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

Polenergia S.A. Capital Group

DIRECTORS' REPORT ON THE OPERATIONS OF THE POLENERGIA CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2022

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1. Consolidated profit and loss account for a 12-month period ended 31 December 2022

Within the 12-month period ended on 31 December 2022, the results of Polenergia Group (the "Group") in terms of the adjusted EBITDA and net profit amounted to PLN 354.3 m and PLN 162.0 m, respectively, which means a YOY drop by PLN 6.8 m and PLN 25.2 m, respectively.

	Polenergia Group Income Statement (PLN m)	12M 2022	12M 2021	Difference YOY	Difference YOY [%]	Q4 2022	Q4 2021	Difference YOY	Difference YOY [%]
	Sales revenues, including:	**7 089,2**	**3 999,1**	**3 090,2**	**77%**	**1 946,1**	**2 066,5**	**(120,4)**	**-6%**
	trading and sales segment	6 292,4	3 323,4	2 969,0		1 688,2	1 824,0	(135,8)	
	other	796,9	675,7	121,2		257,9	242,5	15,3	
	Cost of goods sold, including:	**(6 611,1)**	**(3 657,0)**	**(2 954,2)**	**81%**	**(1 801,6)**	**(1 987,9)**	**186,3**	**-9%**
	trading and sales segment	(6 121,8)	(3 281,6)	(2 840,1)		(1 628,7)	(1 838,1)	209,4	
	other	(489,4)	(375,3)	(114,1)		(173,0)	(149,9)	(23,1)	
	Gross profit on sales	**478,1**	**342,1**	**136,0**	**40%**	**144,5**	**78,6**	**65,9**	**84%**
	Selling expenses and general overheads	(241,4)	(77,8)	(163,6)	210%	(71,0)	(25,1)	(45,9)	183%
	Other operating revenue/expense	0,9	(30,4)	31,3	103%	0,9	(19,5)	20,4	105%
A	**Operating profit (EBIT)**	**237,6**	**233,9**	**3,7**	**2%**	**74,3**	**34,0**	**40,3**	**119%**
	Depreciation/Amortization	116,4	93,3	23,1		35,6	24,9	10,7	
	Impairment losses	0,3	20,1	(19,8)		0,0	19,9	(19,9)	
	Cost connected with net result on sale of assets ***	-	13,9	(13,9)		-	-	-	
	EBITDA	**354,3**	**361,2**	**(6,8)**	**-2%**	**110,0**	**78,9**	**31,1**	**39%**
	Normalizing adjustments:		-						
	Purchase price allocation (PPA)	-	-	-		-	-	-	
	Adjusted EBITDA*	**354,3**	**361,2**	**(6,8)**	**-2%**	**110,0**	**78,9**	**31,1**	**39%**
B	Financial income	38,3	230,3	(191,9)		8,1	2,7	5,4	
C	Financial costs	(75,7)	(44,1)	(31,5)		(17,9)	(13,5)	(4,3)	
A+B+C	**Gross profit (loss)**	**200,3**	**420,1**	**(219,8)**	**-52%**	**64,6**	**23,2**	**41,4**	**178%**
	Income tax	(40,4)	(85,5)	45,2	-53%	(12,7)	(7,6)	(5,0)	66%
	Net profit (loss) from continuing operations	**159,9**	**334,5**	**(174,6)**	**-52%**	**51,9**	**15,6**	**36,3**	**233%**
	Profit from discontinued operating activities	-	(1,6)	1,6		-	-	-	
	Profit on disposal of discontinued operations	-	4,4	(4,4)		-	0,0	(0,0)	
	Net profit (loss)	**159,9**	**337,3**	**(177,4)**	**-53%**	**51,9**	**15,6**	**36,3**	**233%**
	Normalizing adjustments:								
	Purchase price allocation (PPA)	2,8	0,7	2,1		0,7	0,2	0,5	
	Foreign exchange differences	(2,9)	2,7	(5,5)		0,5	2,4	(1,9)	
	Loan valuation using the amortized cost method	1,8	1,4	0,5		1,1	0,3	0,8	
	Impairment losses **	0,3	20,1	(19,8)		0,0	19,9	(19,9)	
	Net result on sale of assets ***	-	(174,9)	174,9		-	-	-	
	Adjusted net profit (loss)*	**162,0**	**187,2**	**(25,2)**	**-13,5%**	**54,3**	**38,4**	**15,8**	**41%**
	Adjusted EBITDA*	**354,3**	**361,2**	**(6,8)**	**-2%**	**110,0**	**78,9**	**31,1**	**39%**
	Adjusted EBITDA Margin*	5,0%	9,0%	-4,0%		5,7%	3,8%	1,8%	
	Adjusted EBITDA (excl. trading segment)	**359,4**	**338,7**	**20,7**	**6%**	**101,3**	**99,7**	**1,6**	**2%**
	Adjusted EBITDA margin (excl. trading segment)	45,1%	50,1%	-5,0%		39,3%	41,1%	-1,8%	

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

**) Reversal of the impairment losses in Gas & Clean Fuels segment and connected with projects development

***) Earn-out for sale of shares in offshore projects

The sales revenues of Polenergia Group in the four quarters of 2022 were higher by PLN 3,090.2 m, mainly due to higher revenues in the trading and sales segment (by PLN 2,969.0 m), the onshore wind power segment (by PLN 149.0 m) and distribution (by PLN 52.3 m), partly offset by lower revenues in the gas and clean fuels segment (by PLN 98.2 m).

The adjusted EBITDA result in that period amounted to PLN 354.3 m and was lower by PLN 6.8 m compared to the corresponding period of the preceding year. Such drop has been mainly due to lower result on the Elektociepłownia Nowa Sarzyna ("ENS") in 2022 (compared to very good performance in 2021) and the lack of gas compensation in 2022, as well as lower result on the sale of the electricity generated by RES assets (both those owned by the Group and external ones) as a result of a significant increase of profile costs and volume variance of asset generation on the sales hedging position. The abovementioned impacts have been partly compensated for by better performance of the onshore wind power and photovoltaics segment resulting from higher generation volume due to better windiness in the first quarter of 2022 and increased generation capacities compared to a corresponding period of the preceding year.

In the fourth quarter of 2022 sales revenues of Polenergia Group dropped by PLN 120.4 m year on year, due to lower sales revenues in the trading and sales segment (by PLN 135.8 m) and lower revenues in the gas and clean fuels segment (by PLN 30.8 m), partly offset by higher sales revenues in the onshore wind farm segment (by PLN 21.3 m) and the distribution segment (by PLN 19.2 m).

The adjusted EBITDA in the fourth quarter of 2022 alone amounted to PLN 110.0 m and was higher by PLN 31.1 m compared to the corresponding period of the preceding year. This has been mainly due to: better performance of the onshore wind far segment (PLN 22.4 m) resulting, without limitation, from: the increased generation capacity, better performance of the trading and sales segment (PLN 29.5 m) due to, without limitation, better result on the trading of RES assets - originating energy and smaller impact of the wind profile costs (on the hedged sales price) and higher volume serviced resulting from the growth of the generating projects portfolio. The abovementioned impacts were partly offset by the lower result in the gas and clean fuels segment (25.8 m due to, among others, lower result on the ENS operation optimization, lower margin on heat sales resulting from higher prices of gas and CO_2 emission allowances, lower capacity market revenues and no revenues from the compensation scheme).

In the 12 months of 2022, the Group's adjusted net profit reached PLN 162.0 m, which means a drop compared to the performance in the corresponding period of the preceding year by PLN 25.2 m. In the fourth quarter of 2022 alone, the adjusted net profit of the Group amounted to PLN 54.3 m, which means a growth compared to the performance in the corresponding period of the preceding year by PLN 15.8 m. The reduction of the adjusted net profit during the four quarters of 2022 has mainly been due to the factors referred to above which affected the adjusted EBITDA result, as well as due to higher depreciation resulting from the growth of generating capacities and the increased financial expenses resulting from new investment loans incurred, higher interest rates and increased use of the instruments financing the hedging deposits for the transactions in the regulated market and the settlements with the customers.

2. Detailed commentary regarding financial performance for the 12-month period ended 31 December 2022 and other significant information on the Group's standing.

In 2022 the onshore wind power segment recorded higher EBITDA by PLN 140.0 m year on year, while in the fourth quarter alone, EBITDA increased by PLN 22.4 m compared to the corresponding period of 2021. The improved performance of that segment in 2022 YOY has mainly been due to the construction of the Dębsk and Kostomłoty Wind Farms, the inclusion in the results of the all-year-long generation of the Szymankowo Wind Farm that had commenced operation in HY2 2021 and due to higher sales prices of electricity and green certificates at the segmental level. The above was partly offset by lower generation volume of the farms in operation in 2022 and the end of the support scheme at the Puck Wind Farm, as well as higher operating costs of wind farms.

The EBITDA of the gas and clean fuels segment dropped by PLN 129.2 m relative to the corresponding period of the preceding year, while in in the fourth quarter alone, the drop amounted to PLN 25.8 m mainly as a result of smaller effect of ENS operation optimization, lower margin on heat sales due to higher prices of gas and CO_2 allowances, lower capacity market revenues and no income from the compensation system.

The effects of the optimization process in 2022 included the reversal of the earlier forward transactions hedging the production and sales of electricity in ENS for a part of 2023. Changes in the level of margin resulting from the changes in the level of prices of electricity, gas and Co_2 allowances in connection with the generation of electricity in ENS (Clean Spark Spread - "CSS") permitted making a decision to curb the planned generation in 2023 and gradually close the position in the forward market for the a/m period with additional margin. In consequence, measurement took place of the relevant financial instruments as per IFRS 9 resulting in the recognition of the following items in the result for 2022, at the Group level: (i) the result on the anticipated generation in ENS in the a/m period the forward transactions related to (PLN 2.6 m) which is a timing effect, and (ii) the impact of additional optimization and favorable CSS changes amounting to PLN 6.6 m. The impact of measurement of these transactions on EBITDA in 2022 has been disclosed under the trading and sales segment in the amount of PLN 2.4 m and in the gas and clean fuels segment in the amount of PLN 6.9 m. The impact of the transactions concluded with respect to the four quarters of 2022 the measurement of which was recognized in the financial statements as at the end of Q4 2021 amounting to PLN 38.7 m has been included in the realized result reducing the measurement figure as at 31 December 2022. As at 31 December 2022, all forward transactions hedging the margin on generation and sales of ENS in the years 2022 and 2023 have been reversed.

The trading and sales segment experienced a drop of its EBITDA result by PLN 27.5 m relative to the corresponding period of the preceding year, while in Q4 alone, the growth amounted to PLN 29.5 m.

The drop of the 2022 result was driven by: i) lower result on the ENS contract service in connection with the ENS optimization in 2021 resulting in measurement of forward transactions hedging production and sales of future periods, ii) lower result on RES aggregation as a consequence of the significant increase of profile cost and the volume variance of asset generation compared to the sales hedging position, iii) lower result on of RES assets originating energy trading and increase of profile cost and the volume variance of wind farm generation compared to the sales hedging position, iv) mandatory contribution to the Price Difference Payment Fund as a result of the Act of 27.10.2022 on extraordinary measures to reduce electricity price levels, v) higher operating expenses resulting from the expansion of operations. The drop of the result in 2022 was partly offset by: i) increased margin on the trading portfolio and business service due to the i.a. implementation of a short-term strategy on the markets, ii) better result on energy sales related mainly to the measurement of forward transactions, iii) better result on the proprietary trading in the energy and gas markets, iv) margin on the sale of the prosumer power systems, including PV panels and heat pumps.

The drivers of the improved performance in Q4 2022 included better performance on: i) RES assets originating energy trading due to higher electricity sales prices and smaller impact of the wind profile costs (compared to the hedged sales price) and higher volume serviced due to the expansion of the generating projects portfolio, ii) RES aggregation predominantly as a result of agreements made with the customers which partly compensated for the negative margin of the previous periods of 2022 and the smaller impact of high profile costs, iii) sales of energy mainly as a consequence of recognizing negative result on the forward transactions measurement in 2021, iv) sale of the prosumer power systems, including PV panels and heat pumps. The growth of the result in the fourth quarter of 2022 was partly offset by: i) mandatory contribution to the Price Difference Payment Fund as a result of the Act of 27.10.2022 on extraordinary measures to reduce electricity price levels, ii) lower result on electricity trading and business service, iii) lower impact of ENS optimizing process entailing measurement in Q4 2021 of forward transactions hedging the future periods' generation and sales, iv) higher operating expenses resulting from the expansion of operations.

