment property classification.

The modification has had no material impact in the Company’s financial statements that would result from the first application of the new standard.

**h) IFRIC 22: Foreign Currency Transactions and Advance Consideration**

IFRIC 22 clarifies the accounting principles for transactions that include the receipt or payment of advance consideration in a foreign currency.

The modification has had no material impact in the Company’s financial statements that would result from the first application of the new standard.

**Published standards and interpretations that do not yet apply and have not been applied by the Company prior to their effective date**

The Company has decided to refrain from early applying the following published standards, interpretations or amendments to the existing standards in these financial statements prior to the effective date of such standards, interpretations or amendments:

**a) IFRS 16 “Leases”**

IFRS “Leases” applies to annual periods commencing on 1 January 2019 or thereafter and has been approved by the European Union. It shall replace the existing IAS 17 standard, as well as the IFRIC 4 and SIC 15,27 interpretations.

The new standard brings a single lease recognition model in the lessee's accounting books, similar to the finance lease recognition under IAS 17. According to IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The most crucial element differentiating between the definitions of a lease under IAS 17 and IFRS 16 is the requirement of exerting control over the use of a specific asset identified in the contract explicitly or implicitly. Transfer of the right to use takes place whenever an identified asset is involved with respect to which the lessee has the right to practically all rewards and controls the use of such asset in a given period.

Whenever the definition of a lease is met, the right to use a given asset is recognized, including the relevant lease liability determined in the amount of discounted future payments throughout the lease term.

Expenses in connection with the use of leased assets that have been recognized to a large extent under external services, shall from now on be classified as depreciations and interest cost.

The right-to -use assets are depreciated on a straight-line basis, while lease contract liabilities are settled based on a fixed interest rate basis.

The Company shall apply IFRS 16 as of 1 January 2019.

<u>Impact of IFRS 16 on the consolidated financial statements</u>

As at the time of preparation of these financial statements, implementation of the new IFRS 16 standards was in progress. In Q4 2018 the Company reviewed most of its service procurement contracts, regardless of their current classification, with a view to select those contracts which provide for the Company’s use of assets owned by suppliers.

The Company resolved to implement said standard as of 1 January 2019. According to the transition provisions in IFRS 16, the new principles will be adopted retrospectively, with recognition of the cumulative effect of initial implementation of the new standards under equity as at 1 January 2019. Consequently, there will be no adjustment of the comparative data for the financial year 2018 (modified retrospective approach).

Individual adjustments resulting from the implementation of IFRS 16 are listed below:

<u>(a) recognition of lease payables</u>

Once IFRS 16 is implemented, the Company shall recognize lease payables in connection with the lease that was earlier classified under “operating lease” in line with the principles of IAS 17 Leases. Such payables shall be measured at the present value of the outstanding lease payments as at the inception of IFRS 16 application. For impact presentation purposes, the tables on the following pages show discounting using the marginal interest range of the Company as at 31 December 2018.

As at the initial recognition, lease payments included in the lease liability measurement include the following types of payments for the right to use the underlying asset throughout the lease term:

- fixed lease payments less any lease incentives receivable,
- variable lease payments dependent on market indices,
- amounts expected to be paid for guaranteed residual value of the leased asset,
- purchase option exercise price, provided sufficient certainty exists as to such exercise,
- penalties for termination of lease if the lessee may exercise termination option.

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In order to derive the discount rates under IFRS 16, the Company has assumed that the discount rate should reflect the cost of such financing as would be incurred to purchase the leased asset. When estimating the discount rate, the Company considered the following contractual features: type, tenor, currency and potential spread the Company would have to pay to any financial institution providing financing.

As at 31 December 2018 the discount rate derived by the Company for EUR denominated contracts was 4.54%.

The risk-free rate (RFR) has been estimated based on treasury bonds.

The Company will apply simplified principles regarding short-term leases (not exceeding 12 months) and such leases where the value of the underlying asset is low - for those leases the Group will not recognize financial liabilities and relevant right-of-use assets. Respective lease payments shall be recognized as an expense over the lease term on a straight-line basis.

(b) recognition of the right-of-use assets

Right-of-use assets are measured at cost.

As at 1 January 2019 the Company adopted asset recognition at the amount of liabilities adjusted for any temporary amounts recognized in the balance sheet.

(c) application of estimates and judgments

Implementation of IFRS 16 requires certain estimates, judgments and calculations which impact on the measurement of finance lease liabilities and right-of-use assets. They include, without limitation:

- assessment whether the contract provides for a lease in line with IFRS 16

- determination of term of contracts (including indefinite term contracts and extendable contracts)

- determination of the discount rate applied in order to discount future cash flows,

- determination of the depreciation rate.

(d) Application of practical expedients

At the initial application of IFRS 16 the Company shall take advantage of the following practical expedients permitted by the standard:

- a single discount rate shall be applied to the lease contract portfolio which share similar characteristics,

- operating lease contracts with the outstanding lease term not exceeding 12 months shall be recognized as short term lease as at 1 January 2019,

Impact on the statement of financial position

Estimated impact of IFRS 16 implementation with respect to the contracts under review on the recognition of additional financial liabilities and relevant right-of-use assets is shown in the tables below:

| **Right-of-use assets/Lease liabilities** | |
|---|---|
| Other real estate | 4 128 |
| **Total** | **4 128** |

Impact on equity

Based on the analyses performed it has been corroborated that the implementation of IFRS 16 will have no impact on retained profit and equity as at 1 January 2019 in view of the recognition of the right-of-use assets and lease liabilities in identical amount.

Impact on financial ratios

As practically all lease contracts have been recognized in the Company's balance sheet, implementation of IFRS 16 by the Company will impact its ratios, including debt to equity ratio. In addition, following implementation of IFRS 16 measurement of profit will change (including, without limitation. operating profit, EBITDA), as well as cash flows. The Company reviewed the impact of IFRS 16 on the deferred tax and identified no differences.

**b) Amendments to IFRS 9: Prepayment Features with Negative Compensation**

This amendment to IFRS 9 applies to annual periods commencing on 1 January 2019 or thereafter, with possible early application. As a result of the amendment to IFRS 9 entities will be permitted to measure financial assets with prepayment with negative compensation at amortized cost or at par value using other total revenue provided a specific condition is met - instead of measurement at par value through profit and loss.

The Company shall apply the abovementioned changes as of 1 January 2019.

It is an expectation of the Company that at the initial recognition, such changes will have no material impact on the financial statements of the Company.

**c) IFRS 17 “Insurance Contracts”**

IFRS 17 “Insurance Contracts” was issued by the International Accounting Standards Board on 18 May 2017 and applies to annual periods commencing on 1 January 2021 or thereafter.

The new IFRS 17 Insurance Contracts will replace the existing IFRS 4 which permits diverse practices with respect to settlement of insurance contracts. IFRS 17 will fundamentally change the accounting of all entities dealing with insurance and investment contracts.

The Company will apply IFRS 17 after it is approved by the European Union.

It is expected that this modification will have no material impact in the Company’s financial statements that would result from the first application of the new standard.

**d) Amendments to IAS 28 “Investments in Associates and Joint Ventures””**

This amendment applies to annual periods commencing on 1 January 2019 or thereafter. Amendments to IAS 28 “Investments in Associates and Joint Ventures”” clarify that with respect to long-term interests in an associate or a joint venture to which equity method is not applied, the companies shall use IFRS 9. In addition, the Board also published an example illustrating application of the requirements under IFRS 9 and IAS 28 to long-term interests in an associate of a joint venture.

The Company shall apply the abovementioned changes as of 1 January 2019.

It is expected that this modification will have no material impact in the Company’s financial statements that would result from the first application of the new standard.

**e) IFRIC 23: Uncertainty over Income Tax Treatments**

IFRIC 23 clarifies the requirements regarding recognition and measurement under IAS 12 in the context of uncertainties in income tax recognition. Such guidelines apply to annual periods commencing on 1 January 2019 or thereafter.

The Company shall apply the abovementioned changes as of 1 January 2019.

It is expected that this modification will have no material impact in the Company’s financial statements that would result from the first application of the new standard.

### f) Annual Improvements to IFRS Standards 2015–2017 Cycle

In December 2017 the International Accounting Standards Board published "Annual Improvements to IFRS Standards 2015–2017 Cycle" which amend 4 standards: IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Taxes" and IAS 23 "Borrowing Costs".

The improvements provide clarifications and more specific guidelines under standards with respect to recognition and measurement.

The Company shall apply the abovementioned changes as of 1 January 2019.

It is expected that this modification will have no material impact in the Company's financial statements that would result from the first application of the new standard.

### g) IAS 19 "Employee Benefits"

These amendments to IAS 19 apply to annual periods commencing on 1 January 2019 or thereafter. These amendments outline the requirements for accounting recognition of plan amendment, curtailment or settlement.

The Company shall apply the abovementioned changes as of 1 January 2019.

It is expected that this modification will have no material impact in the Company's financial statements that would result from the first application of the new standard.

As at the date of these financial statements this amendment has not yet been approved by the European Union.

### h) Amendments regarding reference to the Conceptual Framework for Financial Reporting

Amendments regarding reference to the Conceptual Framework for IFRS shall take effect as of 1 January 2020

### i) IFRS 3 "Business Combinations",

This amendment to IFRS 3 had modifies the definition of a "business". The newly implemented definition has been narrowed down and is likely to result in more acquisition transactions being classified under obtaining asset control. These amendments to IFRS 3 apply to annual periods commencing on 1 January 2020 or thereafter.

As at the date of these financial statements this amendment has not yet been approved by the European Union.

**j) IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Principles (Policies), Changes in Accounting Estimates and Errors”**

The Board published a new definition of “materiality”. Amendments to IAS 1 and IAS 8 specify in more detail the definition of materiality and increase consistency among the standards, however they are not expected to have any significant impact on the preparation of financial statements. This amendment is mandatory for annual periods commencing on 1 January 2020 or thereafter.

As at the date of these financial statements such amendments have not yet been approved by the European Union.

**k) IFRS 14 “Regulatory Deferral Accounts”**

This standard permits the entities which prepare their financial statements in line with IFRS for the first time (as at 1 January 2016 or thereafter) to recognize regulated activities (with regulated prices) in accordance with the previously applied accounting principles. For the sake of better comparability against entities that have already been applying IFRS and have not been disclosing such amounts, according to the published IFRS 14, the amounts resulting from regulated activities should be presented separately both in the financial standing statement and in the profit and loss account, as well as in the statement of other comprehensive income.

The European Union has decided not to approve IFRS 14.

**l) Amendments to IFRS 10 and IAS 28 with respect to Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

Said amendments have solved the problem of the existing inconsistency between IFRS 10 and IAS 28. The exact accounting recognition depend on whether the non-cash assets sold or contributed to the associate or a joint venture contain business.

In the event the non-cash assets contain business, the investor shall disclose full gain or loss on transaction. If, however, such assets do not fall under the definition of business, the investor shall recognize gain or loss excepting that part which comprises interests of other investors.

Said amendments were published on 11 September 2014. No effective date of such amended provisions has been determined by the International Accounting Standards Board.

As at the date of these financial statements, approval of those amendments has been deferred by the European Union.

### 11.2. The rules underlying these financial statements

These financial statements have been prepared in accordance with the International Accounting Standards/ International Financial Reporting Standards (IAS/IFRS) approved by the European Union.

IFRS include standards and interpretations approved by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”).

According to the applicable provisions of law, these financial statements for the financial year ended on 31 December 2018 together with the comparable data for the financial year ended on 31 December 2017 have been audited by chartered auditor. Data for Q4 2018 and comparable data for Q4 2017 was not audited by chartered auditor.

These financial statements have been prepared in accordance with the historical cost method, except for the following material items in the balance sheet: loans and borrowings measured at adjusted acquisition price.

### 11.3. Significant measures based on professional judgment

Certain information provided in these consolidated financial statements are based on the Company's assessment and professional judgment. So derived estimates may often not reflect the actual performance.

### 11.4. Significant measures based on estimates

The underlying assumptions regarding the future and other key uncertainty factors as at the balance sheet date have been discussed below. They are connected with a material risk of significant adjustment of balance sheet assets and liabilities in the immediately following financial year and include:

- impairment of shares in subsidiaries and jointly controlled entities referred to in more detail in Note 34 and Note 35,
- impairment of other financial assets referred to in more detail in Note 11.13,
- wind farm development capex write-downs (Note 18),
- deferred tax,
- impairment of non-financial fixed assets referred to in more detail in Note 11.9,
- impairment of trade receivables referred to in more detail in Note 11.16.

In the year ended on 31 December 2018 no changes were made in determining the Company's estimates that would impact any information disclosed in the consolidated financial statements.

### 11.5. Measurement currency and currency of the financial statements

The measurement currency and the reporting currency of these financial statements is Polish Zloty.

### 11.6. Intangible Assets

Intangible assets which have been separately acquired or produced (provided they meet the criteria for being recognized as development expenditure) are initially recognized at acquisition or production cost. The acquisition cost of intangible assets acquired in a business combination transaction is equivalent to their fair value as at the date of the combination. Following initial recognition, intangible assets are recognized at acquisition or production cost less accumulated amortization and impairment losses, if any. With the exception of capitalized development expenditure, expenditure on intangible assets produced by the Company is not capitalized and is charged to expenses in the period it was incurred.

The Company determines whether intangible assets have definite or indefinite useful lives. Intangible assets with definite useful lives are amortized over their useful lives and tested for impairment each time there is an indication of impairment. The amortization period and method with respect to intangibles with a definite useful life are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are disclosed by changing the amortization period or amortization method, as appropriate, and are accounted for as changes in accounting estimates. Amortization charges on intangible assets with definite useful lives are recognized under profit or loss in the category that corresponds to the function of a given intangible asset.

Intangible assets with indefinite useful lives and those which are not used are tested for impairment annually with respect to individual assets or at the level of the relevant cash generating unit.

Expected useful lives are as follows:

| | |
|---|---|
| Patents, licenses | 1 year |
| Software | 2–5 years |
| Other intangible assets | 5 years |

Expenditure on research activities is charged to the profit and loss account at the time they are incurred. Development expenditure in connection with a given project are carried forward provided that they may be expected to be recovered in the future. After initial recognition of development expenditure, the historical cost model is applied which requires that assets be disclosed at acquisition cost less accumulated depreciation/amortization and accumulated impairment. Any expenditure carried forward is amortized over the expected period of generating sales revenue under a given project.