EBITDA of the distribution segment for 2022 exceeded by PLN 8.8 m that of 2021, and in Q4 alone it increased by PLN 0.6 m relative to Q4 2021. The increased result in 2022 was mainly the effect of higher unit margin on energy sales. The result has been partly offset by lower margin on electricity distribution, higher operating expenses mainly resulting from the upscaling of operations, including the costs of implementing the strategy in the e-mobility area. The main reasons why said margin on electricity distribution was reduced was the adjustment of revenues from the connection fees in Q2 2022 resulting from the changes in the customers' projects implementation time schedule and the cost adjustment for 2022 in Q4 2022. The increased result in Q4 2022 has mainly been the effect of the higher margin on energy sales.

The EBITDA result in the PV segment in the four quarters of 2022 exceeded by PLN 11.1 m that in the four quarters of 2021 (while in Q4 2022 alone it exceeded by PLN 1.1 m that in Q4 2021) in view of the commencement of the start-up, in late March 2022, and the commencement of the operating phase in June and July 2022 of two new projects: Sulechów II (11.7 MW) and Sulechów III (9.8 MW), the start-up and the commencement of operation of the Buk I project (6.4 MW) in September 2022, as well as better performance of the Sulechów I project and good insolation throughout the year. Revenues generated by the Sulechów I project were higher by 86% relative to those in the four quarters of 2021 due to higher insolation and due to the sales of part of the electricity volume at higher market prices outside the support scheme.

The result in the unallocated segment, in the period from January to December 2022, was lower by PLN 9.9 m, with the result in Q4 2022 alone being higher by PLN 3.3 m relative to the corresponding period of 2021. The change of the EBITDA result in 2022 has been driven mainly by higher operating costs at the Headquarters resulting from the expansion of business, while in the fourth quarter of 2022 alone, such result has been higher due to the costs borne in the fourth quarter of 2021 relating to the acquisition of 100% of shares in the company Edison Energia.

The result on financial activities in the four quarters of 2022 was lower than the last year's result by PLN 223.5 m which was mainly due to: the revenues from the earn-out in 2021 in the amount of PLN 225.8 m in respect of the sale of shares in the companies MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o. that had taken place in 2018, and the revenues from the sale of the Wińsko project. In addition, the drop of the result on financial activities was driven by higher interest expenses (by PLN 27.0 m) and higher commissions costs (by PLN 3.3 m) and lower foreign exchange performance (by PLN 4.7 m), partly offset by higher interest gains on deposits (by PLN 36.2 m). In the fourth quarter alone, the result on the financial activities was higher by PLN 1.1 m than in the corresponding period of the preceding year, which was mainly driven by higher income, by PLN 8.1 m, from interest on deposits partly offset by higher interest expenses (increase by PLN 3.9 m) worse foreign exchange differences performance (by PLN 4.3 m) and commission (by PLN 0.5 m).

Lower CIT for four quarters of 2022 results from the Group's lower profit before tax (lower level of financial revenues partly offset by higher operating profit).

The impact of the war in Ukraine and the energy market conditions on the Company's business

In view of the continued armed conflict in Ukraine, risk factors that may potentially impact the business and financial performance of Polenergia Group have been monitored and identified on an ongoing basis.

In view of the escalating war in Ukraine and the tension in the raw material markets, we witnessed abrupt changes in the market environment which have been manifested through extremely high volatility of the prices of financial instruments, raw materials and commodities, including fluctuation of prices of electricity, natural gas and CO_2 emission allowances. The underlying situation of the European energy market has made it clear that any significant curbing of natural gas supply to EU resulting in restricted supply and uncontrolled price increases of gas, coal and electricity, combined with the heat, shortage of water in water power stations and problems in the operation of nuclear power plants, evokes uncontrolled behavior of the market participants and difficult to contain growth of energy and raw material prices. Furthermore, among financial factors relevant to the Group, increased inflation pressure and volatility of the Zloty exchange rate vis-à-vis the Euro and the US dollar were observed, as well as a significant growth of costs related to the hedging costs of transactions concluded in commodity markets. Since the high energy prices were deemed unacceptable, a price-freeze act was passed with benefits for end-users and price caps for the generators and revenue caps for the trading companies. Any surplus must be transferred to the Settlement Administrator (Zarządca Rozliczeń). In addition, the lifting of the obligatory sale of energy through the commodity exchange and the curbing of offers on the balancing market will entail a reduction in profits of the energy sector companies.

In a short- and medium-term perspective, the regulatory steps will have adverse impact on the amounts of profit generated by the Company. At the same time, the pursuit to stabilize energy prices may entail reduction of the required level of hedging of transactions concluded in the commodity markets.

The abovementioned regulatory acts that have and shall have an impact on the Issuer's business include, among others:

1. Regulations affecting electricity sales rules in December 2022 and throughout 2023

On 7 October 2022, the Price Freeze Act (Act on special measures to support energy end-users in 2023 due to the electricity market situation, PL OJ 2022, item 2127, as amended) was passed, and on 27 October, 2022, the Emergency Measures Act (Act of 27 October 2022 on extraordinary measures to reduce electricity price levels and support certain end-users in 2023 PL OJ 2022, item 2243, as amended); also, implementing acts to the aforementioned acts were enacted. The aforementioned legal acts directly affect the operation of the Polenergia Group, both in the segment of generation assets and in the segment of trading and sales of energy to end-users. This is because:

- The Price Freeze Act provides that for households (including in contracts for the supply of electricity to secure household-related living needs) the prices from 2022 will be maintained in their settlements, up to a regulatory limit on energy consumption;
- The Emergency Measures Act provides a cap on the energy sale to households (including in contracts for the supply of electricity to secure household-related living needs) (PLN 693/MWh) - applicable after the consumption limits set by the Price Freeze Act are exceeded - as well as the maximum prices for other eligible customers (in particular, small and medium-sized enterprises, local government units and a number of public utilities) (PLN 785/MWh);
- The Emergency Measures Act also limits the revenue generated by power generators and trading companies. In case such companies achieve a surplus of revenues from energy sales over the price or margin caps indicated in the regulations an obligation arises on their part to pay the indicated amounts to the account of the Price Difference Payment Fund.

Accordingly, the aforementioned regulations will directly determine the Group's potential revenues in the generation and trading segment in the period from 1 December 2022 to the end of 2023.

2. Removal of the requirement to sell at the commodities exchange.

An amendment to the Energy Law was passed in 2022, abolishing the exchange obligation for electricity trading. Potential negative effects of such regulation include, among others, reduced liquidity on the energy exchange (Towarowa Giełda Energii - TGE), difficulties in hedging positions on the futures market, reduced market transparency and increased risk of occurrence for price manipulation.

3. Introduction of maximum prices in the balancing market

Amendment was passed to the regulation on detailed conditions for the operation of the electrical energy system. The amended regulation introduces limits on offered prices in the balancing market. Under current regulations, any balancing offers submitted must reflect the level of a generator's variable costs for a given technology and are automatically adjusted by PSE. Limiting maximum prices in the balancing market to the variable costs of conventional units closing the merit order should result in price reductions on the Day Ahead Market and Commodity Derivatives Market with delivery in 2023. The restriction introduced is expected to remain in effect until the end of 2023.

4. Regulations under the act on protection of gaseous fuels end-users

Under the Gaseous Fuel End-Users Act (the act of 15 December 2022 on special protection of certain gaseous fuel end-users in 2023 due to the gas market situation (PL OJ 2022 item 2687 as amended), a number of provisions of other acts that are relevant to the Issuer's operations have been amended. In particular:

- with respect to the RES support system: the period in which a photovoltaic RES generator must perform its first sale in the auction system has been extended to 33 months from the date of the RES auction award;
- a number of provisions of the Offshore Wind Farms Act (the act of 17 December 2020 on the promotion of electricity generation in offshore wind farms have been amended, i.e. (PL OJ 2022, item 1050, as amended), including, in particular, the indexation of the support price was expedited, the possibility of settling project support in Euros was introduced, and the validity periods of key permits were aligned with the support period.

The Gas and Clean Fuels segment is, in the opinion of the Management Board, largely immune to the current volatility of prices in the market. The margin on electricity production in 2023 is not jeopardized by the reversal of contracts for the sale of electricity and the purchase of gas and CO_2 emission allowances in 2021 and 2022. On the other hand, the gas supplies related to the heat production contracts have already been fixed (in terms of volume and fixed price) by the end of 2023. An additional safety feature for thermal power generation is the supply of light heating oil maintained and increased in Q1 2022, as reserve fuel in the event of limited or discontinued supply of gas. If ENS is called upon to provide system services, the current cost of gas purchase, in accordance with the contracts in force, will be covered by revenues. The continuation of the current gas market and CO_2 emission allowances situation in the long term may reduce the ability to secure production and margin in ENS for the years to follow. At the Elektrociepłownia Nowa Sarzyna, the main control system was replaced in 2019, security against possible cyber attack was enhanced in 2022, and all remote equipment diagnostic systems were disconnected from the Internet.

In the wind power segment, high volatility of energy prices, combined with periods of variable windiness, may result in a very significant increase in profile costs, which reduces the achieved price of energy sold. It is also noteworthy that the dynamic growth of electricity prices with concurrent growth in prices of proprietary RES rights - PMOZE_A ("green certificates") made the lawmaker declare reduction of the obligation to redeem certificates of origin from 18.5% in 2022 down to 12% in 2023. If the reduction of the redemption obligation for PMOZE_A is too big in the years to come and exceeds the pace of the old renewable energy sources projects departing from the certificate system, it may lead to a potential big slump of market prices of green certificates.

The trading and sales segment as the only one in the Group had a direct exposure to the Ukrainian market through the subsidiary Polenergia Ukraine. Even before the war began, that company limited its operating activities. The Group has identified increased risk of trading in other markets, which is driven, among others, by increased volatility of electricity and natural gas prices, the risk of failure to meet the demand volume by the customers, the risk of non-payment and non-performance of contracts in view of the regulatory changes and the increased risk of insolvency of customers. In the context of dynamic price increases, a deviation in the energy consumption by the customers compared to the contract value may generate a significant result (either positive or negative) that will be disproportionate to the original assumptions. On top of that, the price volatility coupled with the continued high price levels in the market results in substantial drop in revenues from the Group's RES assets service and RES aggregation. It is also noteworthy that the rising quotations of energy prices in the context of low sales prices hedged in the forward market adversely affect the Group's liquidity in relation to the requirement to secure higher deposits in the stock market. In response to the changing market conditions, the Group has been modifying its RES assets sales strategy and has been aiming at increasing the share of energy sales in OTC transactions and under long term contracts. Negative exchange rate movements may result in a deterioration of the performance on a Euro-denominated market. At the same time, the strengthening of the Euro may lead to an increase in the value of the required security deposits. The segment is also exposed to the risk of interest rate increases. Higher cost of working capital facility, due to the increase of interest rates, may result in a drop of the return on the operations. Polenergia Obrót has also been taking measures to monitor safety risks. Any potential attack that would destroy a telecom and IT infrastructure or restrict access of the availability to systems in a company would prevent the company from continuing its commercial business or would restrict such ability. The abolition of the mandatory sale of energy by the exchanges, with planned consolidation of the generation sector, poses a risk of lack of liquidity and transparency, as well as unreliability of price indices, which may affect the Group's ability to operate its business, as well as its revenues. The risks of additional regulating the energy prices to end-users may have a negative impact on the company by creating a loss that will not be entirely covered by the compensation scheme. In addition, the introduction of the maximum energy sales prices covering also the trading segment poses a significant risk to the activities of the entire Polish trading segment.

The distribution segment is protected in the long term against the effects of any investment costs increase and rising interest rates through a tariff mechanism. In a short term perspective, until the distribution tariff is updated, that is until beginning of Q2 2023, the Company may experience a negative impact of the current market situation on the return on the business operations performed.

In the opinion of the Group, the current market situation should not jeopardize the achievement of the objectives set out in the Polenergia Group's strategy for the years 2020-2024. The persisting high energy prices, together with the limited use of conventional sources such as coal, gas and oil, may provide an additional incentive to increase the scale of investments in RES, both in generation sources and in green energy products such as green hydrogen, as well as to the continued electrification of further sectors of the economy. As a consequence, it may facilitate legislative processes and provide access to additional funds to support such investments.

In a short term perspective, the investment projects implemented by the Group may be affected by the negative impacts of the current market situation. The increase in raw material and product prices on the market and the temporary shortage of employees suffered by subcontractors may result in delays in the implementation of wind and PV farm projects. The raise of interest rates triggers increased financing costs while the increase in raw material and commodity prices combined with the volatility of the EUR/PLN exchange rate may lead to an increase in total investment costs. The regulation of the maximum sales price applicable to power generators in 2023 may result in a decrease in the economic parameters of the investments in progress. In view of the fuel price increase and the growing demand for gas in the European market, disruptions in the supply chain for the offshore wind power segment have been observed, including because of the shortage of already scarce human and equipment resources from the offshore wind power sector to that dealing with the offshore hydrocarbon extraction, which may necessitate adjustments in the construction programs of the offshore wind farm projects MFW Bałtyk II and MFW Bałtyk III.

Implementation of the Polenergia Group Strategy for the years 2020-2024

The new strategy of the Group is being implemented with no significant disturbances.

As at 31 December 2022 the Group continued works aimed at the development of three wind farm projects of the total capacity of 178 MW which secured auction offtake under the RES support auction scheme.

In October 2022 the Dębsk WF project with the capacity of 121 MW obtained an Operating Permit, and in January 2023 - the license to generate green power.

The 13.2 MW Piekło wind farm project which secured an auction offtake in December 2020 is currently at the construction stage. Construction works began in March 2022. 100% of the construction and assembly work has been completed, with all the turbines assembled. Turbine acceptance, testing and commissioning are underway. Completion of construction has been scheduled for the second half of 2023.

The 44 MW Grabowo wind farm project which secured an auction offtake in December 2021, is currently at the construction stage. Construction works began in March 2022. 100% of road and foundation works have been completed, 100% of MV cable lines and HV cable lines are in place, 100% of the scope of work on the substation have been completed. Deliveries of major wind turbine components began in October 2022. Currently, all turbines have been installed, and acceptance and commissioning of the turbines is underway. Completion of construction has been scheduled for the second half of 2023.

Construction of the Sulechów II, Sulechów III and Buk I projects have been completed, with acceptance certificates issued of completion of a civil structure, and installations entered into the MIOZE register kept by ERO.

In December 2021, the subsidiaries: Polenergia Farma Wiatrowa Olbrachcice sp. z o.o. developing a portfolio of projects of PV farms Świebodzin I with a total capacity of 10.5 MW and Polenergia Obrót 2 sp. z o.o., developing the PV farm project Strzelino with a total capacity of 45.15 MW, successfully participated in the auction for the sale of energy from renewable energy sources.

The Strzelino PV project obtained the necessary corporate approvals at the end of 2022 and is currently in the construction phase. A contract with the installation and assembly contractor, a contract with the supplier of photovoltaic modules and a contract for the services of the Contract Engineer have been executed. A contract for the supply of inverters should be signed by the end of March 2023. In early March 2023, the job site was handed over. Completion of construction has been scheduled for December 2023.

In December 2022, the subsidiary Polenergia Farma Wiatrowa Namysłów sp. z o.o. developing a portfolio of the Szprotawa PV farm projects with a total capacity of 47 MW successfully participated in the auction for the sale of energy from renewable energy sources. The Group intends to enter into key project contracts in the second half of 2023, subject to the corporate approvals required for the implementation of those projects.

The Group continues further development of wind and photovoltaic projects with a view to attain the goals identified in the Group’s Strategy for the years 2020-2024. Currently, the Group’s portfolio includes photovoltaic (other than those referred to hereinabove) and (onshore) wind projects in a less advanced stage with an aggregate capacity exceeding 1.5 GW. The Group does not exclude potential participation of the subsidiaries developing wind farm and PV projects in further RES auctions. Different forms of commercialization of production will be considered for individual projects, including bidding a portion of the production in the RES auctions to come, selling energy to industrial customers under cPPA contracts or selling energy in the regulated or over the counter market.

Development work in the offshore wind power segment is continued. The Group holds 50% of the shares in the companies MFW Bałtyk I Sp. z o.o, MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o. preparing to develop three offshore wind farms located in the Baltic Sea with total capacity up to 3000 MW. On 4 May 2021 the President of the Energy Regulatory Office issued decisions with respect to the project companies MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. o.o. (for each company separately) granting the right to cover the negative balance for electricity generated in offshore wind farms, MFW Bałtyk II and MFW Bałtyk III, respectively, of the capacity of 720 MW each.

On 6 June 2022, the company MFW Bałtyk II Sp. z o.o. filed a notification with the President of the Energy Regulatory Office aimed at requesting an opinion of the Antimonopoly Office (UOKIK) on the draft individual support for the project MFW Bałtyk II and requesting the issuing - after the European Commission issues its decision stating compliance of the state aid to the company with the internal market - of a decision altering the initial decision of the President of ERO and the identifying of the price to be the base for the compensation of the negative balance for the project. The proposal is currently being processed by the European Commission under the pre-notification procedure.

A notification for the MFW Bałtyk III project is being prepared. In 2022, regulatory changes took place through an amendment to the Act on Promoting Electricity Generation in Offshore Wind Farms, which allows, since 2022, indexing the price of energy at which the negative balance will be settled and to settle project support in Euros. This will improve the projected rate of return of the MFW Bałtyk II and MFW Bałtyk III projects. The companies are engaged in the notification processes for MFW Bałtyk II and MFW Bałtyk III offshore wind farms.

In December 2022, MFW Bałtyk II and MFW Bałtyk III signed a contract with Hitachi Energy, the appointed supplier of electricity systems. Procurement proceedings are underway to appoint installation contractors and suppliers of export cables, internal cables and installation vessels.

In February 2023 MFW Bałtyk II Sp. o.o. and MFW Bałtyk III Sp. z o.o. signed annexes to the contracts with Siemens Gamesa Renewable Energy Poland Sp. z o.o. and Siemens Gamesa Renewable Energy A/S governing the choice the preferred supplier of wind turbines for the projects in development permitting a formal reservation of the installation port in Roene by the supplier. This measure mitigates one of the design risks during the construction phase, i.e. the lack of availability of port facilities.

In November 2022 the Supreme Administrative Court considered the cassation appeal of GDOŚ against the refusal to issue a new environmental decision for the MFW Bałtyk III offshore wind farm project and referred the case back to the Provincial Administrative Court for reconsideration.

Since in parallel a final and binding decision was obtained to amend the 2016 Environmental Conditions Decision authorizing the installation of the intended wind turbines, the Company withdrew its complaint from the Provincial Administrative Court, thus ending the dispute with the environmental authorities. Once the decision amending the 2016 Environmental Conditions Decision became final and binding, it became possible to mitigate the risks associated with the aforementioned proceedings concerning the potential refusal to outline new environmental conditions for the construction of the MFW Bałtyk III offshore wind farm.

Detailed geotechnical research necessary for the design of the foundations of the wind turbines and the offshore substation, and for the design of the power derivation unit has been continued by MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o. Completion of the research has been delayed, due to the need to expand its scope, due to weather interruptions, limited accessibility to militarily important areas, and is currently scheduled for the end of the first quarter of 2023. An additional research vessel has been mobilized to reduce the risk of further delays. The extended period of the research process, as well as less favorable than anticipated geotechnical conditions for the foundations, may entail further delays in the projects. The scale of possible delays and associated costs will be analyzed in detail in the months to come.

In December 2022, the company MFW Bałtyk I S.A. obtained a decision outlining the scope of the environmental report for the project called Morska Farma Wiatrowa Bałtyk I. Presently, the preparation of the report is in progress.

Together with its Lithuanian local partner Modus and the appointed advisor Ramboll, the Company continues preparations to the participation in an auction in Lithuania with a 700 MW offshore wind farm project. Work is underway regarding the technical and economic concept of the project. The auction is expected to commence in the third quarter of 2023.

Work has been in progress in terms of developing gas and hydrogen projects. A large-scale project for the production and storage of hydrogen produced by electrolysis of water with its own renewable energy, submitted by Polenergia S.A. in the competition for projects in the area of hydrogen technologies and systems (organized under the IPCEI mechanism), went for notification to the European Commission on April 29, 2022, following approval by the Antimonopoly Office (UOKiK).

Polenergia has been performing preparatory works to implement the project to build a green hydrogen plant at the ENS site in accordance with future EU guidelines for this type of investment. A water electrolysis unit of a 5 MW will permit to supply hydrogen to the first selected customers in the Podkarpacie area and to perform co-combustion tests in the existing gas units. The implementation-related and operational experience gained during this project will allow mitigating project risks in subsequent projects.

The Podkarpacie Hydrogen Valley, of which Polenergia is a part, is the first initiative of this type in Poland. It is meant to help build a coordinated and integrated "ecosystem" that is committed to the development of technology, knowledge, research and business.

In addition, under a grant agreement with the National Center for Research and Development, Polenergia is conducting a feasibility study for a project to develop an integrated process system for converting renewable hydrogen into CO_2-neutral synthetic jet fuel.

The Group is modifying the implementation of its strategy in the trading and sales segment, adapting it to the changing market conditions and the rising costs of hedging end users and profiling RES sources. With the end of 2022, some of the customer contracts expired, with further growth in sales volumes depending on market developments, which necessitates the follow-up recalculation of risks and financial expenses associated with hedging the users' forward market positions. Regulations being put in place to limit energy sale prices and contributions to the Settlement Administrator's (Zarządca Rozliczeń) fund in 2023 have largely inhibited opportunities for dynamic sales and external RES aggregation. The Company has been developing a long-term cPPA contract sales model based on the existing and newly built Group's manufaturing assets.

Commercial business on the wholesale markets has been continued on the Group's own account (prop trading), with the implemented trading strategies making the most of the market volatility, while maintaining restrictive measures to reduce risk exposure. The company's trading activities are subject to regulations on write-offs to the Settlement Administrator, therefore the results of all business lines in 2023 will be reduced by the payments to the Settlement Administrator.

The company Polenergia Sprzedaż continues to sell energy generated in the Group's renewable sources. Customers include both business clients and consumer end-users (B2B and B2C). Green energy produced in the Group's manufacturing assets is sold as the Energy 2051 standard product. As part of the intra-group cooperation, products have been developed, implemented and marketed that combine installation of solar panels and heat pumps with the supply of green energy. Prosumers were able to take advantage of a unique offer in the market, combining Energy 2051 green energy with a price guarantee for 8 years.

In 2022, Polenergia S.A. purchased 100% of the shares in Edison Energia S.A., whose business name was subsequently changed to Polenergia Fotowoltaika S.A. Polenergia Fotowoltaika installed 62.1 MW of photovoltaic panels and 689 devices were installed in the heat pump segment. Due to growing demand for heat pumps with a shortage of supply in the European market, the Company has entered into numerous contracts for the supply of pumps and plans to work with more distributors. The Company has also begun the alignment process with internal procedures and regulations of the Polenergia Group by, for example, changing its visual identity and has begun reporting its performance in accordance with IAS/IFRS. In addition, within the Group, in order to achieve synergies, Polenergia Fotowoltaika began selling products to Polenergia Sprzedaż for the supply and repurchase of electricity from prosumers. In Q4 2022 alone, Polenergia Fotowoltaika deployed photovoltaic systems of the total capacity of 12.5 MW and installed 281 heat pumps in the same period. Sales of services in the corporate segment (large installations of more than 50 kW) have begun, with 17 such contracts signed. New product development is also underway, both independently by the Company and in cooperation with Polenergia Sprzedaż.