The development expenditure is reviewed for impairment annually in case a given asset has not yet been used, or more frequently if an indication of impairment has been identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

Gains or losses from derecognition of an intangible asset in the balance sheet are measured as the difference between net proceeds from the sale of the asset and its carrying amount, and are recognized in the profit and loss account upon their derecognition in the balance sheet.

### 11.7. Non-current fixed assets

Non-current fixed assets are measured at acquisition cost/production cost less depreciation and impairment losses, if any. With respect to perpetual usufruct of land, acquisition price shall be understood as the acquisition price of respective right specified in the administrative decision issued by the community authority at the time such right was conferred.

The initial value of non-current fixed assets is represented by their acquisition cost plus all costs directly related to such acquisition and bringing such assets to the working condition for its intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognized when incurred if relevant recognition criteria are fulfilled. Costs incurred after a non-current fixed asset has been placed in service, such as costs of maintenance or repair, are charged to the profit and loss account when incurred.

Upon acquisition, non-current fixed assets are divided into components of material value which can be assigned various economic useful lives. The overhaul cost is also deemed a component thereof.

non-current fixed assets other than land property are depreciated using the straight-line method over their estimated useful lives.

| | |
|---|---|
| Buildings, structures, premises and civil engineering structures | 20 years |
| Plant and equipment | 2.5−20 years |
| Vehicles | 2.5−5 years |
| Other non-current fixed assets | 5−7 years |

Residual values, useful lives and methods of depreciation of assets are reviewed annually and, if necessary, adjusted effective as of the beginning of the financial year just ended.

Individual fixed assets are recognized separately and depreciated over their useful lives.

Any item of non-current fixed assets can be derecognized in the balance sheet upon disposal or when no future economic benefits are expected from its further use. Any gains or losses on derecognition of an asset from the balance sheet (derived from the delta between net proceeds from its sale, if any, and the carrying amount of the asset) are disclosed in the profit and loss account of the period in which derecognition took place.

### 11.8. Non-current fixed assets under construction

Non-current fixed assets under construction are measured at the amount of aggregate costs directly attributable to their acquisition or production, less impairment losses, if any. Investment materials are also recognized as non-current fixed assets under construction. Non-current fixed assets under construction are not depreciated until completed and placed in service.

### 11.9. Impairment losses on non-financial fixed assets

An assessment is made by the Company as at the end of each reporting period whether there is any indication that any of non-financial fixed assets may be impaired. If it is found such indications exist, or if it is required to perform annual impairment test, the Group estimates the recoverable amount of a given asset or a cash-generating unit to which a given asset belongs.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less selling costs of such asset or unit, or its value in use. Such recoverable amount is determined for individual assets, unless a given asset does not independently generate cash flows being largely independent from those generated by other assets or asset groups. In the event the carrying amount of an asset exceeds its recoverable amount, impairment takes place and an impairment loss is recognized, reducing the asset's carrying amount to the established recoverable amount. In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to a given asset. Impairment losses with respect to assets in continuing operations are recognized in those expense categories which are consistent with the function of the impaired asset.

As at end of each reporting period the Company makes an assessment whether there is any indication that the previously recognized impairment loss of an asset is redundant or whether it should be reduced. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if and to the extent there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such event, the carrying amount of the asset is increased up to its recoverable amount. Such increased amount may not exceed the carrying amount of the asset that would have been determined (after accumulated amortization/depreciation) if no impairment losses had been recognized on that asset in the preceding years. Reversal of an impairment loss is immediately recognized as income in the profit and loss account. Following reversal of an impairment loss, in subsequent periods the amortization/depreciation charge related to a given asset is adjusted so that its revised carrying amount, less its residual value, can regularly be written down over the remaining useful life of the asset.

### 11.10. Investment real estate

Investment real estate is initially recognized at acquisition price including transaction cost. The carrying amount of investment real estate component includes the replacement cost of the component of real estate when incurred, provided that recognition criteria are met; no ongoing maintenance cost is included therein.

Following initial recognition, real estate's value is reduced to allow for accumulated depreciation and impairment losses, if any.

Investment real estate is derecognized whenever it has been sold or permanently ceased to be used in the event no future rewards on sale thereof are expected. Any gains or losses on derecognition of real estate from the balance sheet are disclosed in the profit and loss account of the period in which derecognition took place.

Assets are transferred to investment real estate category only in the event the way they are used is changed, confirmed by way of termination of use of a given asset by its owner, execution of an operating lease contract or completion of construction/ production of such investment real estate. In the event an asset used by its owner, i.e. the Company becomes investment real estate, the Company shall apply the principles referred to in the section Tangible fixed assets until there is a change in the way it is used.

Upon acquisition, investment real estate is divided into components of material value which can be assigned various economic useful lives. The overhaul cost is also deemed a component thereof.

Investment real estate other than land property are depreciated using the straight-line method over their estimated useful lives.

| | |
|---|---|
| Buildings, structures, premises and civil engineering structures | 14 years |
| Plant and equipment | 2.5−20 years |

Residual values, useful lives and methods of depreciation of the components of investment real estate are reviewed annually and, if necessary, adjusted effective as of the beginning of the financial year just ended.

Individual components of investment real estate are recognized separately and depreciated over their useful lives.

### 11.11. Investments in subsidiaries, associates and jointly controlled entities

Investments in subsidiaries, associates and jointly controlled entities include holding interest in entities that are not listed on active market, hence their fair value cannot be reliably measured. Such interest is disclosed in the balance sheet at historical cost less impairment losses, if any.

As at each end of reporting period day the Company performs an analysis of shares it holds in subsidiaries and jointly controlled entities for identification of any indications of impairment of a given project. In case such indications have been identified, for such projects the Company performs an analysis including, without limitation, a comparison of the share value with the net asset worth of subsidiaries or with the financial projections developed for the tested businesses.

The impairment loss is recognized as an amount of the excess of the balance sheet value of an asset over its recoverable amount. The recoverable amount is the higher of the two: the assets' fair value less selling expenses or their value in use.
Those shares which have been identified as impaired are evaluated on each end of reporting period day for indications of a potential reversal of such impairment loss.

### 11.12. Financial assets

As of 1 January 2018 the Company has been categorizing financial assets as follows:

- Financial assets measured at amortized cost
- Financial assets measured at fair value through profit or loss,
- Financial assets measured at fair value under other comprehensive income,

The classification depends on the model the Company has adopted for financial instrument management and the terms of contractual cash flows from such instruments. The Company reclassifies investments in debt instruments only when the asset management model changes.

Recognition and derecognition

Financial assets are recognized whenever the Company becomes a party to contractual provisions of a given instrument. Financial assets are excluded from accounting books when the right to generate cash flows on account of such financial assets expired or were transferred and the Company transferred substantially all the risk and all benefits attributable to the ownership title.

Measurement as at the initial recognition

On initial recognition, financial assets are recognized by the Company at fair value plus – in the case of financial assets other than those measured at fair value through profit or loss – any transaction costs directly attributable to the purchase of such financial asset. Transaction costs attributable to financial assets measured at fair value through profit or loss are recognized in profit or loss.

***Debt instruments - Financial assets measured at amortized cost***

SPPI (solely payment of principal and interest) debt instruments are measured at amortized cost. Interest revenue is measured using the effective interest rate method and disclosed under "interest revenue" under profit or loss. Impairment losses are recognized in line with the accounting principle referred to in Note 11.13 and presented under item "impairment of financial assets". In particular, the Company classifies the following under that category:

- trade debtors other than those subject to factoring
- loans that meet the SPPI requirement test which are disclosed, in line with the business model, as

***Debt instruments - Financial assets measured at fair value through profit or loss***

Those assets which do not meet the measurement criteria at amortized cost or at fair value under other comprehensive income are measured at fair value through profit or loss.

***Equity instruments - Financial assets measured at fair value through other comprehensive income***

Following the initial recognition, the Company measures all equity instrument investments at fair value. The Company chose to present gains and losses from change of the fair value of equity instruments under other comprehensive income. Such choice results in gains and losses on account of changes of the fair value not being reclassified subsequently to profit or loss when the investment is no longer recognized. Dividends on such investments are recognized under profit or loss when the right of the Company to receive distribution is established. Impairment losses (and their reversal) with respect to equity investments measured at fair value thorough other comprehensive income are not presented independently from other changes of fair value.

According to IFRS 9 comparative data in these financial statements are based on the IAS 39 assumptions referred to hereinbelow:

Financial assets are classified into the following categories:

- Financial assets held to maturity,
- Financial assets at fair value through profit or loss,
- Loans and receivables,
- Financial assets available for sale.

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Company intends to and is able to hold to maturity, other than:

- Financial assets designated to be measured at fair value through profit or loss when recognized for the first time,
- Financial assets designated as available for sale,
- Financial assets that qualify as loans and receivables.

Financial assets held to maturity are measured at amortized cost using the effective interest rate method. Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the final day of the reporting period.

A financial asset measured at fair value through profit or loss is an asset that meets either of the following conditions:

a) It is classified as held for trading. Financial assets are classified as held for trading if they:

- have been acquired principally for the purpose of being sold in the near future,
- are part of a portfolio of identified financial instruments that are managed together and for which there is probability of profit-taking in the near future,
- are derivative instruments (except for those which are part of hedge accounting or financial guarantee contracts),

b) It has been assigned to such category on initial recognition, in accordance with IAS 39.

The entire contract may be designated as financial asset measured at fair value through profit or loss if it contains one or more embedded derivative instruments. This does not apply to situations where an embedded derivative does not materially affect the cash flows of the contract or its separation is expressly prohibited. Financial assets may be designated as financial assets measured at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency when both the measurement and the principles of recognizing gains and losses are subject to different regulations, or (ii) the assets are part of a group of financial assets that are managed and assessed based on fair value, according to a documented risk management strategy, or (iii) the financial assets contain embedded derivative instruments which should be recognized separately.

Loans given and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets unless their maturity exceeds 12 months following the end of the reporting period. Loans given and receivables with maturities exceeding 12 months following the end of the reporting period are classified as non-current assets.

Financial assets available for sale are non-derivative financial assets which have been classified as available for sale, or which do not belong to any of the previous three categories. Financial assets available for sale are recognized at fair value, with no deduction of the sale transaction costs, determined by reference to their market value as at the day marking the end of the reporting period. If no quotations from an active market are available and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at acquisition cost less impairment losses, if any. The positive or negative difference between the fair value of available-for-sale financial assets (if they have a market price derived from an active market or their fair value can be otherwise established in a reliable manner) and their acquisition cost is recognized, net of any deferred tax, under other comprehensive income. Loss of value of available-for-sale financial assets resulting from impairment is recognized under other expenses.

Purchase or sale of financial assets is recognized as at the transaction date.

On initial recognition, financial assets are recognized at fair value plus – in the case of financial assets other than those measured at fair value through profit or loss – any transaction costs directly attributable to the purchase.

A financial asset is derecognized from the balance sheet upon expiry or transfer of the rights to cash flows from the asset whereby the Company transferred substantially all risks and rewards related to that financial asset; this usually takes place upon sale of the instrument or where all cash flows attributable to such instrument are transferred to an independent third party.

### 11.13. Financial asset impairment, excepting trade receivables

The Company performs assessment of expected credit losses in connection with debt instruments measured at amortized cost and at fair value through other comprehensive income, notwithstanding whether or not any indication of impairment occurred.

Individual impairment loss of loans given is estimated by the Company using the probability of a default established based on the financial information on the borrower.

The Company applies a three-step impairment model to financial assets, excepting trade receivables:

- Step 1: balances for which credit risk has not increased significantly since their initial recognition. The expected credit losses are determined based on the probability of a default within a 12-month period (i.e. the total expected credit loss is multiplied by the probability that such loss will occur within the next 12 months),

- Step 2: deals with the balances for which credit risk has increased significantly since their initial recognition yet there are no objective impairment indications. The expected credit losses are determined based on the probability of a default throughout the entire contractual useful life of a given asset.
- Step 3: deals with the balances with an objective impairment indication.

To the extent an assessment is required, in line with the abovementioned model, whether there has been any significant increase of the credit risk, the Company acknowledges the following indications when performing such assessment:

- The loan is at least 30 days past due,
- Legislative, technological or macroeconomic changes have taken place which have a significant adverse impact on the debtor,
- Information has been obtained about any material adverse event with respect to the loan or other loans of the debtor in question with another lender, e.g. termination of any loan agreement, default thereunder or renegotiations of terms and conditions thereof in view of any financial problems, etc.
- The debtor has lost an important customer or supplier or has experienced other adverse changes in its market.

### 11.14. Lease

***The Company as a lessor***

Lease contracts, which include rental contracts under which the Company retains all risks and rewards resulting from the ownership of the leased asset are classified as operating leases. Lease expenses are recognized in current cost, while revenue generated by the leased object is recognized in revenue of a given period.

***The Company as a lessee***

Finance leases, which transfer substantially all the risks and all the rewards incidental to the ownership of the leased asset onto the Company, are recognized in the balance sheet at the inception of the lease at the lower of: the fair value of the non-current asset leased or the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability under lease so as to produce a fixed interest rate on the remaining balance of the liability. The finance charge is taken directly to profit and loss account.

Fixed assets in use under finance leases are depreciated over the shorter of their estimated useful life and the lease term.

Lease contracts under which the lessor retains substantially all risks and rewards resulting from the ownership of the leased asset are classified as operating leases. Operating lease payments are recognized as an expense in the profit and or loss account over the lease term on a straight-line basis.

### 11.15. Inventories

Inventories are measured at the lower of acquisition/production cost and net realizable value. Costs incurred in bringing materials inventories to their present location and condition are included in and increase the cost of the inventories and measured at acquisition cost determined using the weighted average formula.

The cost of finished products and cost of work in progress include the costs of direct materials and workmanship, as well as the reasonable indirect cost of production determined, assuming the regular manufacturing capacity.

Net realizable value is the selling price realizable as at the end of the reporting period, net of VAT and excise duty, less any rebates, discounts and other similar items and less the costs to complete and costs to sell.

Inventories include materials and goods, prepayments for deliveries and development expenses for wind farms whose operating potential has been deemed probable.

### 11.16. Short-term and long-term receivables impairment

Trade receivables other than lease receivables described in more detail in section 11.14 are measured at amounts due less impairment losses.

IFRS 9 requires that the expected loss in trade receivables is estimated notwithstanding whether or not any indications giving rise to such impairment loss occurred. Said standard provides for a 3-step classification of financial assets, impairment-wise. (1) Step 1: balances where no significant increase of credit risk has occurred since the initial recognition and for which expected credit loss has been determined based on the probability of insolvency within a 12-month period, (2) Step 2: balances where a significant increase of credit risk has occurred since the initial recognition and for which expected credit loss has been determined based on the probability of insolvency throughout the entire loan term. (3) Step 3: balances where impairment has been determined. This standard permits certain simplified classification of short-term receivables and recognize them under step 2.