In the distribution segment, on 7 December 2021 new electricity distribution and sales tariff for Polenergia Dystrybucja Sp. z o.o. became effective, with RAB (Regulatory Asset Base) at PLN 118.1 m. The Company is in the middle of the proceedings to update the existing tariff. The approved Investment Plan III for the years 2019 - 2022 worth PLN 51 m in total has been under implementation. As part of Investment portfolio III, the Company signed 45 contracts. By the end of Q4 2022, connection agreements were finalized and connection readiness was notified for 40 projects/project phases, and extension of concession was obtained for 16 projects, with further 7 projects expected to obtain concession.

In addition, Polenergia Dystrybucja is also in the course of implementation of Investment Plan IV for the years 2021 - 2026 worth PLN 105 m in total. By the end of Q4 2022, the company signed 70 connection agreements, with the total level of capex resulting from liabilities incurred reaching PLN 95.1 m, which accounts for 90.5% of the investment portfolio IV. As part of Investment Plan IV, the Company completed 13 projects for which connection readiness was notified.

Polenergia eMobility company commenced selling a charging service at its own charging stations. In 2022, 3 sites were commissioned, and more are under construction. The first public and private stations managed by Polenergia eMobility have been connected in the software system. The company continues to develop the system's functionality and application for users and has been prospecting more locations for public stations. The company has applied in 2022 and 2023 to three programs related to subsidizing charging stations from the National Environmental Protection and Water Management Fund (NFOŚiGW).

In Q1 2022 the Group performed a re-branding in that its colors were changed and the Group's logotype was refreshed. New, green-and-navy colors are a reference to the new positioning of the Group as an entity whose choice is green energy and which supplies its customers already today with zero-emissions "energy of the future" according to the "Energy 2051" standard, an innovation in the Polish market.

Other significant information on the Group's condition

On 4 February 2022, the companies Polenergia Farma Wiatrowa Piekło sp. z o.o. and Polenergia Farma Wiatrowa 16 sp. z o.o., developing a wind farm project Piekło, entered into an agreement with ONDE S.A., with registered office in Toruń, concerning the construction of the Piekło wind farm with a total maximum installed capacity of 13.2 MW. Such agreement is to be performed by 30 September 2023 and concerns the performance by the contractor of comprehensive construction works for the Piekło wind farm in terms of building the foundations to accommodate wind turbines, making the roads suitable for oversize vehicle transport, upgrading the existing roads, building new service roads, assembly platforms and performing assembly and power works, as well as the required construction works on the packaged substation, with medium-voltage cable grids and optical-fiber network, necessary for the construction of the Piekło wind farm project.

On 18 February 2022, the company Polenergia Farma Wiatrowa Grabowo sp. z o.o., developing a wind farm project Grabowo, entered into an agreement with Electrum Sp. z o.o. with registered office in Białystok for the construction Grabowo Wind Farm with a total maximum installed capacity of 44 MW. This agreement is to be performed by 30 December 2023 and concerns the performance by the Contractor of comprehensive construction works for the Grabowo wind farm in terms of building the foundations to accommodate wind turbines, making the roads suitable for oversize vehicle transport, upgrading the existing roads, building new service roads, assembly platforms and performing assembly and power works, as well as the required construction works on the MV/HV transformer substation, with medium-voltage and high voltage cable grids and optical-fiber network, necessary for the implementation of the Grabowo wind farm project.

On 20 December 2022, according to the Communication No. 56/2022 of the President of the Energy

Regulatory Office on the announcement of the results of the Ordinary Auction No. AZ/2/2022, Polenergia Farma Wiatrowa Namysłów sp. z o.o., developing a batch of 4 photovoltaic farm projects Szprotawa with a target total capacity of about 47 MW - won the auction. Thus, these projects obtained the right to cover the negative balance with respect to the prices offered during the auction, for about 32% of their total volume of electricity planned to be generated over a period of 15 years, according to the provisions of the Act on Renewable Energy Sources of 20 February 2015.

On 23 December 2022, Polenergia Obrót 2 sp. z o.o., developing the Strzelino photovoltaic farm project with a total installed capacity of 45.2 MWp, entered into a contract with P&Q sp. z o.o., based in Białystok, for the construction of the Strzelino Photovoltaic Farm. Performance under such contract shall be completed by 31 December 2023, and involves the performance by P&Q sp. z o.o. for the benefit of the Strzelino Photovoltaic Farm of comprehensive assembly and electrical works including: supply and installation of support structures for photovoltaic modules, installation of photovoltaic modules and inverters, supply and installation of LV/MV substations, supply and installation of LV, MV cables, construction of a 20/110 kV end-user substation with the supply of equipment, delivery and installation of a HV cable line with a fiber optic network. The contract does not include the supply of photovoltaic modules and inverters. The contract value is ca. PLN 68 m.

On 9 February 2023, the company Polenergia Obrót 2 sp. z o.o., developing the Strzelino photovoltaic farm project with a total installed capacity of 45.2 MWp (the "Project"), entered into a contract with JINKO SOLAR (CHUZHOU) CO., LTD. ("Supplier"), for the delivery of the PV modules for the Project ("Contract"). The contract covers the sale of the PV modules manufactured by the Supplier in the quantity required for the Project. The Contract does not include the supply of inverters. The Contract will be completed by September 2023. The value of Contract is approximately EUR 10 million.

On 20 January 2022, Polenergia Obrót entered into a factoring agreement (Full insured Factoring) with BNP Paribas Faktoring sp. z o.o. (‘Factor’) under which the Factor provides services to Polenergia Obrót in terms of purchase and financing of receivables approved by the Factor and capped at PLN 140 million, and in terms of taking over the risk of counterparty insolvency (i.e. the debtor of Polenergia Obrót). The purpose of the factoring agreement was to improve liquidity of Polenergia Obrót by making it possible for the Factor to finance invoices with distant payment date. An important element of the factoring agreement is also the transfer of the risk of counterparty insolvency, which is entirely borne by the Factor (with no recourse to Polenergia Obrót).

On 24 February 2022, Polenergia Obrót S.A. executed an Annex to the facility agreement with Pekao S.A. Bank for a multi-purpose credit limit, increasing the amount of available overdraft to PLN 150 million under the pre-existing financing totaling PLN 300 million. In view of the above, Polenergia S.A. issued a surety to Polenergia Obrót S.A. up to PLN 150 m. On 27 September 2022, the current overdraft agreement with Pekao S.A. was extended until 30 September 2023.

On 7 September 2022, after having obtained the Supervisory Board's approval for the increasing of the available balance (i.e. revolving maximum drawdown amount) under the loan agreement of 29 June 2022 with its subsidiary Polenergia Obrót S.A., Polenergia S.A. increased the available balance by PLN 200 m in total (up to PLN 360 m). Polenergia S.A. made an arrangement with Polenergia Obrót in this respect. According to such arrangement, the available balance was increased until 31 December 2022 and, if not agreed otherwise, since 1 January 2023 it shall revert to the initial amount of PLN 160 million, as agreed in the abovementioned loan agreement.

On 18 January 2023, Polenergia Obrót S.A. (“POLO”) entered into an annex to the facility agreement for a multi-purpose credit limit with Deutsche Bank Polska S.A. dated 10 November 2021. The annex provides for an increase of the credit limit to a total of PLN 200 million, under which an overdraft limit and a guarantee limit have been made available. The Annex was entered into for a specific term of 12 months, subject to extension for further credit periods. In view of the above, the company Polenergia

S.A. increased its surety up to the total of PLN 100 million. Originally, the facility agreement provided for a PLN 100 million multi-purpose loan to POLO, with the surety of PLN 30 million.

On 29 March 2023, Polenergia Obrót S.A., a subsidiary of the Company, received a letter from Cime Capital AG with its registered seat in Switzerland, a manager of CIME V-E Asset AG with its registered seat in Switzerland ("CIME Asset" and, together with its related parties, collectively the "CIME Group"), setting out the CIME Group's proposal for the termination and full settlement of the ISDA standard financial agreement concluded on 27 February 2020 between POLO and CIME Asset (the "ISDA Agreement") and the subscription by POLO for secured bonds to be issued by CIME Invest AG (the "CIME Invest"), a CIME Group entity organized under the laws of Liechtenstein (the "CIME Bonds").

As proposed by the CIME Group:

- the ISDA Agreement would be terminated in accordance with its terms on early termination and settled on the basis of the current market valuation of the executed transactions (for the years of 2023 – 2025) and close-out netting,
- settlement of POLO's receivables under the aforementioned settlement of the ISDA Agreement would be effected through POLO's subscription for the CIME Bonds;
- the closing and settlement of the ISDA Agreement by way of POLO's subscription for the CIME Bonds would be effected to adapt the structure of CIME Group's liabilities to the liquidity capacity declared thereby;
- the CIME Bonds would be secured by assets of the CIME Group;
- the CIME Bonds would be issued on the basis of a prospectus approved by the relevant regulatory authorities of Lichtenstein;
- the value of the CIME Bonds that would be allotted for subscription by POLO would represent approximately the value of the settlement of the ISDA Agreement in result of its termination on the terms as referred to above.

As of 29 March 2023, the estimated amount of the settlement of the ISDA Agreement is PLN 59.73 million (as of 31 December 2022 it amounted to PLN 79.8 million). This amount may change based on the Mark-to-Market valuation of the transactions concluded under the ISDA Agreement.

The adoption of a final decision concerning the aforementioned settlement of the ISDA Agreement and, consequently, the possible subscription for the CIME Bonds by POLO will depend on, in particular, analysis and assessment of the terms and conditions of the issuance, including the offered collateral.

On 23 September 2022, Polenergia S.A., acting as a consortium leader and its subsidiary Polenergia Elektrociepłownia Nowa Sarzyna sp. z o.o. acting as a consortium member, entered into a contract with the National Center for Research and Development for co-financing of the project H2 HUB Nowa Sarzyna: Green Hydrogen Storage in the New Technologies in Energy I contest. The project goal is to develop an integrated water electrolysis system for the production of hydrogen, using electricity produced from renewable energy sources, including hydrogen storage and a CO^2-neutral synthetic aviation fuel conversion system, which is an eco-efficient energy carrier. In addition to Polenergia S.A. and ENS, the Consortium also includes the Technical University of Wrocław. The project involves research and development and provides for implementation in three phases. According to the agreement on co-financing, the total amount of potential co-financing of the project in the form of grants amounts to PLN 95.1 million, provided that the amount of potential co-financing in phase one amounts to PLN 100 thousand, which represents 50% of the planned financial expenditure for such project phase, which will end in Q3 2023.

On 15 December 2022. Polenergia Elektrociepłownia Nowa Sarzyna sp. z o.o., with registered office in Nowa Sarzyna, participated in the main auction in the capacity market for the delivery year 2027.

During the auction, ENS offered total capacity obligation of 112 MW for 2027. ENS had not made an exit bid by the time the auction ended. On 20 December 2022. Polskie Sieci Elektroenergetyczne S.A. announced preliminary results of the abovementioned main auction, according to which the auction for the supply year 2027 ended in Round 1 with a closing price of PLN 406.35/kW/year. In view of the publication of the preliminary results, the capacity contract for the capacity obligation offered by ENS in the auction was entered into for a term of one year. The final results of the auction - identical with the preliminary ones - were announced by the President of the Energy Regulatory Office.

On 30 December 2022, the project companies MFW Bałtyk II sp. z o.o. and MFW Bałtyk III sp. z o.o.(each individually a "Project Company" or collectively the "Project Companies"), in which the Company holds a 50% stake, developing offshore wind farm projects with a planned installed electrical capacity of 720 MW each ("Offshore Wind Farms"- "OWF") as part of a joint venture between the Company and Equinor Wind Power AS, entered, each independently, into agreements with Hitachi Energy Poland sp. z o.o. ("Contractor"), providing for: (i) design work for the OWF electrical system; (ii) delivery of an onshore substation under the EPC formula; (iii) delivery of the complete control system, telecommunications network, all high-voltage equipment in the offshore and onshore substation; (iv) system analyses; (v) integration of all third party contractors' equipment; (v) connection works (each individually referred to as the "Agreement" or collectively as the "Agreements").

Entry into force of the Agreements is subject to the fulfillment of a number of conditions, namely: (i) delivery by the Contractor of the performance bond for the Agreements; (ii) possession by the Project Company of the necessary permits to commence construction work; (iii) obtaining a final investment decision ("FID") by the respective Project Company; (iv) delivery by the parties of the required insurance policies; (v) issuance by the Project Company of a notice to proceed ("NTP"); (vi) receipt by the Contractor of confirmation issued by banks that the Project Company has obtained financing or delivery of payment security in the form of a parent company guarantee. The Project Companies may waive the requirement to meet the conditions in items (i) - (iv).

The Project Companies, in accordance with the Agreements, will issue an interim notice to proceed ("INTP"), covering a portion of the contractual scope, upon execution of the Agreements. INTP shall apply to those works covered by the Agreements that need to be completed before FID in order to implement the projects as scheduled. The provisions of the Agreements shall apply to the performance of the work.

In connection with the commencement of work prior to fulfillment of the conditions of the Agreements, the Company will be required to provide payment security in the form of a parent company guarantee ("PCG"). PCGs issued by the Company will cover 50% of the value of the Project Companies' obligations to the Contractor. The maximum anticipated amount of the Company's PCG-based liabilities securing the work performed under INTP will be approximately EUR 18.1 million in aggregate for the two Project Companies. The maximum anticipated amount of the Company's PCG -based liabilities securing work performed under NTP but prior to financial close will depend on the final value of the contractual liability.

On 21 March 2022 Polenergia S.A. entered into a joint venture agreement with a Lithuanian company Modus Energy AB (operating under the Green Genius brand) who is to be a local partner in relation to the intended development of the offshore wind power projects in the Baltic Sea, in the Lithuanian sea territory or in the area of the exclusive economic zone of the Lithuanian Republic ("JV"). The joint venture agreement provides for the establishment of a special purpose vehicle to remain under joint control of the Company and Green Genius with a view to implement the project. The JV is aimed at formalizing the Polenergia Group's collaboration with Green Genius as a local partner covering further analyses of Lithuanian regulations aiming at the adopting of the legal framework underlying the development and construction of offshore wind farms, as well as taking further actions in accordance with the timetable agreed by the parties and with the investment criteria aimed at, without limitation, the development of the project. The Group does not exclude further joint operations with a view to build, commercialize and operate the project. However, relevant decisions may be made later in the future.

On 6 September 2022 Polenergia S.A. obtained information that the President of the Antimonopoly Office (UOKIK) had given, by way of a decision, consent to concentration consisting in the establishment by Polenergia S.A. and Modus of a joint venture for Polenergia S.A. and Modus to cooperate in relation to the intended development of the offshore wind farms in the Baltic Sea within the Lithuanian territorial sea or within the exclusive economic zone of the Republic of Lithuania, within the scope referred to in the project agreement.

On 21 September 2022, Polenergia S.A. received a notification from Generali Powszechne Towarzystwo Emerytalne S.A. managing the Generali Otwarty Fundusz Emerytalny [Pension Fund] ("the Fund") made pursuant to Art. 69 of the Act, about the Fund's reducing its share in the total number of votes in the Company below the 5% threshold.

On 5 January 2023, the Company received a notification from Powszechne Towarzystwo Emerytalne Allianz Polska S.A, managing Allianz Polska Otwarty Fundusz Emerytalny ("Allianz OFE"), and managing Allianz Polska Dobrowolny Fundusz Emerytalny ("Allianz DFE"), according to which, as a result of the merger on 30 December 2022 with Aviva Powszechne Towarzystwo Emerytalne Aviva Santander Spółka Akcyjna, which manages Drugi Allianz Polska Otwarty Fundusz Emerytalny ("Drugi Allianz OFE"), the share in the Company's share capital and total number of votes in the accounts of Allianz OFE, Allianz DFE and Drugi Allianz OFE increased to exceed 5%.

On 7 October 2022, the Management Board of Polenergia S.A. received the resignation of Mr. Grzegorz Stanisławski from the function of the Member of the Supervisory Board. Said resignation was filed for personal reasons effective as at 10 October 2022.

On 10 October 2022 the Management Board of Polenergia S.A. received a representation of the shareholder, Mansa Investments sp. z o.o. (Mansa) with registered office in Warsaw about the appointment, under the personal authority provided for in Art. 5.4.2 letter a) sec. i) of the Company Statutes of Mr. Jacek Santorski Member of the Supervisory Board, effective as of 10 October 2022.

On 7 February 2023, the Company's Supervisory Board passed a resolution to dismiss Mr. Jarosław Bogacz, a member of the Company's Management Board effective as at 8 February 2023.

In 2022, a public offering of 21,358,699 newly issued AA series bearer common shares was performed. On 27 January 2022 the Financial Supervision Authority approved the Company's prospectus prepared in connection with the planned public offering and the intended application for admission and introduction of the aforementioned shares to trading on the regulated market operated by the Warsaw Stock Exchange - Giełda Papierów Wartościowych w Warszawie S.A.

On 8 April 2022 the Management Board of the Warsaw Stock Exchange (GPW S.A.) passed a resolution concerning the admission and listing on the GPW Main Market of 21,358,699 ordinary AA series bearer shares of the par value of PLN 2.00 each as of 12 April 2022.

On 12 April 2022 a registration took place with KDPW of 21,358,699 ordinary bearer shares of AA series under the code ISIN PLPLSEP00013. Thus the requirement to have the shares listed in the primary market of the Warsaw Stock Exchange was met.

On 22 February 2023, the Management Board passed a resolution (the "Resolution") to initiate the process of increasing the Company's share capital through the issuance of new shares of the Company, under which the Company plans to raise proceeds of between PLN 500 million and PLN 750 million (the "Issue"). The final value of the expected proceeds from the Issue and the related number of new shares of the Company to be issued under the Issue will be determined by the

Management Board in the prospectus or in a communication to be published after the date of its approval, with due regard to the Company's actual capital requirements. Accordingly, the Management Board convened an Extraordinary General Meeting of the Company, with the agenda providing for the adoption of a resolution on the Issue (Current Report No. 7/2023 dated 28 February 2023). The final decision About the Issue and the increase of the Company's share capital will rest with the General Meeting. It is the intention of the Management Board to address the Issue to the Company's shareholders on the basis of the pre-emptive rights and to perform the Issue through a public offering based on a prospectus within the meaning of Regulation (EU) 2017/1129 of the European Parliament and the Council of 14 June 2017. As of the date of the Resolution, the purpose of the Issue is to raise funds to finance the Company's investment projects and development plans, including wind farms (offshore and onshore) and photovoltaic farms, as well as projects in the area of hydrogen technology, energy storage and electromobility, the implementation of which is in line with the Polenergia Group Strategy for the years 2020-2024, published by the Company in May 2020. The ultimate purpose of the Issue will be determined and described in the Company's prospectus related to the Issue. For the purposes of the Issue, the Company engaged Santander Bank Polska S.A. as the Exclusive Global Coordinator, Demand Brook Keeper and Investment Firm intermediating in the Issue, and DLA Piper Giziński Kycia sp. k. as the Company's legal advisor.

Financial performance for the 12-month period ended 31 December 2022 by operating segments

On the following pages a presentation is given of the distribution of the total Group's result in 2022 and in the fourth quarter of 2022 alone, broken down into the operating segments.

12M 2022 (m PLN)	Onshore Wind Power	Photovoltaics	Gas and Clean Fuel	Trading	Distribution	Unallocated	Purchase price allocation	TOTAL
Sales revenues*	**403,9**	**16,1**	**202,8**	**6 292,4**	**161,9**	**12,2**	**-**	**7 089,2**
Operating costs, including	**(144,2)**	**(4,9)**	**(200,0)**	**(6 121,8)**	**(134,3)**	**(3,1)**	**(2,8)**	**(6 611,1)**
operating costs (without granted green certificates adjustment)	(57,5)							(57,5)
depreciation/amortization	(81,0)	(2,4)	(13,4)	(4,9)	(7,5)	(4,3)	(2,8)	(116,4)
granted green certificates adjustment	(5,8)							(5,8)
Gross profit on sales	**259,6**	**11,2**	**2,7**	**170,6**	**27,6**	**9,2**	**(2,8)**	**478,1**
Gross profit on sales margin	*64,3%*	*69,8%*	*1,3%*	*2,7%*	*17,0%*	*"n/a"*	*"n/a"*	*6,7%*
Selling expenses				(115,9)				(115,9)
General overheads	(5,5)	(0,8)	(7,1)	(64,2)	(8,1)	(39,9)	-	(125,5)
Other operating activities	7,2	(0,4)	(2,5)	(0,4)	(0,1)	(2,8)	-	0,9
including imairment losses	(0,3)	-	-	-	-	(0,0)	-	(0,3)
Operating profit	**261,4**	**10,1**	**(6,9)**	**(10,0)**	**19,4**	**(33,6)**	**(2,8)**	**237,6**
EBITDA	**342,7**	**12,6**	**6,5**	**(5,0)**	**26,9**	**(29,3)**	**-**	**354,3**
EBITDA Margin	*84,8%*	*78,0%*	*3,2%*	*-0,1%*	*16,6%*	*"n/a"*	*"n/a"*	*5,0%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	-
Adjusted EBITDA	**342,7**	**12,6**	**6,5**	**(5,0)**	**26,9**	**(29,3)**	**-**	**354,3**
Adjusted EBITDA Margin	*84,8%*	*78,0%*	*3,2%*	*-0,1%*	*16,6%*	*"n/a"*	*"n/a"*	*5,0%*
Profit (loss) on financial activities	(53,3)	(1,2)	0,0	(21,2)	(5,8)	44,1	-	(37,3)
Profit (loss) before tax	**208,1**	**8,9**	**(6,9)**	**(31,1)**	**13,7**	**10,5**	**(2,8)**	**200,3**
Income tax								(40,4)
Net profit (loss) from continuing operations								**159,9**
Profit from discontinued operating activities								**-**
Profit on disposal of discontinued operations								**-**
Net profit (loss) for period								**159,9**
Normalizing adjustments:								
Purchase price allocation (PPA)								2,8
Foreign exchange differences								(2,9)
Loan valuation using amortized cost method								1,8
Impairment losses								0,3
Net result on the sale of assets								-
Adjusted net profit								**162,0**

*Revenues from granted but not sold green certificates are presented as decrease of direct costs in accordance with IFRS 15.

12M 2021 (m PLN)	Onshore Wind Power	Photovoltaics	Gas and Clean Fuel	Trading	Distribution	Unallocated	Purchase price allocation	TOTAL
Sales revenues*	**254,9**	**3,2**	**301,0**	**3 323,4**	**109,6**	**7,0**	**-**	**3 999,1**
Operating costs, including	**(118,1)**	**(2,2)**	**(158,3)**	**(3 281,6)**	**(90,3)**	**(5,6)**	**(0,9)**	**(3 657,0)**
operating costs (without granted green certificates adjustment)	(49,5)	-	-	-	-	-	-	(49,5)
depreciation/amortization	(66,6)	(0,8)	(16,1)	(0,2)	(6,2)	(2,4)	(0,9)	(93,3)
granted green certificates adjustment	(2,0)	-	-	-	-	-	-	(2,0)
Gross profit on sales	**136,8**	**1,0**	**142,7**	**41,7**	**19,3**	**1,4**	**(0,9)**	**342,1**
Gross profit on sales margin	*53,7%*	*32,4%*	*47,4%*	*1,3%*	*17,6%*	*"n/a"*	*"n/a"*	*8,6%*
General overheads	(3,8)	(0,4)	(8,0)	(20,8)	(7,2)	(37,1)	-	(77,3)
Other operating activities	2,9	(0,0)	(35,0)	1,3	(0,1)	0,0	-	(30,9)
including imairment losses	(0,2)	-	-	-	-	(19,9)	-	(20,1)
Operating profit	**135,9**	**0,7**	**99,7**	**22,3**	**11,9**	**(35,7)**	**(0,9)**	**233,9**
EBITDA	**202,7**	**1,5**	**135,7**	**22,5**	**18,2**	**(19,4)**	**-**	**361,2**
EBITDA Margin	*79,5%*	*46,1%*	*45,1%*	*0,7%*	*16,6%*	*"n/a"*	*"n/a"*	*9,0%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	-
Adjusted EBITDA	**202,7**	**1,5**	**135,7**	**22,5**	**18,2**	**(19,4)**	**-**	**361,2**
Adjusted EBITDA Margin	*79,5%*	*46,1%*	*45,1%*	*0,7%*	*16,6%*	*"n/a"*	*"n/a"*	*9,0%*
Profit (loss) on financial activities	(32,8)	(0,6)	(0,6)	(1,1)	(3,1)	224,3	-	186,1
Profit (loss) before tax	**103,1**	**0,1**	**99,1**	**21,2**	**8,9**	**188,6**	**(0,9)**	**420,1**
Income tax								(85,5)
Net profit (loss) for period								**334,5**
Profit from discontinued operating activities								(1,6)
Profit on disposal of discontinued operations								4,4
Net profit (loss) for period								**337,3**
Normalizing adjustments:								
Purchase price allocation (PPA)								0,7
Foreign exchange differences								2,7
Loan valuation using amortized cost method								1,4
Impairment losses								20,1
Net result on the sale of assets								(174,9)
Adjusted net profit								**187,2**
Change of adjusted EBITDA yoy	**140,0**	**11,1**	**(129,2)**	**(27,5)**	**8,8**	**(9,9)**	**-**	**(6,8)**

*Revenues from granted but not sold green certificates are presented as decrease of direct costs in accordance with IFRS 15.