Homogenous/fragmented trade receivables which have been estimated, upon a portfolio analysis, to be unimpaired (Steps 1 and 2) - estimation of write-downs, if any, is based on the application of a write-down matrix against historical data adjusted for future impacts.

Trade receivables from individually significant entities (customers buying large volume of goods in a given segment, cooperation based on long-term contracts) - estimation of write-downs, if any, is based on an analysis of trade receivables from individual customers.

Receivables from the state budget are presented as other short-term receivables, except for corporate income tax receivable, disclosed as a separate item of the statement of financial position.

If the effect of the time value of money is material, the receivable is measured by discounting expected future cash flows to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money. If the discount method is applied, any increase in the amount of the receivables reflecting the passage of time is recognized as finance income.

### 11.17. Foreign currency transactions

Transactions denominated in currencies other than Polish zloty are translated into Polish zlotys at the rate of exchange prevailing on the transaction date.

Cash, bank loans and other monetary assets and liabilities denominated in currencies other than Polish zloty are translated into Polish zlotys at the average rate quoted by NBP. Foreign exchange differences on translation are recognized in finance income or cost, as appropriate.

Non-cash assets and liabilities recognized at historical cost denominated in foreign currencies are disclosed at historical foreign exchange rate as at the transaction day. Non-cash assets and liabilities recognized at fair value denominated in foreign currencies are translated to their fair value at the exchange rate prevailing on the measurement day.

The following exchange rates were used for measurement purposes:

(PLN K)

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| USD | 3.7597 | 3.4813 |
| EUR | 4.3000 | 4.1709 |
| GBP | 4.7895 | 4.7001 |

### 11.18. Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of cash flows comprise cash in hand, bank deposits, shares in investment funds, treasury bills and bonds not classified as investing activities. Cash at bank deposits meet the SPPI test and the "held to collect" business model test, therefore they are measured at amortized cost less the impairment loss determined as per the expected loss model.

### 11.19. Prepayments and Accruals

The Company recognizes prepayments where costs relate to future reporting periods. Accrued expenses are recognized at probable amounts of current-period liabilities.

### 11.20. Share capital

Share capital is shown in the amount defined in the Statutes, and entered in the court register. Any difference between the fair value of consideration received and the par value of shares is recognized in statutory reserve funds under share premium account.

Where shares are repurchased, relevant payment amounts are charged to equity and disclosed in the balance sheet as treasury shares. Declared capital contributions to be made in future are disclosed as called up but unpaid capital.

### 11.21. Provisions

Provisions are recorded whenever the Company is under an existing obligation (by operation of law or by common practice) resulting from past events and when it is certain or very likely that performance of such obligation will necessitate the outflow of resources with inherent economic benefits and when it is possible to provide a reliable estimation of the amount of such obligation.

Where expenditure required to settle the obligation is expected by the Company to be reimbursed by another party (e.g. under an insurance agreement), the reimbursement is recognized as a separate asset only when virtual certainty exists that it will be actually received. Cost related to a given provision is recognized in profit or loss net of any recoveries. If the effect of the time value of money is material, the amount of a provision is determined by discounting the projected future cash flows to their present value, using a pre-tax discount rate reflecting the current market estimates of the time value of money, as well as any risk associated with a given obligation. If the discount method is applied, an increase in the provision as a result of the passage of time is recognized as finance costs.

### 11.22. Provision for length-of-service awards and retirement pays

In accordance with the company remuneration systems, the Company employees are entitled to retirement pays. Retirement pays are one-off benefits, paid out when an employee retires. Amounts of such retirement pays depend on the length of service and the average remuneration of the employee. The Company recognizes a provision for future retirement pay obligations in order to allocate costs to the periods to which they relate. According to IAS 19, retirement pays are classified as defined post-employment benefit plans. Accrued obligations are equal to the amount of discounted future payments, taking into account employee turnover, and relate to the period ending on the reporting date. Information on demographics and employee turnover is based on historical data.

### 11.23. Interest-bearing bank loans, borrowings and other debt instruments

All bank loans, borrowings and other debt instruments are initially recognized at fair value net of transaction costs associated with such loan or borrowing.

After initial recognition, interest-bearing loans, borrowings and other debt instruments are measured at amortized cost using the effective interest rate method.

Amortized cost includes the cost of obtaining the loan or the borrowing, as well as any discounts or premiums obtained in connection with the liability.

Any gains or losses are taken to profit and loss account when the liability is derecognized or accounted for using the effective interest rate method.

### 11.24. Trade payables and other payables

Short-term trade payables are recognized at nominal amounts payable. Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading, and financial liabilities initially designated as financial liabilities at fair value through profit or loss. Financial liabilities are classified as held for trading if they have been acquired for the purpose of being sold in the near future. Derivative financial instruments, including separated embedded derivatives, are also classified as held for trading, unless they are considered as effective hedges. Financial liabilities may be designated as financial liabilities measured at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases, (ii) the liabilities are part of financial liabilities of the Company that are managed and measured based on fair value, according to a documented risk management strategy, or (iii) the financial liabilities contain embedded derivative instruments which should be presented separately.

Financial liabilities other than financial instruments measured at fair value through profit or loss are measured at amortized cost using the effective interest rate method.

The Company derecognizes a financial liability when it has been extinguished, that is when the obligation specified in the contract has either been discharged or cancelled or has expired. When an existing debt instrument between the same parties is replaced by another instrument whose terms are substantially different, the Company treats such replacement as if the former financial liability was extinguished and recognizes a new liability. Similarly, material modifications to the terms of a contract concerning an existing financial liability are presented by the Company as the original liability being extinguished and a new financial liability being recognized. Any differences in the respective carrying amounts arising in connection with such replacement are charged to the profit and loss account.

Other non-financial liabilities include, in particular, value added tax payable to tax authorities and liabilities under prepayments received, to be settled through the supplies of merchandise, services or fixed assets. Other non-financial liabilities are recognized at their amounts due.

### 11.25. Recognition of revenue

For the periods commencing on 01.01.2018, the Company applies IFRS 15, while for the comparative period IAS18 is applied.

IFRS “Revenue from Contracts with Customers” applies to annual periods commencing on 1 January 2018 or thereafter.

The principles in IFRS 15 refer to any and all contracts yielding revenues. The core principle of the new standard is that revenue is recognized at the moment of transfer of control over the goods or services to a customer in the amount of the transaction price. Any goods or services which are sold in packages but can be identified separately in a package must be recognized individually, on top of that any discounts and rebates affecting the transaction price must in principle be allocated to individual elements of the package. The review showed that the new standards have not changed the way revenue is recognized. The accounting policies applicable to individual revenue categories have been listed below.

#### 11.25.1. Sale of merchandise and products

Revenue is recognized when significant risks and rewards incidental to the ownership of merchandise or products have been transferred to the customer, and if the revenue amount can be reliably estimated.

#### 11.25.2. Provision of services

Revenue from the provision of services is recognized based on the progress status of a given service. In case the outcome of a contract cannot be reliably estimated, revenue from such contract is recognized only to the amount of cost the Company believes is recoverable.

#### 11.25.3. Interest

Interest gains are recognized gradually as interest accrues (using the effective interest rate method, where the effective interest rate is one which discounts future cash flows over the estimated life of the financial instruments) relative to the net carrying amount of a given financial asset.

#### 11.25.4. Dividends

Dividends are recognized when the shareholders’ rights to receive distribution are established.

#### 11.25.5. Lease income (operating lease)

Revenue from investment real estate lease are recognized on a straight-line basis throughout the lease term for contracts in progress.

#### 11.25.6. Grants

If there is reasonable certainty that a grant will be received and that all related conditions will be fulfilled, grants are recognized at fair value.

If a grant relates to a cost item, it is recognized as income in matching with the expenses it is intended to compensate for. Where the grant relates to an asset, its fair value is credited to a deferred income account and subsequently it is released to the profit and loss account over the expected useful life of the relevant asset in equal annual instalments.

## 11.26. Taxes

### 11.26.1. Current tax

Current tax asset and income tax payable for the current period and for previous periods are measured at the amount expected to be paid to (or recovered from) tax authorities, using the tax rates and tax legislation that have been enacted or substantively enacted as at the end of the reporting period.

### 11.26.2. Deferred tax

For the purposes of financial reporting, deferred tax is calculated using the balance-sheet liability method in relation to temporary differences existing as at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts as disclosed in the financial statements.

A deferred tax liability provision is recognized for all taxable temporary differences:

- except where the deferred tax liability provision arises from the initial recognition of goodwill or the initial recognition of an asset or liability attributable to a transaction other than business combination and, at the time of the transaction, affecting neither the pre-tax profit/loss nor the taxable profit or loss, and
- in the case of taxable temporary differences attributable to investments in subsidiaries or associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled by the investor and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, as well as unused tax credits and unused tax losses brought forward, to the extent it is probable that taxable income will be available against which the deductible temporary differences, tax credits and tax losses can be utilized:

- except to the extent that the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability attributable to a transaction other than business combination, and, at the time of the transaction, affects neither the pre-tax profit/loss nor the taxable profit or the tax loss, and
- in the case of deductible temporary differences attributable to investments in subsidiaries or associates and interests in joint ventures, deferred tax asset is only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of a deferred tax asset is reviewed as at the end of each reporting period and is gradually reduced to the extent it is no longer probable that sufficient taxable income will be generated to allow the deferred tax asset to be realized in full or in part. As at the end of each reporting period, any unrecognized deferred tax asset is reassessed and recognized to the extent that it is probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liability provisions are calculated using tax rates expected to be effective at the time of realization of the asset or liability, based on tax rates (and tax legislation) effective at the end of the reporting period or tax rates (and tax legislation) which at the reporting date are certain to be effective in the future.

Income tax on items posted directly to equity is recognized in equity rather than in the profit and loss account.

Deferred tax assets and deferred tax liability provisions are offset by the Company if and only if has a legally enforceable right to offset current tax asset and income tax payable, and the deferred tax relates to the same taxpayer and the same tax authority.

#### 11.26.3. Value added tax

Revenue, expenses, assets and liabilities are recognized net of VAT, except in the following cases:

- where the value added tax paid on the purchase of assets or services is not recoverable from the tax authorities; in such a case it is recognized as part of the acquisition price of a given asset or as part of the cost item, and
- in the case of receivables and payables which are recognized inclusive of VAT.

The net amount of the value added tax which is recoverable from or payable to tax authorities is disclosed in the balance sheet under receivables or payables, as appropriate.

### 11.27. Earnings per share

Earnings per share for each reporting period are calculated by dividing the net profit for a given period by the weighted average number of shares outstanding in the period.

Diluted net earnings per share for each period is derived by way of dividing net profit for a period adjusted to include changes of net profit resulting from the conversion of potential ordinary shares, by the expected weighted average number of shares.

### 11.28. Contingent assets and liabilities

A contingent liability is understood as an obligation to make a payment or provide a service which may arise upon the occurrence or non-occurrence of certain future events. Contingent liabilities are not recognized in the balance sheet, however information on contingent liabilities is disclosed, unless the probability of the outflow of resources embodying economic benefits is negligible.

Contingent receivables are not recognized in the balance sheet, but information on contingent receivables is disclosed if the inflow of resources embodying economic benefits is likely to occur.

## 12. Operating segments

The Company’s business in comprised in a single operating segment.

## 13. Earnings per share

Basic earnings per share are computed by dividing the net profit attributable to the Group’s ordinary shareholders by weighted average number of ordinary shares outstanding in the period.

Diluted earnings per share are computed by dividing net profit attributable to ordinary shareholders (after deducting interest on redeemable preference shares convertible to ordinary shares) by weighted average number of ordinary shares outstanding in the period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares, including warrants under the management stock option plan.)

No transactions related to ordinary shares or potential ordinary shares took place in the period from the balance sheet data and the date of the preparation hereof.

The data concerning the profit and shares used to compute basic and diluted earnings per share are presented below.

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**EARNINGS (LOSS) PER SHARE**

| | For 12 month period ended | |
|---|---|---|
| | 31.12.2017 | 31.12.2017 |
| Net loss | **(43 928)** | **(78 866)** |
| Average weighted number of ordinary shares | 45 443 547 | 45 443 547 |
| Loss per ordinary share (in PLN) | (0.97) | (1.74) |

| | For 12 month period ended | |
|---|---|---|
| | 31.12.2018 | 31.12.2017 |
| Average weighted number of ordinary shares | 45 443 547 | 45 443 547 |
| Effect of dilution | - | - |
| Average weighted diluted number of ordinary shares | **45 443 547** | **45 443 547** |

## 14. Distribution of profit

On 25 April 2018 the Ordinary General Meeting of the Company resolved that the 2017 loss would be covered in full from statutory reserve funds.

## 15. Intangible fixed assets

| For the period ended 31.12.2018 | concessions, patents, licenses and similar entitlements obtained, including: | | total intangibles |
|---|---|---|---|
| | | software | |
| **1. Gross value of intangible assets at beginning of period** | **2 283** | **46** | **2 283** |
| **2. Gross value of intangible assets at end of period** | **2 283** | **46** | **2 283** |
| **3. Cumulative depreciation at beginning of period** | **(1 854)** | **(46)** | **(1 854)** |
| - current period depreciation | (306) | - | (306) |
| **4. Cumulative depreciation at end of period** | **(2 160)** | **(46)** | **(2 160)** |
| **5. Impairment losses at beginning of period** | - | - | - |
| **6. Impairment losses at end of period** | - | - | - |
| **7. Net value of intangible assets at beginning of period** | **429** | **-** | **429** |
| **8. Net value of intangible assets at end of period** | **123** | **-** | **123** |

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| For the period ended 31.12.2017 | concessions, patents, licenses and similar entitlements obtained, including: | | total intangibles |
|---|---|---|---|
| | | software | |
| **1. Gross value of intangible assets at beginning of period** | **2 274** | **46** | **2 274** |
| a) increases (due to) | 9 | - | 9 |
| - purchase | 9 | - | 9 |
| - other | - | - | - |
| b) reductions (due to) | **-** | **-** | **-** |
| - sale and retirement | - | - | - |
| - other | - | - | - |
| - transfers | - | - | - |
| **2. Gross value of intangible assets at end of period** | **2 283** | **46** | **2 283** |
| **3. Cumulative depreciation at beginning of period** | **(1 540)** | **(46)** | **(1 540)** |
| - current period depreciation | (314) | - | (314) |
| - reductions (due to) | - | - | **-** |
| - sale and retirement | - | - | - |
| - contributions delivered | - | - | - |
| - other | - | - | - |
| - transfers | - | - | - |
| **4. Cumulative depreciation at end of period** | **(1 854)** | **(46)** | **(1 854)** |
| **5. Impairment losses at beginning of period** | - | - | **-** |
| - increase | - | - | - |
| - reduction | - | - | - |
| **6. Impairment losses at end of period** | **-** | **-** | **-** |
| **7. Net value of intangible assets at beginning of period** | **734** | **-** | **734** |
| **8. Net value of intangible assets at end of period** | **429** | **-** | **429** |

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## 16. Tangible fixed assets (property, plant and equipment)

| For the period ended 31.12.2018 | Buildings, premises and civil and water engineering structures | Plant and machinery | Vehicles | Other non-current fixed assets | Total non-current fixed assets |
|---|---|---|---|---|---|
| **1. Gross value of non-current fixed assets at beginning of period** | **845** | **452** | **1 502** | **649** | **3 448** |
| a) increases (due to) | - | 133 | 450 | 135 | 718 |
| - purchase | - | 133 | 450 | 135 | 718 |
| b) reductions (due to) | - | (7) | (408) | - | (415) |
| - sale and retirement | - | (7) | (408) | - | (415) |
| **2. Gross value of non-current fixed assets at end of period** | **845** | **578** | **1 544** | **784** | **3 751** |
| **3. Cumulative depreciation at beginning of period** | **(304)** | **(346)** | **(1 030)** | **(531)** | **(2 211)** |
| a) current period depreciation | (83) | (69) | (205) | (85) | (442) |
| b) reductions (due to) | - | 7 | 270 | - | 277 |
| - sale and retirement | - | 7 | 270 | - | 277 |
| **4. Cumulative depreciation at end of period** | **(387)** | **(408)** | **(965)** | **(616)** | **(2 376)** |
| **5. Impairment losses at beginning of period** | **-** | **-** | **-** | **-** | **-** |
| **6. Impairment losses at end of period** | **-** | **-** | **-** | **-** | **-** |
| **7. Net value of non-current fixed assets at beginning of period** | **541** | **106** | **472** | **118** | **1 237** |
| **8. Net value of non-current fixed assets at end of period** | **458** | **170** | **579** | **168** | **1 375** |

The carrying amount of the means of transportation used as at 31 December 2018 in virtue of lease agreements amounted to kPLN 567.

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| For the period ended 31.12.2017 | Buildings, premises and civil and water engineering structures | Plant and machinery | Vehicles | Other non-current fixed assets | Total non-current fixed assets |
|---|---|---|---|---|---|
| **1. Gross value of non-current fixed assets at beginning of period** | **845** | **455** | **1 554** | **649** | **3 503** |
| a) increases (due to) | - | 18 | 134 | - | 152 |
| - purchase | - | 18 | 134 | - | 152 |
| b) reductions (due to) | - | (21) | (186) | - | (207) |
| - sale and retirement | - | (21) | (186) | - | (207) |
| **2. Gross value of non-current fixed assets at end of period** | **845** | **452** | **1 502** | **649** | **3 448** |
| **3. Cumulative depreciation at beginning of period** | **(221)** | **(291)** | **(901)** | **(459)** | **(1 872)** |
| a) current period depreciation | (83) | (75) | (316) | (72) | (546) |
| b) reductions (due to) | - | 20 | 187 | - | 207 |
| - sale and retirement | - | 20 | 187 | - | 207 |
| **4. Cumulative depreciation at end of period** | **(304)** | **(346)** | **(1 030)** | **(531)** | **(2 211)** |
| **5. Impairment losses at beginning of period** | **-** | **-** | **-** | **-** | **-** |
| **6. Impairment losses at end of period** | **-** | **-** | **-** | **-** | **-** |
| **7. Net value of non-current fixed assets at beginning of period** | **624** | **164** | **653** | **190** | **1 631** |
| **8. Net value of non-current fixed assets at end of period** | **541** | **106** | **472** | **118** | **1 237** |

The carrying amount of the means of transportation used as at 31 December 2017 in virtue of lease agreements amounted to kPLN 448.

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## 17. Non-current financial assets

The characteristics of non-current financial assets was presented in note

In the period ended 31 December 2018, the Company reversed a part of impairment losses recognized in previous years for the shares in subsidiaries in the total amount of kPLN 30,456 and made impairment losses on the same account in the total amount of kPLN 51,526 (2017: total impairment loss of kPLN 105,659 was recognized), for more information see Note .

| | 2018-12-31 | 2017-12-31 |
|---|---|---|
| -shares or stock in non-listed companies | 825 191 | 938 842 |
| - loans given | 10 740 | 12 347 |
| - guarantees issued to subsidiaries | 71 | 71 |
| **Total long term financial assets** | **836 002** | **951 260** |

Shares or stock are measured at fair value through profit/loss, and loans are measured using amortized cost.

| **Shares/stock in companies not quoted in the stock exchange** | |
|---|---|
| balance as at 01.01.2018 | 938 842 |
| capital increase | 70 220 |
| return of supplementary payments towards capital | (6 945) |
| sale of shares | (154 704) |
| reduction of impairment loss | 30 456 |
| increase of impairment loss* | (52 678) |
| **balance as at 31.12.2018** | **825 191** |

*) of which the amount of kPLN ,152is the profit and loss account is presented net with the revenues on account of the redemption of shares

On 22 May 2018 the Company and Statoil Holding Netherlands B.V. („Statoil”) entered into the final agreement providing for the transfer of 50% of shares (Shares) held by the Company in each of the following companies: (i) MFW Bałtyk II Sp. z o.o. (former: Polenergia Bałtyk II sp. z o. o.) and (ii) in MFW Bałtyk III Sp. z o.o. (former: Polenergia Bałtyk III sp. z o. o.) (jointly „SPV” or „Bałtyk II”, „Bałtyk III”), which implement sea wind farm construction projects („Project”) in the Baltic Sea. The sale of shares in SPV is to be performed in the scope of the co-operation agreed by the parties under the joint implementation of the Project (“Transaction”).

On the same day the ownership title to the Shares in SPV was transferred to Statoil Holding Netherlands. At the same time and on the same day the following were entered into: agreements concerning the development and further performance of the sea wind farm construction projects on the Baltic sea (the so-called Development and Execution Services Agreements) between each of SPV and Statoil New Energy Service Centre B.V. (the member of Statoil capital group), (ii) service agreements between each of SPV and the Company, and (iii) memoranda of understanding of the shareholders for each SPV between the Company, Statoil Holding Netherlands and each of SPV, respectively.

The terms and conditions of the transaction of sale of the Shares in SPV by Polenergia, including the final agreement transferring the Shares in SPV to Statoil Holding Netherlands and other indicated agreements are as follows:

- The total base selling price of the Shares in SPV amounting to kPLN 94 275 defined based on actual costs borne by the Company in the Project implementation, in consideration of the standard mechanism of adjusting such amount based on the financial standing of SPV as at the moment of transferring the ownership title to the Shares, plus EUR 5.000.000 (i.e. PLN 4.2991 according to the exchange rate as at the sale date) payable in instalments by 30 September 2019.
- The Parties have also defined additional contingent payments by Statoil in favor of Polenergia depending on the performance of defined phases or parameters of the Project. Due to such contingent remuneration, the receivables were not accounted for in view of lack of certainty as to the fulfilment of the conditions for receiving such remuneration.
- Two memoranda of understanding concerning SPV were entered into by the shareholders (“Shareholders’ Memorandum of Understanding”). The Shareholders’ MoU defines mutual rights and obligations of Polenergia and Statoil as the SPV shareholders and the principles of co-operation in the performance of the Transaction. The memoranda of understanding entered into define the joint control over SPV, as all material decisions concerning the activity of Bałtyk II and Bałtyk III are to be made with unanimous consent of both investors.
- In addition, a number of agreements on development and implementation of the Project by each of SPV were entered into between SPV and the indicated entity of the Statoil capital group (which will provide specific services in favor of SPV as the Project Manager ) (the so-called Development and Execution Services Agreements and Operation and Maintenance Services Agreements), defining, without limitation, the scope of services provided by the Project Manager, duties, scope of responsibility and the remuneration of the Manager and the principles of engaging subcontractors for service provision. The Parties agreed that Polenergia (or the designated entities of the Polenergia capital group) shall act in favor of SPV in agreement with the Project Manager in performing the defined scope of services for the Project. In the scope of rights and obligations of the parties as SPV shareholders, the Shareholder’s Memorandum of Understanding defines, without limitation, (i) principles concerning the SPV internal organization and business activity and (ii) principles concerning the disposal and acquisition of the shares in SPV and the limitations pertaining thereto. In the scope of the principles of the Project implementation, the Shareholders’ Memorandum of Understanding defines the main phases of development and the principles of the Project management, the rights and obligations of the parties in the scope of planning, budgeting and financing of the Project, and the procedures of solving any decision impasses concerning the Project. The Shareholders’ Memorandum of Understanding shall be governed by the Polish Law.
- The option of purchase by Statoil of 50% of the shares of the successive subsidiary of Polenergia. Under the Shareholders’ Memorandum of Understanding, Polenergia issued in favor of Statoil Holding Netherlands the option for the purchase of 50% of the shares in the successive subsidiary of Polenergia, i.e. Polenergia Bałtyk I S.A., the option being enforceable in the period from 22 May 2018 until 31 December 2018 with the option exercise price defined as 50% of the carrying amount of the capital expenditure borne by Polenergia for the construction of Bałtyk I wind farm. The Bałtyk I investment is a joint venture, because Polenergia and Statoil hold joint control (all material decisions concerning the activity of Bałtyk I require the unanimous consent of both investors.) On 20 December 2018 the preliminary conditional agreement was entered into for the sale of 50% of the shares in Polenergia Bałtyk I SA. The entry into the final sale agreement depends on fulfilling the conditions precedent including (i) obtaining unconditional consent of the President of the Office for Protection of Competition and Consumers for the performance of the transaction and (ii) obtaining valid registration by the Registry Court of the resolution concerning the transformation of SPV from joint stock company into limited liability company. The total base selling price of the Shares in SPV amounts to kPLN 33 351.

As a consequence of the above transaction the impairment test was performed on 50% of the SPV shares held by the Company. The test showed no impairment.

The effect of the sale on the Company profit/loss is presented below:

| | |
|---|---|
| Price of sale of 50% of the shares of Bałtyk III and Bałtyk II subsidiaries | 115 771 |
| - cash received | 94 275 |
| - cash received (kEUR 1,667) | 7 167 |
| - deferred payment by instalments (kEUR 3,333) | 14 329 |
| Cost of sale | (154 704) |
| - 50% shares in Bałtyk III | (112 648) |
| - 50% shares in Bałtyk II | (42 056) |
| **Loss on the sale of 50% of shares** | **(38 933)** |

## 18. Inventories

| | 2018-12-31 | 2017-12-31 |
|---|---|---|
| - wind farm development*) | 10 362 | 10 362 |
| **Total inventories** | **10 362** | **10 362** |
| - inventory remeasured write-downs | 1 681 | 1 681 |
| **Total gross inventories** | **12 043** | **12 043** |

*) Development process operating cycle may exceed 12 months.

In the year ended on 31 December 2018 and in the year ended 31 December 2017 no category of inventory was used to secure borrowings. As at 31 December 2017 and as at 31 December 2017 no inventory measured at the net selling price were disclosed.

## 19. Short term receivables

| | 2018-12-31 | 2017-12-31 |
|---|---|---|
| - trade receivables | 10 865 | 12 823 |
| - from related entities | 10 185 | 12 504 |
| - from other entities | 680 | 319 |
| - income tax receivable | 3 986 | - |
| - other receivables | 7 922 | 595 |
| - finance lease | 362 | 347 |
| - other*) | 7 560 | 248 |
| **Total net short-term receivables** | **22 773** | **13 418** |
| - receivables remeasured write-downs | 3 607 | 114 |
| **Total gross short-term receivables** | **26 380** | **13 532** |

As at 31 December 2018 the kPLN 7,165 under other items correspond to trade receivables for sold shares in MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o. companies.

Transactions with related entities are presented in note .

Trade receivables are not subject to interest and the due date is usually 7 to 45 days.

As at 31 December 2018 the impairment losses on account of trade receivables amounted to kPLN 3,607 (2017: kPLN 114).

| | 2018-12-31 | 2017-12-31 |
|---|---|---|
| **Opening balance as at the beginning of the year** | **114** | **0** |
| Increase | 3 607 | 114 |

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| | | |
|---|---|---|
| Application | (114) | - |
| **Closing balance as at the year end** | **3 607** | **114** |

The classification of trade receivables into specific stages of impairment model is presented below:

| | Total | stage 1 | stage 2 |
|---|---|---|---|
| 2018-12-31 | 10 865 | 10 217 | 648 |
| 2017-12-31 | 12 823 | 11 836 | 987 |

Changes in carrying amount of gross trade receivables in the current reporting period were presented in the table below:

| Trade receivables | |
|---|---|
| Gross value as at 1.1.2018 | 12 937 |
| Generated | 26 577 |
| Paid | (25 042) |
| Gross value as at 31.12.2018 | 14 472 |

(PLN K)

Indices of non-fulfilment of the obligation and calculation of impairment loss as at 31 December 2018 are presented in the table below:

| | | Receivables from corporate contracting parties | | | |
|---|---|---|---|---|---|
| | Total | Current 0-30 days | 30-60 days | 60-90 days | >90 days |
| Receivables as at 31 December 2018 | 14 472 | 12 118 | 96 | 99 | 2 159 |
| Expected credit losses | (3 607) | (2 096) | - | - | (1 511) |

## 20. Accruals and deferred income

| | 2018-12-31 | 2017-12-31 |
|---|---|---|
| - insurance | 180 | 192 |
| - subscriptions | 32 | 39 |
| - accrued revenue | 2 936 | 3 579 |
| - other | 4 | 69 |
| **Total prepayments and accrued income** | **3 152** | **3 879** |

As at 31 December 2018 the income of kPLN 2,936 (2017: kPLN 3,579) was generated by the provision of services to subsidiaries.

## 21. Current financial assets

| | 2018-12-31 | 2017-12-31 |
|---|---|---|
| - held in subsidiaries | 3 000 | 19 246 |
| - loans given | 3 000 | - |
| - bills of exchange | - | 19 246 |
| **Total short term financial assets** | **3 000** | **19 246** |

In September 2018 Grupa PEP Bioelektrownia 1 Sp. z o.o., Sp.k. purchased its bills of exchange in the total amount of kPLN 20,844.