4Q 2022 (m PLN)	Onshore Wind Power	Photovoltaics	Gas and Clean Fuel	Trading	Distribution	Unallocated	Purchase price allocation	TOTAL
Sales revenues*	**103,5**	**2,3**	**96,3**	**1 688,2**	**49,9**	**5,9**	**-**	**1 946,1**
Operating costs, including	**(35,3)**	**(2,1)**	**(93,8)**	**(1 628,7)**	**(43,3)**	**2,1**	**(0,7)**	**(1 801,6)**
operating costs (without granted green certificates adjustment)	(17,5)							(17,5)
depreciation/amortization	(25,6)	(1,0)	(3,3)	(1,6)	(1,9)	(1,5)	(0,7)	(35,6)
granted green certificates adjustment	7,8							7,8
Gross profit on sales	**68,2**	**0,3**	**2,5**	**59,6**	**6,6**	**8,0**	**(0,7)**	**144,5**
Gross profit on sales margin	*65,9%*	*11,6%*	*2,6%*	*3,5%*	*13,3%*	*"n/a"*	*"n/a"*	*7,4%*
Selling expenses				(30,6)				(30,6)
General overheads	(2,1)	(0,2)	(2,0)	(21,4)	(2,4)	(12,3)	-	(40,4)
Other operating activities	4,4	(0,1)	(1,3)	(0,4)	(0,2)	(1,5)	-	0,9
including imairment losses	(0,1)	-	-	-	-	0,0	-	(0,0)
Operating profit	**70,5**	**(0,0)**	**(0,8)**	**7,1**	**4,0**	**(5,7)**	**(0,7)**	**74,3**
EBITDA	**96,1**	**1,0**	**2,6**	**8,7**	**5,9**	**(4,2)**	**-**	**110,0**
EBITDA Margin	*92,9%*	*40,9%*	*2,7%*	*0,5%*	*11,8%*	*"n/a"*	*"n/a"*	*5,7%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	-
Adjusted EBITDA	**96,1**	**1,0**	**2,6**	**8,7**	**5,9**	**(4,2)**	**-**	**110,0**
Adjusted EBITDA Margin	*92,9%*	*40,9%*	*2,7%*	*0,5%*	*11,8%*	*"n/a"*	*"n/a"*	*5,7%*
Profit (loss) on financial activities	(24,4)	(0,3)	1,1	(7,4)	(1,8)	23,0	-	(9,7)
Profit (loss) before tax	**46,1**	**(0,4)**	**0,3**	**(0,3)**	**2,2**	**17,3**	**(0,7)**	**64,6**
Income tax								(12,7)
Net profit (loss) from continuing operations								**51,9**
Profit from discontinued operating activities								-
Profit on disposal of discontinued operations								-
Net profit (loss) for period								**51,9**
Normalizing adjustments:								
Purchase price allocation (PPA)								0,7
Foreign exchange differences								0,5
Loan valuation using amortized cost method								1,1
Impairment losses								0,0
Net result on sale of assets ***								-
Adjusted net profit								**54,3**

*Revenues from granted but not sold green certificates are presented as decrease of direct costs in accordance with IFRS 15.

4Q 2021 (m PLN)	Onshore Wind Power	Photovoltaics	Gas and Clean Fuel	Trading	Distribution	Unallocated	Purchase price allocation	TOTAL
Sales revenues*	**82,1**	**0,4**	**127,1**	**1 824,0**	**30,7**	**2,2**	**-**	**2 066,5**
Operating costs, including	**(26,3)**	**(0,6)**	**(99,7)**	**(1 838,1)**	**(24,0)**	**1,0**	**(0,2)**	**(1 987,9)**
operating costs (without granted green certificates adjustment)	(16,4)	-	-	-	-	-	-	(16,4)
depreciation/amortization	(18,2)	(0,2)	(4,0)	(0,1)	(1,6)	(0,6)	(0,2)	(24,9)
granted green certificates adjustment	8,3	-	-	-	-	-	-	8,3
Gross profit on sales	**55,9**	**(0,2)**	**27,3**	**(14,1)**	**6,6**	**3,2**	**(0,2)**	**78,6**
Gross profit on sales margin	*68,0%*	*-39,2%*	*21,5%*	*-0,8%*	*21,6%*	*"n/a"*	*"n/a"*	*3,8%*
General overheads	(1,1)	(0,2)	(2,6)	(7,1)	(2,6)	(11,3)	-	(24,9)
Other operating activities	0,6	(0,0)	(20,3)	0,3	(0,3)	(0,1)	-	(19,7)
including imairment losses	(0,0)	-	-	-	-	(19,9)	-	(19,9)
Operating profit	**55,4**	**(0,4)**	**4,4**	**(20,8)**	**3,8**	**(8,2)**	**(0,2)**	**34,0**
EBITDA	**73,7**	**(0,1)**	**28,4**	**(20,8)**	**5,3**	**(7,5)**	**-**	**78,9**
EBITDA Margin	*89,7%*	*-33,3%*	*22,3%*	*-1,1%*	*17,4%*	*"n/a"*	*"n/a"*	*3,8%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	-
Adjusted EBITDA	**73,7**	**(0,1)**	**28,4**	**(20,8)**	**5,3**	**(7,5)**	**-**	**78,9**
Adjusted EBITDA Margin	*89,7%*	*-33,3%*	*22,3%*	*-1,1%*	*17,4%*	*"n/a"*	*"n/a"*	*3,8%*
Profit (loss) on financial activities	(9,3)	(0,2)	0,3	1,5	(0,8)	(2,4)	-	(10,8)
Profit (loss) before tax	**46,1**	**(0,5)**	**4,8**	**(19,4)**	**3,0**	**(10,6)**	**(0,2)**	**23,2**
Income tax								(7,6)
Net profit (loss) for period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15,6**
Profit from discontinued operating activities								-
Profit on disposal of discontinued operations								0,0
Net profit (loss) for period								**15,6**
Normalizing adjustments:								
Purchase price allocation (PPA)								0,2
Foreign exchange differences								2,4
Loan valuation using amortized cost method								0,3
Impairment losses								19,9
Net result on the sale of assets								-
Adjusted net profit								**38,4**
Change of adjusted EBITDA yoy	**22,4**	**1,1**	**(25,8)**	**29,5**	**0,6**	**3,3**	**-**	**31,1**

*Revenues from granted but not sold green certificates are presented as decrease of direct costs in accordance with IFRS 15.

3. Legal regime

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

4. Organizational structure of the Group

For a description of the issuer’s group structure, refer to Note 7 to the consolidated financial statements.

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

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

EBITDA / Net profit (loss) [PLN m]	12M 2022	12M 2021	Difference
Sales revenues	7 089,2	3 999,1	3 090,2
EBITDA	354,3	361,2	(6,8)
Adjusted EBITDA	354,3	361,2	(6,8)
Net profit (loss)	159,9	337,3	(177,4)
Adjusted net profit (loss)	162,0	187,2	(25,2)

The year-on-year changes in the performance in 2022 were driven by the following factors:

a) On the EBITDA level (a drop by PLN 6.8 m):

- Better performance of that segment (by PLN 140.0 m) has mainly been due to the commencement of operation of the Dębsk and Kostomłoty Wind Farms, the inclusion in the results of the all-year-long 2022 generation of the Szymankowo Wind Farm that had commenced operation in HY2 2021 and due to higher sales prices of electricity and green certificates at the segmental level. The above was partly offset by lower generation volume of the farms in operation and the end of the support scheme at the Puck Wind Farm, as well as higher operating costs of wind farms;
- Better performance of the photovoltaics segment (by PLN 11.1 m) due to the start-up at the end of March 2022, followed by the bringing into operation, in June and July of 2022, of new facilities - Sulechów II (11.7 MW) and Sulechów III (9.8 MW), the start-up and the commencement of operation in September 2022 of the Buk I project (6.4 MW) and better performance of Sulechów I (revenues higher by 86% compared to the corresponding period of the preceding year), as well as good insolation conditions throughout the year;
- Lower performance in the gas and clean fuels segment (by PLN 129.2 m) as a result of: (i) lower result on the ENS electricity generation optimization, (ii) lower margins on heat sales as a result of higher gas and CO_2 emission allowance prices and additional revenues offsetting the higher cost of gas in 2021 in the amount of 13.4 million, (iii) no revenues from the compensation scheme (additional revenues in 2021 amounting to PLN 21.4 m) and (iv) lower capacity market revenues;
- Lower result (by PLN 27.5 m) in the trading and sales segment due to: i) lower result on the ENS contract service in connection with the ENS optimization in 2021 resulting in measurement of forward transactions hedging production and sales of future periods, ii) lower result on RES aggregation as a consequence of the significant increase of profile cost and the volume variance of asset generation compared to the sales hedging position, iii) lower result on of RES assets originating energy trading and increase of profile cost and the volume variance of wind farm generation compared to the sales

hedging position, iv) mandatory contribution to the Price Difference Payment Fund as a result of the Act of 27.10.2022 on extraordinary measures to reduce electricity price levels, v) higher operating expenses resulting from the expansion of operations. The drop of the result in the in 2022, has been partly offset by: i) the growth on the trading portfolio and business service margin due to, without limitation, the implementation of a short-term strategy in the markets , ii) better result on the energy sales related predominantly to better result on the forward transactions measurement, iii) better result on the proprietary trading in the energy and gas markets, iv) extra margin on the sale of the prosumer power systems, including PV panels and heat pumps.

- Higher result in the distribution segment (by PLN 8.8 m) has been mainly the result of higher unit margin on the sales of electricity. The result has been partly offset by lower margin on electricity distribution, higher operating expenses mainly resulting from the upscaling of operations, including the costs of implementing the strategy in the e-mobility area. The main reasons why said margin on electricity distribution was reduced was the adjustment of revenues from the connection fees in Q2 2022 resulting from the changes in the customers' projects implementation time schedule and the cost adjustment for 2022 in Q4 2022;
- Lower result (by PLN 9.9 m) in Unallocated item has been mainly a consequence of higher operating expenses at the Headquarters as a consequence of the expansion of business.

b) On the level of adjusted EBITDA (a drop by PLN 6.8 m):

- The EBITDA effect described above (lower result by PLN 6.8 m);

c) On the level of Net Profit (a drop by PLN 177.4 m):

- The EBITDA effect (lower result by PLN 6.8 m);
- Higher depreciation (by PLN 23.1 m) resulting predominantly from the bringing into operation of fixed assets in the wind farm and distribution segments and the acquisition of Polenergia Fotowoltaika S.A., partly offset by the lower depreciation in the gas and clean fuels segment (lower depreciation rate due to extended depreciation period for repairs works, and the impairment write-off in assets in December 2021) and end of depreciation of the asset on account of gas compensation and stranded costs recognized in the Purchase Price Allocation, plus the commenced depreciation of the asset recognized in the Purchase Price Allocation of Polenergia Fotowoltaika S.A. (former Edison Energia);
- Lower costs related to the sale of assets (by PLN 13.9 m) generated by advisory services related to the receipt of earn-out payments resulting from the sale of shares in the companies MFW Bałtyk II sp. z o.o. and MFW Bałtyk III sp. z o.o. incurred in 2021;
- Lower impairment losses, by PLN 19.8 m.