## 22. The net debt includes interest-bearing borrowings minus cash and cash equivalents.

| | 2018-12-31 | 2017-12-31 |
|---|---|---|
| Cash and equivalent, including: | 208 555 | 168 096 |
| - cash at hand and in bank | 208 555 | 168 096 |
| **Total cash and equivalent** | **208 555** | **168 096** |

Cash at banks earns interest at floating rates depending on the interest rate for overnight deposits. Current deposits are placed for various periods, from one day to one month, depending on the immediate cash requirements of the Company and earn interest at the interest rates agreed for such deposits.

Restricted cash amounted to kPLN 5 (2017: kPLN 20) as at 31 December 2018.

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## 23. Share capital and statutory reserve funds/capital reserve

### 23.1. Share capital (structure)

SHARE CAPITAL (STRUCTURE)

| Series/Issue | Type of shares | Number of shares held | Par value of series/issue |
|---|---|---|---|
| A | bearer | 2 213 904 | 4 428 |
| B | bearer | 2 304 960 | 4 610 |
| C | bearer | 515 256 | 1 031 |
| D | bearer | 566 064 | 1 132 |
| E | bearer | 1 338 960 | 2 678 |
| F | bearer | 544 800 | 1 090 |
| G | bearer | 683 376 | 1 367 |
| H | bearer | 288 000 | 576 |
| I | bearer | 856 704 | 1 713 |
| J | bearer | 3 835 056 | 7 670 |
| K | bearer | 1 640 688 | 3 281 |
| L | bearer | 3 144 624 | 6 289 |
| M | bearer | 182 359 | 365 |
| N | bearer | 69 922 | 140 |
| O | bearer | 70 908 | 142 |
| P | bearer | 89 500 | 179 |
| R | bearer | 37 560 | 75 |
| S | bearer | 147 026 | 294 |
| U | bearer | 125 300 | 251 |
| W | bearer | 143 200 | 286 |
| T | bearer | 945 800 | 1 891 |
| Y | bearer | 1 570 000 | 3 140 |
| Z | bearer | 24 129 580 | 48 259 |
| **Total quantity** | | **45 443 547** | |
| **Total share capital** | | | 90 887 |
| **Par value per share (PLN)** | | | 2 |

### 23.2. Significant shareholders

| No. | Shareholder | Number of shares held | Number of votes | Shareholding |
|---|---|---|---|---|
| 1 | Masa Investmenst Sp. z o.o.* | 23 467 043 | 23 467 043 | 51,6% |
| 2 | China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF** | 7 266 122 | 7 266 122 | 16,0% |
| 3 | NN OFE | 2 576 969 | 2 576 969 | 5,7% |
| 4 | Generali OFE | 2 981 728 | 2 981 728 | 6,6% |
| 5 | Aviva OFE | 3 732 000 | 3 732 000 | 8,2% |
| 6 | Others | 5 419 685 | 5 419 685 | 11,9% |
| | **Total** | **45 443 547** | **45 443 547** | 100% |

(PLN K)

### 23.3. Other capital reserves

Other capital reserves have been set up from profits generated in previous financial years.

### 23.4. Undistributed profit and limitations of dividend payment

In compliance with the Commercial Companies' Code, the Company is obliged to set up statutory reserve to cover losses. At least 8% of the profit obtained in a given financial year disclosed in the financial statements of the Company should be transferred to statutory reserve funds until the funds reach at least one third of the share capital. While it is for the General Meeting of Shareholders to resolve how to use statutory reserve funds and capital reserves; a part of statutory reserve funds amounting to one third of the share capital may only be used to cover the loss disclosed in the financial statements and such part may not be allocated for other purposes. The 2017 loss was covered from the statutory reserve funds, i.e. from the share premium.

As at 31 December 2018 there existed no other restrictions as to the payment of dividend.

## 24. Income Tax

### 24.1. Tax burden

| | | For 12 months ended | | For 3 months ended | |
|---|---|---|---|---|---|
| | | **31.12.2018** | **31.12.2017** | **31.12.2018** | **31.12.2017** |
| Current income tax | | 5 620 | - | 836 | - |
| Current income tax charge | | 5 620 | - | 836 | - |
| Deferred income tax | 3 | 3 434 | (1 013) | (766) | 630 |
| Related to temporary differences and their reversal | | 3 343 | (1 013) | (766) | 630 |
| **Income tax charged to the profit and loss account** | | **8 963** | **(1 013)** | **70** | **630** |

(PLN K)

## 24.2. Deferred income tax puste chowac

| Deferred income tax | Balance sheet | | Profit and loss account | |
|---|---|---|---|---|
| | 2018-12-31 | 2017-12-31 | 2018-12-31 | 2017-12-31 |
| Deferred income tax provision | | | | |
| Fixed assets | 227 | 261 | (34) | (57) |
| Cash | 5 | - | 5 | - |
| Borrowings | 295 | 276 | 19 | (743) |
| Lease receivables | 479 | 541 | (62) | (60) |
| Revenue | 604 | 707 | (103) | 352 |
| **Deferred income tax provision before tax** | **1 610** | **1 785** | **(175)** | **(508)** |
| | | | | |
| Deferred income tax assets | | | | |
| Fixed assets | 859 | 964 | (105) | (47) |
| Receivables | - | - | - | (1) |
| Borrowings | 1 167 | 1 212 | (45) | (36) |
| Liabilities | 82 | 71 | 11 | (36) |
| Provisions | 1 564 | 1 532 | 32 | 311 |
| Retained loss | 3 042 | 6 453 | (3 411) | 314 |
| **Deferred income tax assets before tax** | **6 714** | **10 232** | **(3 518)** | **505** |
| | | | | |
| Deferred income tax expense | | | 3 343 | (1 013) |
| Net deferred tax (assets)/ provision | (5 104) | (8 447) | | |

Tax losses for which the assets in account if deferred tax was create shall expire in the following years:

| Year | Value |
|---|---|
| 2019 | 206 |
| 2020 | 700 |
| 2021 | 1 748 |
| 2022 | 388 |

| | 2018-12-31 | 2017-12-31 |
|---|---|---|
| Deferred income tax liability | | |
| with maturity following 12 months | 1 001 | 1 078 |
| with maturity within 12 months | 609 | 707 |
| | | |
| Deferred income tax asset | | |
| with maturity following 12 months | 1 603 | 3 298 |
| with maturity within 12 months | 5 111 | 6 935 |
| | | |
| Deferred income tax liabilities (assets) (net) | (5 104) | (8 448) |

(PLN K)

### 24.3. Effective tax rate

| Reconciliation of income tax on the profit /loss before tax as per the statutory tax rate with income tax calculated at the effective tax rate: | For 12 months ended 2018-12-31 | 2017-12-31 |
|---|---|---|
| Income tax charged to the profit and loss account, including | 8 963 | (1 013) |
| Current tax *) | 5 620 | - |
| Deferred tax | 3 343 | (1 013) |
| | | |
| **Profit (loss) before tax** | **(34 965)** | **(79 879)** |
| Tax on gross profit at tax rate of 19% (2017: 19%) | (6 643) | (15 177) |
| Current tax of limited partnerships | (12) | 1 469 |
| Deferred tax (change) of limited partnerships | 112 | 50 |
| **Non-deductible costs:** | **(33 931)** | **(35 909)** |
| - other permanent differences | (142) | (15 745) |
| - temporary difference on which no tax asset/provision is established**) | (33 789) | (20 075) |
| - deferred tax adjustment | - | (89) |
| **Non-taxable income:** | **18 225** | **20 226** |
| - dividend | 12 438 | 20 226 |
| - other*** | 5 787 | - |
| **Tax at the effective tax rate** | **8 963** | **(1 013)** |

*) current tax results mainly from the sale of 50% of shares in MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o.

**) mainly refers to the differences resulting from book value and tax value of financial non-current assets

***) refers to revenues from reversal of impairment loss in shares

(PLN K)

## 25. Provisions

PROVISIONS

| | 2018-12-31 | 2017-12-31 |
|---|---|---|
| **Long term provisions** | | |
| Pension plan and related provision | 21 | 21 |
| **Total long term provisions** | **21** | **21** |
| | | |
| **Short term provisions** | | |
| Pension plan and related provision | 12 | 12 |
| Accrued holiday leave provision | 755 | 772 |
| **Total short term provisions** | **767** | **784** |
| | | |
| **Change in long term and short term provisions** | | |
| Provisions at beginning of period | 805 | 738 |
| recognition of provisions | 70 | 87 |
| reversal of provisions | (87) | (20) |
| **Provisions at end of period** | **788** | **805** |

## 26. Non-current liabilities under borrowings

In the period ended on 31 December 2018 the loan advanced by Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. was reimbursed in full.

As at 31.12.2018 there are no non-current liabilities under borrowings.

2017-12-31

| (Business) name of an entity, with legal form identified | Outstanding amount of borrowing | | Terms of change of interest | Maturity |
|---|---|---|---|---|
| | K | currency | | |
| Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. | 42 295 | PLN | 3M Wibor | April 2019 |
| **Total** | **42 295** | **PLN** | | |

(PLN K)

## 27. Current liabilities

| | 2018-12-31 | 2017-12-31 |
|---|---|---|
| - trade payables | 760 | 1 883 |
| - from related entities | - | 285 |
| - from other entities | 760 | 1 598 |
| - other liabilities | 10 260 | 1 283 |
| - budget payments receivable | 1 881 | 760 |
| - other financial liabilities | 47 | 205 |
| - payroll payable | 34 | 20 |
| - special funds | 2 | 3 |
| - other * | 8 296 | 295 |
| **Total short term liabilities** | **11 020** | **3 166** |

*) of which kPLN 8,000 are liabilities on account of transferring the share of the general partner in Energopep Sp. z o.o., Sp.k.

Transactions with related entities are presented in note .

Trade liabilities do not bear interest and are usually payable within 14 days.

Other liabilities do not bear interest.

## 28. Accruals and deferred income

| | 2018-12-31 | 2017-12-31 |
|---|---|---|
| - future bonuses, salaries and wages | 5 154 | 5 247 |
| - third party services | 1 196 | 1 102 |
| - other | 29 | 28 |
| **Total short term accruals and deferred income** | **6 379** | **6 377** |

## 29. Contingent liabilities

### 29.1. Guarantees and sureties issued

Grupa PEP – Farma Wiatrowa 1 Sp. z o.o.

On 28 November 2013, the Company issued a conditional surety for FW1's liabilities under a credit facility agreement (described in more detail in Note to the consolidated financial statements) subject to the condition that obligations under the surety may be performed no earlier than as provided for in the original repayment schedule and only in accordance with that schedule. The surety takes effect upon the occurrence of events specified in the agreement; as at 31 December 2018 no such events had occurred.

As at 31 December 2015, the conditions for depositing cash in the FW1 debt service reserve account were fulfilled. Using the option provided for in the credit facility agreement, the Company decided to issue a surety instead of depositing cash in the debt service reserve account. As at 31 December 2018, the surety amounted to kPLN 2,951.5.

The surety expires on the date of final repayment of all liabilities under the credit facility.

Grupa PEP – Farma Wiatrowa 6 Sp. z o.o.

On 20 December 2012, at the request of the Company, mBank S.A. issued a guarantee, valid from 31 December 2012, for payment by Grupa PEP – Farma Wiatrowa 6 Sp. z o.o. ("FW6") of its liabilities to PGE Dystrybucja S.A. under the grid connection agreement. "Grid connection agreement") (PGE).

The guarantee expires on 31 December 2019. The validity of the guarantee also expires once the agreement is performed, and the guarantee document is returned by PGE. On 28 December 2018 FW6 paid the last part of the remuneration on account of the a/m Grid connection agreement. Until 31 December 2018 the document was not returned.

On 28 November 2013, the Company issued a conditional surety for FW6's liabilities under a credit facility agreement (described in more detail in Note 28 to the consolidated financial statements) subject to the condition that obligations under the surety may be performed no earlier than as provided for in the original repayment schedule and only in accordance with that schedule. The surety takes effect upon the occurrence of events specified in the agreement; as at 31 December 2018 no such events had occurred.

As at 31 December 2015, the conditions for depositing cash in the FW6 debt service reserve account were fulfilled. Using the option provided for in the credit facility agreement, the Company decided to issue a surety instead of depositing cash in the debt service reserve account. As at 31 December 2018, the surety amounted to kPLN 1,590.3.

The surety expires on the date of final repayment of all liabilities under the credit facility.

Grupa PEP – Farma Wiatrowa 4 Sp. z o.o.

On 28 November 2013, the Company issued a conditional surety for FW4's liabilities under a credit facility agreement (described in more detail in Note  to the consolidated financial statements) subject to the condition that obligations under the surety may be performed no earlier than as provided for in the original repayment schedule and only in accordance with that schedule. The surety takes effect upon the occurrence of events specified in the agreement; as at 31 December 2018 no such events had occurred.

As at 31 December 2016, the conditions for depositing cash in the FW4 debt service reserve account were fulfilled. Using the option provided for in the credit facility agreement, the Company decided to issue a surety instead of depositing cash in the debt service reserve account.

As at 31 December 2018, the surety amounted to kPLN 5,277.

The surety expires on the date of final repayment of all liabilities under the credit facility.

Amon Sp. z o.o. and Talia Sp. z o.o.

On 27 December 2012, the Company provided a surety for a blank promissory note issued by Talia Sp. z o.o. ("Talia") to Agro-Tak Zagrodno Bronisław Tabisz Leszek Kachniarz sj. in connection with an existing lease agreement. The maximum amount of the promissory note is kPLN 500.

As at 31 December 2017, the Company's liabilities under the agreement amounted to kPLN 0.5.

On 21 April 2015 provided a surety for a blank promissory note issued by Amon Sp. z o.o. to Przedsiębiorstwo Rolne Łukaszów in connection with an existing lease agreement. The maximum amount of the promissory note is kPLN 900.

As at 31 December 2018, no liabilities under the agreement were disclosed.

On 29 June 2018, the Company provided a surety for repayment of the liabilities of Amon Sp. z o.o. and Talia Sp. z o.o on account of the credit facility agreement entered into by both companies in virtue of the credit facility agreement of 1 June 2010 as amended, and in particular in virtue of the modification of 28 June 2018 amending and standardizing such credit facility agreements (for more information see the consolidated financial statements in note ). The amount of surety granted totals kPLN 6,700 for both companies.

Polenergia Farma Wiatrowa Mycielin Sp. z o.o.

On 2 April 2015, the Company issued a conditional surety for FW Mycielin liabilities under a credit facility agreement (described in more detail in Note  to the consolidated financial statements) subject to the condition that obligations under the surety may be performed no earlier than as provided for in the original repayment schedule and only in accordance with that schedule. In addition, the credit facility agreement stipulates certain conditions for cancellation of the guarantee; none of these conditions were fulfilled.

The surety takes effect upon the occurrence of events specified in the agreement. As at 31 December 2018 no such events had occurred, and the surety will not become effective during the two subsequent interest periods.

The surety expires on the date of final repayment of all liabilities under the credit facility.

As at 30 June 2016 the conditions concerning the requirement to place cash in the FW Mycielin debt service reserve account were fulfilled. The required amount was placed in cash, so the surety for the debt service reserve account was not used until 31 December 2018.

Grupa PEP – Farma Wiatrowa 3 Sp. z o.o.

On 10 April 2014, at the request of the Company, mBank S.A. issued a bank guarantee for the benefit of ENERGA OPERATOR S.A. to secure repayment of the liabilities of Grupa PEP − Farma Wiatrowa 3 Sp. z o.o. (FW3) under a grid connection agreement executed with ENERGA OPERATOR S.A. The guarantee expired on 31 December 2015.

In 2016, the guarantee term was extended until 15 February 2019.

The guarantee amount is reduced gradually as the agreement is settled; as at 31 December 2018, it equaled kPLN 699.2.

Dipol

In the fourth quarter of 2017, the re-profiling of the Dipol Wind Farm having been completed, the credit facility agreement was amended. Under the amended documentation, Polenergia S.A.'s surety of up to PLN 6.3m was maintained, but in the same documentation Polenergia S.A. made a reservation that the sponsor believed the surety to be non-binding.

Polenergia Obrót S.A.

On 30 May 2017 the Company entered with Polenergia Obrót S.A. subsidiary („POLO") into the agreement on establishing a guarantee line in favor of POLO contracting parties. The limit for the guarantees issues under the a/m agreement is kPLN 45. The agreement is concluded for an indefinite time.

On 19 June 2017 in virtue of the guarantee line agreement entered into by the Company with Polenergia Obrót S.A. („POLO"), the Company issued a guarantee for performing obligations under current and future contracts entered into with EDF Trading Limited. The issued guarantee was limited to kEUR 1000 and shall expire on 31 March 2019.

On 21 November 2017 in virtue of the guarantee line agreement entered into by the Company with Polenergia Obrót S.A. („POLO"), the Company issued a guarantee for performing obligations under current and future contracts entered into with PKN ORLEN S.A. The issued guarantee was limited to kPLN 5000 and shall expire on 28 February 2019.

On 6 December 2017 in virtue of the guarantee line agreement entered into by the Company with Polenergia Obrót S.A. („POLO"), the Company issued a guarantee for performing obligations under current and future contracts entered into with ENEA TRADING SP. Z O.O. The issued guarantee was limited to kPLN 5000 and shall expire on 29 February 2020.

On 27 September 2018 and on 5 and 31 of October 2018 in virtue of the guarantee line agreement entered into by the Company with Polenergia Obrót S.A. („POLO"), the Company issued 3 guarantees for performing obligations under contracts entered into with CEZ a.s. The issued guarantees were limited to a total amount of kPLN 4000 and shall expire on 31 January 2020.

On 18 December 2018 in virtue of the guarantee line agreement entered into by the Company with Polenergia Obrót S.A. („POLO"), the Company issued a guarantee for performing obligations under current and future contracts entered into with AXPO. The issued guarantee was limited to kEUR 400, and its validity term expires on 28 February 2020.

### 29.2. Litigation

As at 31 December 2018 the Company was not a party to any court disputes.

### 29.3. Tax settlements

Tax settlements and other regulated areas of activity (for example customs or foreign exchange control) are subject to inspection by administrative bodies which are authorized to impose high penalties and sanctions. As the legal regulations regarding these issues in Poland are relatively new, they are often unclear and inconsistent. Differences in the interpretations of tax legislation are frequent, both within public administration bodies, and between those bodies and businesses, giving rise to uncertainty and conflicts. Consequently, tax risk in Poland is substantially higher than in countries with more mature tax system.

Tax settlements may be subject to inspection during five years' period, starting from the year in which tax was paid. Such inspections may result in additional tax liabilities for the Company. In the Company's opinion appropriate provisions were set up for recognized and measurable tax risk as at 31 December 2018.

### 29.4. Capital Expenditure

As at 31 December 2018 the Company plans MPLN 43 of total capital expenditure for the year 2019 (both in a form of outlays for fixed assets and additional capitalization of assets). The amounts will mainly be allocated to an investment project, including, without limitation, offshore and onshore wind power generation.

### 29.5. Liabilities under operating lease

The Company is a party to the operating lease agreement on office space rental. Total amounts of minimum lease fees as at 31 December 2018 are presented in the table below.

## 30. Revenues from sale

| | For 12 months ended | | For 3 months ended | |
|---|---|---|---|---|
| | 2018-12-31 | 2017-12-31 | 2018-12-31 | 2017-12-31 |
| Net revenues from consulting and advisory projects | 16 523 | 18 408 | 6 517 | 6 862 |
| Net revenues from lease | 662 | 720 | 82 | 86 |
| Oher revenues | 30 | 56 | 11 | 3 |
| **Net revenues from sale, total** | **17 215** | **19 184** | **6 610** | **6 951** |

(PLN K)

**GEOGRAPHICAL DISTRIBUTION OF REVENUE**

| | For 12 months ended | | For 3 months ended | |
|---|---|---|---|---|
| | 2018-12-31 | 2017-12-31 | 2018-12-31 | 2017-12-31 |
| - Polska | 15 760 | 17 486 | 6 517 | 6 862 |
| - Luksemburg | 1 435 | 1 634 | 82 | 86 |
| - Niemcy | 20 | 64 | 11 | 3 |
| **Total revenue** | **17 215** | **19 184** | **6 610** | **6 951** |

## 31. Expenses, by nature of expense

| | For 12 months ended | | For 3 months ended | |
|---|---|---|---|---|
| | 2018-12-31 | 2017-12-31 | 2018-12-31 | 2017-12-31 |
| depreciation | 748 | 859 | 172 | 203 |
| materials and power consumption | 326 | 233 | 113 | 69 |
| third party services | 11 489 | 9 418 | 2 839 | 3 317 |
| taxes, duties and fees | 1 694 | 362 | 185 | 98 |
| salaries | 14 099 | 13 349 | 3 961 | 3 280 |
| social security and other benefits | 1 498 | 1 655 | 300 | 345 |
| other cost by type | 149 | 134 | 72 | 47 |
| **Total cost by type** | **30 003** | **26 010** | **7 642** | **7 359** |
| General overheads (-) | (17 209) | (11 118) | (4 260) | (3 912) |
| **Total cost of goods sold** | **12 794** | **14 892** | **3 382** | **3 447** |

## 32. Other operating income

| | For 12 months ended | | For 3 months ended | |
|---|---|---|---|---|
| | 2018-12-31 | 2017-12-31 | 2018-12-31 | 2017-12-31 |
| - other, including: | 12 | 44 | 10 | 44 |
| - gains on disposal of non-financial fixed assets | 1 | 44 | - | 44 |
| - other | 11 | - | 10 | - |
| **Total other operating revenues** | **12** | **44** | **10** | **44** |

## 33. Other operating expenses

| | For 12 months ended | | For 3 months ended | |
|---|---|---|---|---|
| | 2018-12-31 | 2017-12-31 | 2018-12-31 | 2017-12-31 |
| - asset impairment losses, including: | 3 607 | 114 | 3 607 | 114 |
| - - receivables | 3 607 | 114 | 3 607 | 114 |
| - other: | 86 | 70 | 25 | 2 |
| - gifts | 72 | 4 | 20 | - |
| - loss on disposal of non-financial fixed assets | - | - | - | (1) |
| - other | 14 | 66 | 5 | 3 |
| **Total other operating costs:** | **3 693** | **184** | **3 632** | **116** |

(PLN K)

## 34. Finance income

| | For 12 months ended | | For 3 months ended | |
|---|---|---|---|---|
| | 2018-12-31 | 2017-12-31 | 2018-12-31 | 2017-12-31 |
| - financial revenues from dividends and profit sharing earnings | 65 465 | 106 451 | 14 000 | 53 551 |
| - financial income from interest on deposits and loans | 10 508 | 6 359 | 2 621 | 1 685 |
| - interest from finance lease | 122 | 136 | 29 | 32 |
| - f/x differences, including: | - | 5 | - | (7) |
| -realized | - | 5 | - | (7) |
| - other surety-related fees | 1 909 | 2 096 | 482 | 507 |
| - other *) | 30 456 | - | 30 456 | - |
| **Total financial revenue** | **108 460** | **115 047** | **47 588** | **55 768** |

*) reversal of the share impairment loss in Company Polenergia FW Mycielin Sp. z o.o 29.3 M and in company Grupa PEP - Biomasa Energetyczna Południe Sp. z o.o. 1.1 M

In case of the shares in Polenergia Farma Wiatrowa Mycielin Sp. z o.o. subsidiary, the Company decided to reverse the impairment loss recognized in the previous years in the amount of MPLN 29.3. The decision results from the changes in regulatory and market environment, and the related update of the projected prices of electricity and green certificates. The value in use of the investment in the subsidiary was measured based on the present value of estimated cash flows available to the owners of shareholders' equity and third party capital. The discount rate adopted for the tests as at 31.12.2018 amounted to 6.97% (2017: 6.8%). Based on the prepared models the recoverable value of the investment amounted to MPLN 209.8 as at 31.12.2018.

In the period ended on 31 December 2018 the Company received dividends from the following subsidiaries:

| | |
|---|---|
| Polenergia Dystrybucja Sp. z o.o. | 5 462 |
| Polenergia Elekrociepłownia Nowa Sarzyna Sp. z o.o. | 60 003 |
| **Total** | **65 465** |

## 35. Finance costs

| | For 12 months ended | | For 3 months ended | |
|---|---|---|---|---|
| | 2018-12-31 | 2017-12-31 | 2018-12-31 | 2017-12-31 |
| - interest expenses | 583 | 1 949 | 27 | 375 |
| - f/x differences, including: | 4 | - | (31) | - |
| - unrealized | (25) | - | (57) | - |
| - realized | 29 | - | 26 | - |
| - commission and other fees | 33 | 39 | 7 | 8 |
| - non-current fixed assets impairment losses | 87 177 | 185 901 | 34 498 | 54 871 |
| - other *) | 39 159 | 71 | 204 | 7 |
| **Total financial cost** | **126 956** | **187 960** | **34 705** | **55 261** |

*) of which 38.9 million corresponds to the profit on sales of 50% of the shares in MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o.

With reference to the shares identified as potentially concerned with impairment loss as at 31.12.2018, the Company carried out the analysis as at the balance sheet date, to compare the value of the shares to the net value of the related entities, or to the financial projections prepared for the tested businesses.

As a result of the tests carried out, the Company decided to recognize impairment losses in the total amount of MPLN 51.5. The impairment losses were mainly recognized with reference to the following investments:

- the shares in Grupa PEP Bioelektrownia Sp. o.o. Sp. k.
  The Company decided to recognize the impairment loss of MPLN 21 as at 31.12.2018. Making the impairment loss decision the Management Board considered the market and economic conditions of the project. The Management Board estimated that the recoverable value corresponding to the fair value less the costs of arranging the sale equaled 0 as at 31.12.2018. The fair value was measured based on the present value of estimated cash flows available to the owners of shareholders' equity and third party capital. Key assumptions adopted in the model included:
  - the level of revenues from the sale of energy (based on the support system in operation for 15 years, and after that period – based on market prices),
  - the volume of the energy produced (at the constant level, taking periodical heavy maintenance into account),
  - the margin (51% in the period of the support system operation, followed by above 35% thereafter).
  - the 6.97% discount rate.

- The shares in Polenergia Farma Wiatrowa Piekło sp. z o.o. and Polenergia Farma Wiatrowa 16 sp. z o.o. (Piekło Project).
  The Company decided to recognize the impairment loss of MPLN 10.2 as at 31.12.2018. Making the impairment loss decision the Management Board considered the market and economic conditions of the project. The Management Board estimated that the recoverable value corresponding to the fair value less the costs of arranging the sale equaled 0 as at 31.12.2018. The fair value was measured based on the present value of estimated cash flows available to the owners of shareholders' equity and third party capital. The key assumptions adopted in the model included:

  - the prices of energy (until 2021 wholesale energy prices are based on the quotations of futures/forward contracts; after 2021 the prices level is assumed to change based on available projections of an independent business advisors and on the in-house analysis),
  - the energy production volumes (resulting from manufacturing capacities and productivity adopted based on windiness reports).
  - The 8.18% discount rate.

- the shares in Grupa PEP – Biomasa Energetyczna Południe, Polenergia Biomasa Energetyczna Północ and Polenergia Biomasa Energetyczna Wschód

During the year 2018 the Company decided to recognize a MPLN 18.6 impairment loss in the shares. The impairment loss decision was made by the Management Board in consideration of the changes in regulatory environment resulting from the amended act on renewable energy sources and the business and economic situation of the biomass segment. The recoverable value of assets was determined as their fair value less the costs of arranging the sale. The decision was made as a consequence of the changes in regulatory environment resulting from the amended act on renewable energy sources and the business and economic situation of the biomass segment.

In the period ended on 31 December 2018 the impairment losses totaling MPLN 35.7 were recognized with reference to the loan granted in 2018 and the interest accrued on the loans granted to Interpep Sp. z o.o.