All the abovementioned items contributed to the increase of the operating profit by PLN 3.7 m.

- Lower financial income (by PLN 191.9 m) mainly as an effect of the earn-out of PLN 225.8 m on account of the sale of shares in the MFW Bałtyk II and MFW Bałtyk III projects which took place in 2018 (income recognized in 2021) and the sale of Wińsko project and lower foreign exchange gains by PLN 1.9 m) party offset by the increased interest gains on deposits and loans (by PLN 36.2 m).
- Higher financial expenses (by PLN 31.5 m) resulting mainly from higher interest expenses (PLN 27.0 m), higher commissions and other bank fees (by PLN 3.3 m) and higher foreign exchange losses (by PLN 2.8 m);
- Lower income tax (by PLN 45.2 m) due to lower profit before tax of the Group in 2022 (higher operating profit offset by lower level of financial income);

- Lower result on the abandoned business (by PLN 2.8 m) due to the sale of the Mercury Power Plant.

d) On the level of adjusted net profit (drop by PLN 25.2 m):

- The effect of the net profit (drop by PLN 177.4 m);
- Elimination of the net gain/loss on the sale of assets (Increase by PLN 174.9 m);
- Reversal of the foreign exchange differences effect (drop by PLN 5.5 m);
- Elimination of the purchase price allocation effect (increase by PLN 2.1 m);
- Reversal of the effect of impairment losses (drop by PLN 19.8 m).
- Reversal of the effect of loan measurement using the amortized cost method (increase by PLN 0.5 m).

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

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

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

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

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

No.	Shareholder	Number of shares held	Number of votes	Percentage
1	Mansa Investments sp. z o.o.[1]	28,617,254	28,617,254	42.84%
2	BIF IV Europe Holdings Limited[2]	21,317,706	21,317,706	31.91%
3	Allianz OFE, Allianz DFE, Drugi Allianz Polska OFE[3]	5,229,666	5,229,666	7.83%
4	OFE Nationale-Nederlanden[4]	3,767,231	3,767,231	5.64%
5	Others (less than 5%)[5]	7,870,389	7,870,389	11.78%
	Total	66,802,246	66,802,246	100%

[1] 100% of shares in Mansa Investments sp. z o.o. is indirectly controlled by Ms. Dominika Kulczyk through the company Kulczyk Holding s.à r.l. Information on the status of ownership in accordance with the notice received by the Company on 13 April 2022 (current report No. 16/2022 dated 13 April 2022). On 28 December 2022, the Company received notification from Mansa Investments sp. z o.o., Kulczyk Holding s.à r.l. and Ms. Dominika Kulczyk that a pledge had been established on 1,200,000 shares of the Company (Current Report No. 42/2022 of 28 December 2022).
[2] Ownership information in accordance with the notice received by the Company on 13 April 2022 (Current Report No. 16/2022 dated 13 April 2022).
[3] Notice of a change in ownership publicized by the Company by way of Current Report No. 1/2023 dated 6 January 2023.
[4] According to information from the Issuer's Annual General Meeting convened for 11 May 2022.

[5] According to a notice of change in ownership received by the Company on 21 September 2022, Generali Powszechne Towarzystwo Emerytalne S.A., managing Generali Otwarty Fundusz Emerytalny, reduced its share in the total number of votes in the Company below the 5% voting threshold (Current Report No. 29/2022 of 21 September 2022).

The change in ownership structure of the Issuer's shareholdings in the period since the submission of the previous quarterly report has been described in section 2. hereof.

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

In the reporting period, there were no material changes in the entity's structure including ones resulting from mergers, acquisitions or disposals of the issuer's group entities, long-term investments, splits, restructuring or discontinuation of operations, save for the following events:

On 3 January 2022 a transfer of title to all shares in the company Polenergia Fotowoltaika S.A. (former Edison Energia S.A.) onto Polenergia S.A. took place.

On 3 January 2022, the company Polenergia Biomasa Energetyczna Północ sp. z o.o. in liquidation was deleted from the National Court Register KRS.

On 3 January 2022, the company Grupa PEP – Projekty Energetyczne 1 sp. z o.o. in liquidation was deleted from the National Court Register KRS.

On 28 March 2022, the company Polenergia Farma Wiatrowa 13 sp. z o.o. was entered into the Entrepreneurs Register of the National Court Register KRS.

On 1 April 2022, the company Polenergia Farma Wiatrowa 12 sp. z o.o. was entered into the Entrepreneurs Register of the National Court Register KRS.

On 5 April 2022, the company Polenergia Farma Fotowoltaiczna 20 sp. z o.o. was entered into the Entrepreneurs Register of the National Court Register KRS.

On 27 April 2022, the company Polenergia Farma Fotowoltaiczna 19 sp. z o.o. was entered into the Entrepreneurs Register of KRS.

On 29 August 2022, the company Polenergia Farma Fotowoltaiczna 11 sp. z o.o. was entered into the Entrepreneurs Register of KRS.

On 2 November 2022, a split of the company Polenergia Farma Wiatrowa Grabowo sp. z o.o. took place by way of a transfer of part of its assets to the company Polenergia Farma Fotowoltaiczna 9 sp. z o.o. (division by a spin-off) under Art. 529 sec. 1 item 4 of the Commercial Companies Code.

On 15 December 2022 the company Polenergia Farma Fotowoltaiczna 20 sp. z o.o. changed its name to Polenergia Farma Wiatrowa 29 sp. z o.o.

On 14 January 2023, the company Polenergia Farma Wiatrowa 18 sp. z o.o. was entered into the Entrepreneurs Register of the National Court Register KRS.

On 16 January 2023, the company Polenergia Farma Wiatrowa 24 sp. z o.o. was entered into the Entrepreneurs Register of the National Court Register KRS.

On 18 January 2023, the company Polenergia Farma Wiatrowa 19 sp. z o.o. was entered into the Entrepreneurs Register of the National Court Register KRS.

On 23 January 2023, the company Polenergia Farma Wiatrowa 21 sp. z o.o. was entered into the Entrepreneurs Register of the National Court Register KRS.

On 23 January 2023, the company Polenergia Farma Wiatrowa 15 sp. z o.o. was entered into the Entrepreneurs Register of the National Court Register KRS.

On 26 January 2023, the company Polenergia Farma Wiatrowa 20 sp. z o.o. was entered into the Entrepreneurs Register of the National Court Register KRS.

On 17 March 2023, the company Polenergia Farma Wiatrowa 25 sp. z o.o. was entered into the Entrepreneurs Register of the National Court Register KRS.

10. General Information

The Polenergia Group (the “Group”) comprises Polenergia S.A. (the “Company”, the “parent”), formerly Polish Energy Partners S.A. and its subsidiaries. The Company has been established with a Notarized Deed of 17 July 1997 and has been registered with the National Court Register kept by the District Court for the city of Warsaw, Commercial Division XII of the National Court Register under number KRS 0000026545. The Company was assigned the statistical number REGON 012693488. Since 20 November 2013 the registered office of the Company is located in Warsaw, at 24/26 Krucza St.

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

The Polenergia Group consists of vertically integrated companies operating in the area of energy generation using renewable and gas sources, as well as in the areas of distribution, sales and trading in electrical energy and distributed generation. The Group was formed in the process of consolidating two asset groups controlled by Kulczyk Holding S.àr.l (former Polenergia Holding S.àr.l) with registered office in Luxembourg i.e. Polish Energy Partners S.A. (with focus on the development and operation of renewable energy sources, in particular wind farms) and Grupa Polenergia (with focus on the generation, distribution, sale of and trading in electrical energy and certificates of origin and developing offshore wind farms). In early 2022, the Group acquired a 100% stake in Edison Energia S.A. (presently Polenergia Fotowoltaika and Polenergia Pompy Ciepła), which operates in the distributed generation segment.

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

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

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

Except as described in section 9 above, no material changes in the issuer group’s organization took place in the reporting period.

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

Business name	Description	2022	2021	Change YOY
1. Return on equity	Net profit/loss / average annual equity	6.5%	20.6%	-14.1%
2. Net return on sales	Net profit/loss / sales revenue	2.3%	8.4%	-6.2%
3. Liquidity - liquidity ratio I	total current assets / short term liabilities	1.67	1.06	0.61
4. Receivable rotation cycle (in days)	average annual trade receivables x 365 days / revenue from sale of products and merchandise	15	14	1
5. Debt to assets ratio	(total equity and liabilities - equity) * 100 / total assets	50.7%	66.9%	-16.2%

Return on equity was lower compared to the preceding year, likewise, the net return on sales ratio, which indicates the level of profit per every zloty of sales revenue, decreased. In particular, the deterioration of the above ratios was due to a decrease in net profit due to additional earn-out received in 2021 in the amount of PLN 225.8 million from the sale of shares in the MFW Bałtyk II and MFW Bałtyk III offshore wind farm projects, as well as an increase in equity YOY as a result of the share issue in 2022.

The Group's liquidity, measured with the liquidity ratio I, increased due to a higher current assets to short-term liabilities ratio - (a drop in short term liabilities year on year). The receivables collection rate denoting the waiting time for payment of receivables, has improved by 1 day compared to the preceding year.

The structure of the balance sheet of the Group as at the end of 2022 changed due to the relative growth of the share of equity in the balance sheet total with concurrent drop in short-term liabilities, in particular on account of loans, borrowings, as well as liabilities from the change of measurement of forward contracts or deliveries and services.

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

Competition risk

The Group operates in the power market areas, including, without limitation, generation of electricity (mainly in wind and photovoltaic farms) and heat, distribution, trading in electricity, sale of heat and electricity and solutions in the field of distributed energy and electromobility. In addition, the Group is developing projects for the production and storage of "green" hydrogen. In all of the above-mentioned areas, the Group competes with other entities active on the market.

For example, the applicable legal regulations causing a systematic increase in demand for energy produced from renewable sources and the implementation of the auction system for new and existing RES capacities increase the risk of competition in this market segment, including the competition from foreign entities with strong capital. The Group collects detailed information on market specificities and competition's projects, which allows for assessing profitability of competition's projects and a potential auction price level. The Group's in-depth analyses allow for an adequate assessment of the market situation. At the same time, highly competitive projects are developed with the application of advanced capital and operating expenditure optimization processes, and locations characterized by above-average wind or insolation conditions and relatively low connection costs are selected for development.

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

In the activities of the Group to date, the above risk has partially materialized in relation to two companies from the Group and consisted in losing some customers to the competition. The risk materialized in relation to Polenergia Kogeneracja, which provides natural gas distribution and sales services, and Polenergia Dystrybucja, which provides electricity distribution and sales services. In the case of the first company, other natural gas sellers started selling natural gas to customers connected to the gas network of Polenergia Kogeneracja on the basis of competitive access to the distribution network. Taking into account the volume of distributed gas, the lost margin may be estimated at PLN 1-2m. In the case of the second company, due to the competitive pressure in energy sales' field, only half of the energy distributed by this company is simultaneously sold by it, hence the margin lost for this reason can be estimated at approximately PLN 2-3m.

Risk related to the economic situation in Poland

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

In particular it should be emphasized that as a result of the war in Ukraine and the sanctions imposed on Russia and Belarus, changes have been occurring in the market environment that may have a negative impact on economic growth in Poland and the situation on the Polish energy market, e.g. through limited availability of fuels, increased inflationary pressure and volatility of the zloty exchange rate against EUR and US dollar. Detailed information on the impact of the war in Ukraine on the Group's operations is presented in item 2 of the Report.