(PLN K)

## 36. Cash flows

| Cash flows from investing activities - other investment inflows | For 12 months ended | |
|---|---|---|
| | 2018-12-31 | 2017-12-31 |
| Inflow from bills of exchange | 19 972 | - |
| **Total** | **19 972** | **-** |

| Cash flows from investing activities - other inflows from financial assets | For 12 months ended | |
|---|---|---|
| | 2018-12-31 | 2017-12-31 |
| Refund of additional share capital contributions | 7 899 | 10 347 |
| **Total** | **7 899** | **10 347** |

| Restricted cash | Za okres 12 miesięcy zakończony | |
|---|---|---|
| | 2018-12-31 | 2017-12-31 |
| Company Social Fund cash | 5 | 20 |
| **Total** | **5** | **20** |

**Reasons for differences between changes of certain items in the balance sheet and the changes resulting from the cash flow statement**

| | For 12 months ended | |
|---|---|---|
| Receivables: | 2018-12-31 | 2017-12-31 |
| Change of long-term and short-term net receivables in the balance sheet | (5 026) | 8 543 |
| Change of receivables resulting from sale of financial assets | 7 165 | - |
| **Change of receivables disclosed in the cash flow statement** | **2 139** | **8 543** |

| | For 12 months ended | |
|---|---|---|
| Liabilities: | 2018-12-31 | 2017-12-31 |
| Changes of the short term liabilities excluding borrowings and bank loans in the balance sheet | (33) | 1 531 |
| Change caused by finance lease | 343 | 293 |
| **Change of liabilities disclosed in the cash flow statement** | **310** | **1 824** |

## 37. Debt

Liabilities under borrowings mainly include loans and financial lease. Liabilities under borrowings are initially accounted for at fair value less costs of transaction related to obtaining financing. Upon the initial recognition, liabilities under borrowings are measured at amortized cost using effective interest rate. Financial costs are charged against profit/loss except for the costs related to production of fixed assets (pursuant to the policy in note 11.7).

(PLN K)

| For the period ended 31.12.2018 | Borrowings | Finance lease | Total |
|---|---|---|---|
| **As at the beginning of the period** | **42 295** | **372** | **42 667** |
| Inflows from debt incurred | - | 298 | 298 |
| financing received | - | 298 | 298 |
| Interest accruing | 508 | 45 | 553 |
| Debt payments | - | (388) | (388) |
| principal repayments | - | (343) | (343) |
| interest paid | - | (45) | (45) |
| Other non-cash changes | (42 803) | - | (42 803) |
| **As at the end of the period** | **-** | **327** | **327** |

| For the period ended 31.12.2017 | Borrowings | Finance lease | Total |
|---|---|---|---|
| **As at the beginning of the period** | **70 386** | **562** | **70 948** |
| Inflows from debt incurred | - | 101 | 101 |
| financing received | - | 101 | 101 |
| Interest accruing | 1 909 | 40 | 1 949 |
| Debt payments | - | (331) | (331) |
| principal repayments | - | (291) | (291) |
| interest paid | | (40) | (40) |
| Other non-cash changes | (30 000) | - | (30 000) |
| **As at the end of the period** | **42 295** | **372** | **42 667** |

Other non-monetary changes concern deduction of loan due by related entity from the dividend payable to such entity.

## 38. Objectives and policies of financial risk management

Financial instruments held or issued by the Company may involve one or several material risks.

The key financial instruments used by the Company include cash and short term deposits. The main purpose of such financial instruments is to obtain funds to finance the Company activity. The Company also holds other financial instruments, such as trade receivables and payables arising directly in the course of its business.

The key types of risk resulting from the Group financial instruments include the interest rate risk, currency risk, credit risk and liquidity risk. The Management Board verifies and establishes the principles of managing each above type of risk, as briefly discussed below. The Company also monitors the risk of market prices concerning all the financial instruments held by the Company.

### 38.1. Interest rate risk

The Company is exposed to the risk resulting from the change of interest rates mainly with reference to non-current financial liabilities and granted loans.

| Period ended on 31 December 2018 | Increase/decrease by percentage points | Effect on profit/loss before tax in the period of subsequent 12 months in kPLN |
|---|---|---|
| WIBOR 3M | 1% | 1 382 |
| WIBOR 3M | -1% | (1 382) |

The Company does not hedge using derivative financial instruments.

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## 38.2. Currency risk

Currency risk in the Company is negligible in view of the fact that transactions in foreign currency are immaterial. The Company does not have a significant open foreign currency position in the balance sheet. At the same time the majority of the Company income and costs are realized in Polish zloty.

## 38.3. Credit risk

The Group enters into transactions exclusively with reputable companies enjoying sound credit standing. All customers wishing to use trade credit are subject to credit verification procedure. Moreover, owing to on-going monitoring of receivable balances, the Company's exposure to unrecoverable receivables' risk is insignificant.

With respect to the Company's other financial assets such as cash and cash equivalents, the Company's credit risk arises as a result of the contracting party's inability to pay and the maximum exposure to such risk is equal to the carrying amount of such instruments. The Company enters into transactions exclusively with reputable financial institutions.

No material concentration of credit risk exists in the Company.

## 38.4. Liquidity risk

The Company monitors the risk of lacking funds using the periodical liquidity planning tool. Such tool takes into account the due/maturity dates of both investments and financial assets (e.g. accounts receivable, other financial assets) and forecast cash flows in operating activity.

The purpose of the Company is to maintain balance between the continuity and flexibility of financing by using various financing sources such as overdraft in current account, bank credits, bonds, preference shares, financial lease agreements and lease agreements with purchase option. Moreover, liquidity risk is involved due to sureties and warranties granted by the company and described in detail in note 29.1.

In the table below are presented the Company's financial liabilities (except for guarantees and sureties granted, as described in note 29.1) as at 31 December 2018 and 31 December 2017 by maturity date based on the contractual non discounted payments.

| 2018-12-31 | Up to 3 months | From 3 months to 12 months | From 1 year to 5 years | Total |
|---|---|---|---|---|
| Other liabilities | 10 260 | - | 280 | **10 540** |
| Trade payables and other payables | 760 | - | - | **760** |

| 2017-12-31 | Up to 3 months | From 3 months to 12 months | From 1 year to 5 years | Total |
|---|---|---|---|---|
| Interest bearing loans and borrowings | 338 | 1 033 | 42 746 | **44 117** |
| Other liabilities | 1 283 | - | 8 167 | **9 450** |
| Trade payables and other payables | 1 883 | - | - | **1 883** |

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# 39. Financial instruments

## 39.1. Loans advanced

The Company granted the following loans:

**Balance as at 31.12.2018**

| Borrower | Date of loan | Loan balance | Interest rate | Repayment commencement date |
|---|---|---|---|---|
| Polenergia Farma Wiatrowa Szymankowo Spółka z ograniczoną odpowiedzialnością (former PEPINO Spółka z ograniczoną odpowiedzialnością) | 2016-02-01 | 4 135 | 3M Wibor + 4,5% | Once the Borrower commences business operations, however no earlier than on 1.01.2020 |
| Inwestycje Rolne Spółka z ograniczoną odpowiedzialnością | 2014-12-10 | 80 | 3M Wibor + 2% | 2020-12-31 |
| Inwestycje Rolne Spółka z ograniczoną odpowiedzialnością | 2015-03-20 | 533 | 3M Wibor + 2,28% | 2020-12-31 |
| Inwestycje Rolne Spółka z ograniczoną odpowiedzialnością | 2016-06-24 | 326 | 3M Wibor + 2,28% | 2020-12-31 |
| Polenergia Dystrybucja Spółka z ograniczoną odpowiedzialnością | 20.11.2014 | 1 157 | 8.12% fixed interest | bullet repayment 31.12.2026 |
| Mecury Energia Spółka z ograniczoną odpowiedzialnością, Spólka komandytowa | 2006-12-01 | 4 500 | 3M Wibor + 2,21 % | 2021-12-31 |
| Polenergia Obrót S.A. | 2018-05-21 | 3 000 | 3M Wibor + 3,22 % | 2019-12-31 |
| Other | 26.03.2013 | 9 | 3M Wibor + 2% | On first demand of Lender |
| | | **13 740** | | |

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**Balance as at 31.12.2017**

| Borrower | Date of loan | Loan balance | Interest rate | Repayment commencement date |
|---|---|---|---|---|
| Polenergia Farma Wiatrowa Szymankowo Spółka z ograniczoną odpowiedzialnością (former PEPINO Spółka z ograniczoną odpowiedzialnością) | 2016-02-01 | 3 968 | 3M Wibor + 4,5% | Once the Borrower commences business operations, however no earlier than on 1.01.2020 |
| Inwestycje Rolne Spółka z ograniczoną odpowiedzialnością | 2014-12-10 | 77 | 3M Wibor + 2% | 2020-12-31 |
| Inwestycje Rolne Spółka z ograniczoną odpowiedzialnością | 2015-03-20 | 511 | 3M Wibor + 2,28% | 2020-12-31 |
| Inwestycje Rolne Spółka z ograniczoną odpowiedzialnością | 2016-06-24 | 313 | 3M Wibor + 2,28% | 2020-12-31 |
| Polenergia Dystrybucja Spółka z ograniczoną odpowiedzialnością | 20.11.2014 | 919 | 8.12% fixed interest | bullet repayment 31.12.2026 |
| Mecury Energia Spółka z ograniczoną odpowiedzialnością, Spólka komandytowa | 2006-12-01 | 6 500 | 3M Wibor + 2,21 % | 2021-12-31 |
| Other | 26.03.2013<br>03.02.2015 | 59 | 3M Wibor + 2% | On first demand of Lender |
| | | **12 347** | | |

### 39.2. Financial assets

In the period ended on 31 December 2018 the following capital increases and returns of supplementary payments towards capital were performed in the following subsidiaries:

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| Company | Share capital increase | Refund of additional share capital contributions | Sale of shares | Redemption of shares against a fee |
|---|---|---|---|---|
| consolidated * Mercury Energia Sp. z o.o. i Wspólnicy Sp.K. - energy outsourcing | - | - | | |
| Polenergia Biolektrownia 2 Sp. z o.o Spółka Kom. - own bio power stations | 20 950 | - | - | - |
| Polenergia PEP FW 23 Sp. z o.o. | 3 266 | 1 500 | - | - |
| Polenergia FW Piekło Sp. z o.o. | 180 | - | - | - |
| Polenergia PEP FW 17 Sp. z o.o. | 762 | - | - | - |
| Polenergia FW 22 Sp. z o.o. | 1 700 | - | - | - |
| Polenergia FW Krzywa Sp. z o.o. | 24 | - | - | - |
| Polenergia FW Szymankowo Sp. z o.o. | 2 995 | - | - | - |
| Polenergia FW Dębice/Kostomłoty Sp. z o.o. | 2 535 | - | - | - |
| Polenergia FW Bądecz Sp. z o.o. | 1 780 | - | - | - |
| Polenergia FW 3 Sp. z o.o. | 9 200 | - | - | - |
| Polenergia FW Grabowo Sp. z o.o. | 100 | - | - | - |
| Polenenergia Bałtyk I S.A. | 3 000 | - | - | - |
| MFW Bałtyk II Sp. z o.o. (Polenergia Bałtyk II Sp. z o.o. ) | 10 370 | 60 | 42 056 | - |
| MFW Bałtyk III Sp. z o.o. (Polenergia Bałtyk III Sp. z o.o. ) | 13 170 | 635 | 112 648 | - |
| Polenergia PEP Biomasa Energetyczna Południe Sp. z o.o | - | 4 750 | - | - |
| Energopep Sp. z o.o. | 18 | - | - | - |
| Polenergia Elektrownia Mercury Sp. z o.o. | 15 | - | - | - |
| Polenergia Biolektrownia 2 Sp. z o.o. | 15 | - | - | - |
| Grupa PEP Projekty Energetyczne 1 Sp. z o.o. | 30 | - | - | - |
| Polenergia Obrót 2 Sp. z o.o. | 110 | - | - | - |
| **Total** | **70 220** | **6 945** | **154 704** | **954** |

## 39.3. Interest rate risk

The carrying amount of the Company's financial instruments exposed to the interest rate risk, split into specific age categories, is presented in the table below.

| INTEREST RATE RISK | | | | | | | |
|---|---|---|---|---|---|---|---|
| Variable interest rate | *<1 year* | *1–2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
| Interest bearing loans given | 3 000 | 947 | 4 500 | | - | 5 293 | 13 740 |
| | | | | | | | |
| Fixed interest rate | *<1 year* | *1–2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
| Cash assets | 208 555 | - | - | - | - | - | 208 555 |
| Finance lease | 318 | 333 | 350 | 367 | 385 | 769 | 2 522 |

**2017-12-31**

| INTEREST RATE RISK | | | | | | | |
|---|---|---|---|---|---|---|---|
| Variable interest rate | *<1 year* | *1–2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
| Interest bearing loans given | - | - | 960 | 6 500 | - | 4 887 | 12 347 |
| Interest bearing loans incurred | - | 42 295 | - | - | - | - | 42 295 |
| | | | | | | | |
| Fixed interest rate | *<1 year* | *1–2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *>5 years* | *Total* |
| Cash assets | 168 096 | - | - | - | - | - | 168 096 |
| Issued bills of exchange | 19 246 | - | - | - | - | - | 19 246 |
| Finance lease | 303 | 318 | 333 | 350 | 367 | 1 179 | 2 850 |

Interest rate on financial instruments with variable interest rate is updated in the period of less than one year. Other financial instruments of the Company not included in the above tables do not bear interest and therefore are not subject to interest rate risk.

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## 40. Capital management

The primary objective of the Company capital management is to maintain good credit rating and safe capital ratios to support the Company's operational activity and increase the value for its shareholders.

The Company manages the capital structure and modifies it depending on the changes in the economic environment. In order to maintain or adjust the capital structure, the Group may change the payment of dividend to the shareholders, return the capital to the shareholders or issue new shares. In the year ended 31 December 2018 and in the year ended on 31 December 2017 no modifications were made to the capital structure objectives, policies and processes.

The Company monitors the capital balance using the leverage ratio, computed as the net debt to total equity plus net debt. The net debt includes interest-bearing borrowings minus cash and cash equivalents.

| | 2018-12-31 | 2017-12-31 |
|---|---|---|
| Interest bearing loans and borrowings | - | 42 295 |
| Less cash and equivalent | (208 555) | (168 096) |
| **Net debt** | **(208 555)** | **(125 801)** |
| Equity | 1 074 139 | 1 118 067 |
| **Total equity** | **1 074 139** | **1 118 067** |
| **Equity and net debt** | **865 584** | **992 266** |
| Leverage ratio | -24% | -13% |

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## 41. Significant related party transactions

Significant transactions of the Company with the related parties in specific periods are presented in the table below:

| 2018-12-31 | Sale to associates | Financial costs | Financial income | Receivables from associates |
|---|---|---|---|---|
| Entities over which Company has control or material influence: | | | | |
| Mercury Energia Sp. z o.o. i Wspólnicy, Spółka komandytowa | 226 | - | 212 | 49 |
| Polenergia Biomasa Energetyczna Północ Sp. z o.o.(GRUPA PEP-Biomasa Energetyczna Północ Spółka z o.o.) | 603 | - | - | 105 |
| Polenergia Biomasa Energetyczna Wschód Sp. z o.o.(GRUPA PEP-Biomasa Energetyczna Wschód Spółka z o.o.) | 543 | - | - | 277 |
| GRUPA PEP-Bioelektrownia 2 Sp. z o.o., Spółka komandytowa | 793 | - | 778 | - |
| Polenergia Farma Wiatrowa 1 Sp. z o.o.(GRUPA PEP-Farma Wiatrowa 1 Sp. z o.o.) | 899 | - | - | 382 |
| Polenergia Farma Wiatrowa 3 Sp. z o.o.(GRUPA PEP-Farma Wiatrowa 3 Sp. z o.o.) | 362 | - | - | 435 |
| Polenergia Farma Wiatrowa 4 Sp. z o.o.(GRUPA PEP-Farma Wiatrowa 4 Sp. z o.o.) | 987 | - | - | 591 |
| Polenergia Farma Wiatrowa 6 Sp. z o.o.(GRUPA PEP-Farma Wiatrowa 6 Sp. z o.o.) | 653 | - | - | 250 |
| Polenergia Farma Wiatrowa Grabowo Sp. z o.o. (Grupa PEP Farma Wiatrowa 8 Sp. z o.o. ) | 84 | - | - | 130 |
| Amon Sp. z o.o. | 314 | - | - | 216 |
| Poleneergia Farma Wiatrowa 22 Sp. z o.o. (GRUPA PEP-Farma Wiatrowa 22 Sp. z o.o.) | 944 | - | - | - |
| Polenergia Farma Wiatrowa Piekło Sp. z o.o. (GRUPA PEP-Farma Wiatrowa Piekło Sp. z o.o.) | 401 | - | - | 439 |
| Dipol Spółka z o.o. | 522 | - | - | 130 |
| Polenergia Farma Wiatrowa Rudniki Sp. z o.o. (Grupa PEP – Farma Wiatrowa 21 Sp. z o.o) | 282 | - | - | 276 |
| Polenergia Farma Wiatrowa 17 Sp. z o.o. (GRUPA PEP-Farma Wiatrowa 17 Sp. z o.o.) | 372 | - | - | 367 |
| Polenergia Farma Wiatrowa 16 Sp. z o.o. (GRUPA PEP-Farma Wiatrowa 16 Sp. z o.o) | 162 | - | - | 194 |
| Polenergia Farma Wiatrowa Szymankowo Sp. z o.o (Pepino Sp. z o.o.) | 370 | - | 167 | 398 |
| Polenergia Farma Wiatrowa 23 Sp. z o.o. (GRUPA PEP-Farma Wiatrowa 23 Sp. z o.o.) | 283 | - | - | 52 |
| Talia Sp. z o.o. | 248 | - | - | 151 |
| Polenergia Farma Wiatrowa Dębice/ Kostomłoty Sp. z o.o (GRUPA PEP-Farma Wiatrowa Dębice/Kostomłoty Sp. z o.o. ) | 279 | - | - | 323 |
| Polenergia Farma Wiatrowa Mycielin Sp. z o.o. (GRUPA PEP-Farma Wiatrowa Mycielin Sp. z o.o.) | 938 | - | - | 550 |
| Polenergia Farma Wiatrowa Bądecz Sp. z o.o.(GRUPA PEP-Farma Bądecz Sp. z o.o.) | 108 | - | - | 157 |
| Polenergia Kogeneracja Sp. z o.o. | 703 | - | - | 62 |
| Polenergia Bałtyk I S.A. | 113 | - | - | 247 |
| MFW Bałtyk II Sp. z o.o. (Polenergia Bałtyk II Sp. z o.o. ) | 964 | - | - | 1 158 |
| MFW Bałtyk III Sp. z o.o. (Polenergia Bałtyk III Sp. z o.o. ) | 1 040 | - | - | 1 205 |
| Polenergia Dystrybucja Sp. z o.o. | 1 726 | - | 238 | 275 |
| Polenergia Elekrociepłownia Nowa Sarzyna Sp. z o.o. | 822 | 507 | - | 129 |
| Polenergia Obrót S.A. | 1 320 | - | 329 | 291 |
| Polenergia Elektrownia Północ Sp. z o.o. | 141 | - | - | 166 |
| Kulczyk Holding S. a r. l.(Polenergia Holding S. a r. l.) | 1 012 | - | - | 154 |
| Polenergia International S. a r. l. | 423 | - | - | 706 |
| PPG Pipeline Projektgesellschaft mbH | 20 | - | - | 25 |
| Polenergia Usługi Sp. z o.o. | 110 | - | - | 15 |
| Other | 281 | - | - | 281 |
| **Total** | **19 048** | **507** | **1 724** | **10 186** |

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| 2017-12-31 | Sale to associates | Financial costs | Financial income | Receivables from associates |
|---|---|---|---|---|
| Mercury Energia Sp. z o.o. i Wspólnicy, Spółka komandytowa | 190 | - | 292 | 31 |
| Energopep Spółka z o.o. | 9 | - | - | 3 |
| Polenergia Elektrownia Mercury Sp. z o.o. (Mercury Energia Spółka z o.o.) | 7 | - | - | 3 |
| Energopep Sp. z o.o, Sp kom (Interpep Sp. z o.o.) | 25 | - | - | 3 |
| Polenergia Biomasa Energetyczna Północ Sp. z o.o.(GRUPA PEP-Biomasa Energetyczna Północ Spółka z o.o.) | 476 | - | - | 82 |
| GRUPA PEP-Biomasa Energetyczna Południe Spółka z o.o. | 485 | - | - | 131 |
| GRUPA PEP-Biomasa Energetyczna Wschód Spółka z o.o. | 465 | - | - | 158 |
| GRUPA PEP-Projekty Emergetyczne 1 Spółka z o.o. | 9 | - | - | 3 |
| GRUPA PEP-Bioelektrownia 2 Sp. z o.o., Spółka komandytowa | 1 072 | - | 1 236 | 1 084 |
| GRUPA PEP-Bioelektrownia 2 Spółka z o.o. | 9 | - | - | 3 |
| GRUPA PEP-Farma Wiatrowa 1 Sp. z o.o. | 1 328 | - | - | 513 |
| GRUPA PEP-Farma Wiatrowa 3 Sp. z o.o. | 361 | - | - | 431 |
| GRUPA PEP-Farma Wiatrowa 4 Sp. z o.o. | 1 415 | - | - | 718 |
| GRUPA PEP-Farma Wiatrowa 6 Sp. z o.o. | 930 | - | - | 292 |
| Polenergia Farma Wiatrowa Wodzisław Sp. z o.o.(GRUPA PEP-Farma Wiatrowa 7 Sp. z o.o.) | 18 | - | - | 17 |
| Polenergia Farma Wiatrowa Grabowo Sp. z o.o. (Grupa PEP Farma Wiatrowa 8 Sp. z o.o. ) | 287 | - | - | 328 |
| Polenergia Farma Wiatrowa Namysłów Sp. z o.o.(GRUPA PEP-Farma Wiatrowa 10 Sp. z o.o.) | 16 | - | - | 13 |
| Polenergia Farma Wiatrowa Olbrachcice Sp. z o.o.(GRUPA PEP-Farma Wiatrowa 13 Sp. z o.o.) | 12 | - | - | 12 |
| Certyfikaty Sp. z o.o.(Grupa PEP Obrót 1 Sp zo.o.) | 53 | - | - | 4 |
| Grupa PEP Obrót 2 Sp zo.o. | 305 | - | - | 6 |
| Amon Sp. z o.o. | 451 | - | - | 740 |
| GRUPA PEP-Farma Wiatrowa 22 Sp. z o.o. (Autan Sp. z o.o.) | 1 366 | - | - | 1 671 |
| Polenergia Farma Wiatrowa Piekło Sp. z o.o. (GRUPA PEP-Farma Wiatrowa Piekło Sp. z o.o.) | 245 | - | - | 271 |
| Dipol Spółka z o.o. | 514 | - | - | 109 |
| Polenergia Farma Wiatrowa Wierzbnik/ Jankowice Sp. z o.o.(GRUPA PEP-Farma Wiatrowa Wierzbnik/Jankowiec Sp. z o.o.) | 13 | - | - | 13 |
| Polenergia Farma Wiatrowa Rudniki Sp. z o.o. (Grupa PEP – Farma Wiatrowa 21 Sp. z o.o) | 17 | - | - | 12 |
| GRUPA PEP-Farma Wiatrowa 17 Sp. z o.o. (Juron Sp. z o.o.) | 12 | - | - | 10 |
| GRUPA PEP-Farma Wiatrowa 16 Sp. z o.o. (Morka Sp. z o.o.) | 18 | - | - | 20 |
| Polenergia Farma Wiatrowa Krzywa Sp. z o.o (GRUPA PEP-Farma Wiatrowa 19 Sp. z o.o.) | 17 | - | - | 12 |
| Polenergia Farma Wiatrowa Szymankowo Sp. z o.o (Pepino Sp. z o.o.) | 156 | - | 168 | 174 |
| GRUPA PEP-Farma Wiatrowa 23 Sp. z o.o. (Solano Sp. z o.o.) | 14 | - | - | 7 |
| Talia Sp. z o.o. | 380 | - | - | 590 |
| Polenergia Farma Wiatrowa Dębice/ Kostomłoty Sp. z o.o (GRUPA PEP-Farma Wiatrowa Dębice/Kostomłoty Sp. z o.o. ) | 246 | - | - | 271 |
| Polenergia Farma Wiatrowa Mycielin Sp. z o.o. (GRUPA PEP-Farma Wiatrowa Mycielin Sp. z o.o.) | 1 077 | - | - | 546 |
| Polenergia Farma Wiatrowa Bądecz Sp. z o.o.(GRUPA PEP-Farma Bądecz Sp. z o.o.) | 251 | - | - | 276 |
| Polenergia Kogeneracja Sp. z o.o. | 911 | - | - | 142 |
| Polenergia Bałtyk I S.A. | 103 | - | - | 112 |
| Polenergia Bałtyk II Sp. z o.o. | 796 | - | - | 805 |
| Polenergia Bałtyk III Sp. z o.o. | 748 | - | - | 736 |
| Polenergia Dystrybucja Sp. z o.o. | 2 279 | - | 189 | 393 |
| Polenergia Elekrociepłownia Nowa Sarzyna Sp. z o.o. | 1 003 | 1 909 | - | 51 |
| Polenergia Obrót S.A. | 814 | - | - | 118 |
| PPG Polska Sp. z o.o. | 18 | - | - | 14 |
| Polenergia Elektrownia Północ Sp. z o.o. | 199 | - | - | 274 |
| Grupa PEP - Projekty Energetyczne 1 Sp. z o.o. SKA | 15 | - | - | 1 |
| Grupa PEP - Projekty Energetyczne 1 Sp. z o.o. ENS Consulting S.K. | 15 | - | - | 1 |
| Polskie Biogazownie S.A. | 47 | - | - | 114 |
| Polenergia Biogaz Sp. z o.o. | 108 | - | - | 15 |
| Polenergia Holding S. a r. l. | 268 | - | - | (20) |
| Polenergia International S. a r. l. | 1 365 | - | - | 1 181 |
| PPG Pipeline Projektgesellschaft mbH | 64 | - | - | 97 |
| Polenergia Usługi Sp. z o.o. | 126 | - | - | 21 |
| Mansa Investments Sp. z o.o. | 15 | - | - | 2 |
| Other | 1 742 | - | - | 1 921 |
| **Total** | **21 222** | **1 909** | **1 885** | **12 713** |

Shares and loans advanced to the related parties are presented in note **Błąd! Nie można odnaleźć źródła odwołania.**.

Loans received from the related parties are presented in note **Błąd! Nie można odnaleźć źródła odwołania.**.

All transactions with related parties were entered into at arms' length basis.

The Company is controlled by Mansa Investments as its related party.

Kulczyk Holding Sarl with the registered address in Luxembourg consolidates the Group at the highest level.

Ms. Dominika Kulczyk exercises the final control over the Group.

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## 42. Workforce

As at 31 December 2018 and 31 December 2017 the workforce in the Company split into professional groups was as follows:

| | 2018-12-31 | 31.12.2017 |
|---|---|---|
| Parent company Management Board | 3 | 3 |
| Parent company employees *) | 53 | 49 |
| **Total headcount** | **56** | **52** |

*) persons on maternity leave were taken into account

## 43. Information on total amount of remuneration and awards (in cash and in kind), paid or payable to members of the Management and Supervisory Boards of the Company

In the years 2018 and 2017 the remuneration for the Management Board members amounted to:

| | 2018-12-31 | 31.12.2017 |
|---|---|---|
| Jacek Głowacki | 1 106 | 864 |
| Bartłomiej Dujczyński | 1 567 | 1 293 |
| Michał Michalski | 1 332 | 792 |
| Robert Nowak | 325 | - |
| Jacek Suchenek | 444 | - |
| **Total** | **4 774** | **2 949** |

Certain members of the Management Board are party to a mutual agreement concerning the termination of employment within successive 3-12 months. In case of resignation from the position by a member of the Management Board, the Company is obliged to make severance payment in the amount of 30%-100% of the remuneration received by the Management Board member during the last 12 months.

In the years 2018 and 2017 the remuneration for the Supervisory Board members amounted to:

| | 2018-12-31 | 31.12.2017 |
|---|---|---|
| Tomasz Mikołajczak | 29 | 54 |
| Mariusz Nowak | 19 | 36 |
| Łukasz Rędziniak | 19 | 36 |
| Dawid Jakubowicz | 19 | 36 |
| Dominik Libicki | 19 | 36 |
| Orest Nazaruk | 36 | 36 |
| Arkadiusz Jastrzębski | 36 | 36 |
| Brian Bode | 36 | 36 |
| Dagmara Gorzelana | 20 | 36 |
| **Total** | **233** | **342** |

## 44. Transactions with members of the Management Board and the Supervisory Board of the Company, their spouses, siblings, ascendants, descendants or other closely related persons

In the year ended on 31 December 2018 no transactions were entered into with members of the Management Board and the Supervisory Board.

(PLN K)

## 45. Fees paid or payable to the auditor or auditing firm

The remuneration of the entity authorized to audit financial statements, paid or due for the year ended on 31 December 2018 and for the year ended on 31 December 2017 are presented in the table below, split into types of services:

| Type of service | 2018-12-31 | 2017-12-31 |
|---|---|---|
| Audit and verification of the financial statements | 164 | 164 |

## 46. Events after the reporting period

Until the date of preparation of the present financial statements, that is 4 March 2019, no events occurred which would not be disclosed in the accounting books of the reporting period.