Risk of foreign exchange rate movements

Within the onshore wind farms and the photovoltaic segment, also including the projects in development and under construction, a part of liabilities is denominated in EUR. The above mainly regards investment liabilities in Polenergia Farma Wiatrowa Grabowo sp. z o.o, Polenergia Farma Wiatrowa 16 sp. z o.o. and Polenergia Farma Wiatrowa Piekło sp. z o.o. implementing the construction of the Grabowo and Piekło Wind Farms. The currency risk in the Grabowo and Piekło Wind Farms was fully secured on the financial market by means of currency forward transactions before the investment loan was disbursed. However, the Strzelino photovoltaic farm project being prepared for construction continues to be exposed to the risk of exchange rate fluctuations. The exchange rate fluctuations are taken into account in economic forecasts for the project and aimed to be reflected in commercial assumptions in a way that allows for maintaining the anticipated project return rate.

As part of the offshore wind farm segment, most capital expenditures are denominated in foreign currencies, mainly in EUR, resulting in significant exposure to currency risk related to the amount of future capital expenditures. 50% of the investment costs in the projects in development are borne by the Company. The amendments to the Act on promoting electricity generation in offshore wind farms implemented in 2022 make it possible to denominate in EUR part or all of the revenues from the right to cover the negative balance on the sale of electricity. The above mentioned regulatory change allows for limiting the currency risk in the investment phase through possibility of debt financing in EUR.

Polenergia Obrót S.A. ("Polenergia Obrót") is exposed to currency risk as a result of trading in electricity in foreign markets and in connection with participation in the CO2 emission allowances market. The company's exposure to currency risk is largely mitigated by means of natural hedging, i.e., revenues and corresponding costs of purchase, as well as receivables and liabilities, are all generated in foreign currencies. In the case of significant transactions of Polenergia Obrót in a foreign currency, currency exchange rate hedging transactions are concluded. Risk management at Polenergia Obrót is governed by the binding Company risk management policy in accordance with the rules described therein.

Interest rate risk

The proportion of debt in the Group' financing structure is substantial In line with the Polenergia Group's strategy of maximizing its return on equity; more than 50% of the investment projects are financed with debt. In accordance with the credit facility agreements entered into by individual Group companies, interest on credit facilities provided to is based on variable interest rates. At the same time the Group continues the strategy of reducing exposure by entering into transactions hedging the interest rate risk.

On 8 June 2022 Polenergia Farma Wiatrowa Grabowo Sp. z o.o. concluded interest rate risk hedging transactions with the banks' consortium of mBank S.A., Pekao S.A. and PKO BP corresponding to 90% of the value of the loan taken out. Also, on 8 June 2022 Polenergia Farma Wiatrowa Piekło Sp. z o.o. and Polenergia Farma Wiatrowa 16 Sp. z o.o. concluded interest rate risk hedging transactions in mBank S.A, corresponding to 90% of the value of loan taken out.

As at 31 December 2022, approximately 87% of liabilities of the Group's entities under investment loans were hedged against changes in the level of interest rates. This hedging is achieved through IRS financial transactions, and naturally in Polenergia Dystrybucja in the form of the tariff of the President of the Energy Regulatory Office correlated with the WIBOR rate. As Polenergia Dystrybucja operates on the regulated market, its revenues are determined on the basis of the return on capital, namely the weighted average cost of capital (regulatory WACC) defined by the URE President. Most of the parameters in the formula for the regulatory WACC remain constant. The component having the greatest impact on changes in the regulatory WACC is the risk-free rate, which, according to the definition of the URE President, is determined on the basis of the average yield on 10-year Treasury bonds with a fixed interest rate, which are correlated with the WIBOR rate. Working capital and renewable loan limits used by the Group to finance operating activities in the trading and sales, distribution, gas and clean fuel segments cannot be hedged against the risk of interest rates' increase. Due to the current market situation, the average use of limits has increased significantly, in particular in the trading and sales segment, generating increased financial costs and possibly affecting the profitability of the business. Moreover, the high level of interest rates affects the cost of financing for new projects (including onshore and offshore wind farms and photovoltaic farms) and may have an impact on the assessment of their profitability. As a result, it cannot be excluded that a significant increase in market interest rates above the values forecast by the Group and factored into its project budgets may have a negative effect on the implementation of some elements of the Strategy and the Group's financial performance in the future.

Risk of change in prices of raw materials required for electricity generation

The Group companies use natural gas to generate electricity and heat.

The Group uses methane-rich natural gas for the generation of electricity and heat at the EC Nowa Sarzyna. Since 2021 Polenergia Obrót supplied gas fuel to EC Nowa Sarzyna, and received electricity based on the SLA (Service Level Agreement). Any potential problems of Polenergia Obrót with supplying the amount of gas fuel necessary to satisfy the existing demand may lead to limitations on gas fuel supply to customers. In such cases, EC Nowa Sarzyna may fail to fulfill its obligation to supply heat to its contracting consumers and electricity to Polenergia Obrót. The risk of supply limitations is low. The risk of changes in market prices of gas is limited by ENS through the SLA mechanism, which ensures the simultaneous securing of three products: electricity, natural gas and CO2 emission allowances in the event of a positive so-called CSS (Clean Spark Spread). In principle, natural gas corresponding to the heat production profile is purchased separately. For the years 2022-2023, EC Nowa Sarzyna signed a contract for the purchase of gas for heat production with PGNiG OD.

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

CO2 is emitted in the production of electricity from fossil fuels. In the case of natural gas, the emission (depending on the efficiency of the installation) is about 500 kg/1MWh, and in the case of hard coal it is approx. 900 kg/1MWh. Thus, an increase in CO2 costs by PLN 1/t means an increase in the cost of electricity production from natural gas by approximately PLN 0.5 / MWh. Over the years 2020 and 2022, CO2 prices increased from PLN 100/ton to about PLN 400/ton, which meant increased costs of electricity produced from natural gas.

Nevertheless, in the activity of the Group to date, the above risk has not materialized in a way that would have a significant impact on the Group's activities. Although changes in raw material prices have taken place, they have been largely compensated by support systems (stranded cost compensation system, i.e., costs of investments undertaken that cannot be obtained from the market and gas compensation, free of charge CO2 allowances in connection with heat production until autumn 2021), and optimizations agreed in the SLAs. The Company does not rule out the possibility of the above risk materializing in the future.

Risk related to the operation of the Polish energy market

While the heat market is fully regulated, the electricity and gas markets are only partly controlled by the appropriate authorities. Such authorities include the President of the Energy Regulatory Office ("URE") – a central government authority appointed by the Prime Minister. By operation of the Energy Law, the President of URE is competent for fuel and energy market regulation and for promotion of competition in the energy sector. The scope of competence of the President of URE includes granting, changing and revoking licenses for production, storage, transmission, trade in and distribution of fuels and electricity, as well as oversight of entities regulated under the Energy Law in terms of fulfillment of duties resulting from the Energy Law and secondary legislation. The President of URE is also entitled to impose penalties, including significant fines, on licensed enterprises. Therefore, the Company cannot rule out the risk of the President of URE exercising his powers with respect to the Issuer and the Group in a manner unfavorable to them.

Given the advanced stage of implementation of competitive market mechanisms in the power generation sector, enterprises licensed to generate electricity are exempted from the requirement to submit their tariff prices for approval. Tariffs are still mandatory for electricity supplied to households end consumers which do not exercise the right to select the seller (while maintaining the possibility of changing energy supplier by households), and the current wording of the Energy Law regulations, as a principle provide for the coverage of reasonable costs of operations. At the same time, it should be pointed out, however, that prices of electricity generated by the Group, in consideration of the sale to trading companies, business customers and consumers exercising the right to select, are not subject to approval by the President of URE. Due to the crisis on the global energy resulting from the outbreak of war in Ukraine, the legislator decided to temporarily (until the end of 2023) adopt the Act on Emergency Measures, which implements statutory limits on revenues from the sale of electricity by producers and trading companies. A detailed description of the impact of the act is described in the Risk of changes in the legal and regulatory environment in the energy sector.

Risk of non-approval or delayed approval of tariffs by the URE President

The Group companies which generate heat or distribute gas and electricity are required to submit their tariffs to the President of URE for approval in the scope of the sale of heat and electricity and the distribution of gas and electricity. Pursuant to the applicable laws, a tariff should cover the expected reasonable costs of generation of heat, the distribution of heat, natural gas and electricity and the sale of electricity in a particular tariff period, while ensuring a return on capital. Approval of tariffs by the President of URE is aimed to protect consumers against unreasonable price increase. As a consequence, there is a risk that the President of the URE will approve the tariff which will not provide individual companies with adequate return on capital, and potentially not even ensure the coverage of the costs.

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

The risk related to the heat tariff affects only the Nowa Sarzyna CHP Plant. The risk related to natural gas distribution tariff affects Polenergia Kogeneracja sp. z o.o. (Polenergia Kogeneracja"), while the risk associated with the electricity sale and distribution tariff affects Polenergia Dystrybucja.

The above risk materialized in 1H2022 in relation to one of the projects currently owned by the Group, i.e. Nowa Sarzyna CHP Plant. In June 2022 the URE President approved the new ENS, tariff, which covers the heat generation costs. However, it should be pointed out that a similar risk related to the heat tariff may materialize in Q3 2023 and the following years in relation to Nowa Sarzyna CHP, due to the unstable political and macroeconomic environment.

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

The operations of the Group companies are subject to numerous Polish, EU and international regulations. Laws, regulations, decisions, positions, opinions, interpretations, guidelines, etc., applicable to the Group's business, are subject to frequent changes (e.g. the Energy Law, with secondary legislation, has been substantially amended several dozen times since its enactment in 1997). Any potential legislative changes, in particular concerning business activity, taxes, labor matters, commercial law, including commercial companies and capital markets, as well as environmental protection, may impact the operations of the Issuer. In addition, the Polish legal system has been changing in connection with legal acts currently implemented to reflect EU laws.

The dependence on regulations is demonstrated by the impact on the Group of the Act of 27 October 2022 on emergency measures aimed at limiting electricity prices and supporting certain consumers in 2023 (OJ PL of 2022, item 2243, as amended) ("Act on Emergency Measures"), adopted following the entry into force of Council Regulation (EU) 2022/1854 of 6 October 2022 on emergency intervention to address the issue of high energy prices. The Issuer expects a negative impact of the Act on Emergency Measures on the Group's financial results in 2023, on an unprecedented scale in the history of the Issuer's operation.

The fundamental solutions introduced by the Act on Emergency Measures include the establishment of statutory limits for revenues from the sale of electricity by producers and trading companies**.** The above regulation fundamentally changes the rules of operation of entities on the electricity market. This is particularly visible in the case of RES installations, where the legislator officially imposes the maximum achievable sale price without taking into account the individual economic conditions of the project, or the investor's project commercialization strategy.

In the current report no 37/2022, the Company announced that the net impact of the above regulations on the Group's consolidated EBITDA, estimated on the basis of the legal status binding at the time of publication, is approximately minus PLN 180m.

The negative impact of the Act on Emergency Measures on the Group may even increase due to possible subsequent amendments thereto. It should be noted that, despite the short period between the adoption of the Act on Emergency Measures and the publication of the Check, the Act has already been amended twice, and further amendments are not excluded.

It is also possible that the period of validity of the Act on Emergency Measures will be extended onto subsequent years. The Act in question was adopted in order to minimize the impact of drastic increases in energy prices on end users, such increases due to the outbreak of war in Ukraine and the resulting crisis on global energy markets.

The fundamental factors behind the adoption of the Act on Emergency Measures have not changed. In the nearest perspective, there are no reasons to believe that these factors will cease. Therefore, there is a justified risk of extending the period of validity of the Act on Emergency Measures onto subsequent years, which would have a significant negative impact on the Group's financial results.

It should also be pointed out that irrespective of the extraordinary adopting the Act on Emergency Measures, the activities carried out by the Issuer are subject, apart from the provisions generally regulating each business activity, to specific regulations resulting from the provisions of the Energy Law, the RES Act and the Act on Promotion of Electricity Generation in Offshore Wind Farms, as well as executive acts. Consequently, there is a risk that future changes in the state policy and related changes in legal regulations will impact the operations of the Issuer and the Group companies.

A number of the regulations applicable to the Group's business are relatively recent enactments, and therefore there is no established practice of their application, which may lead to their being improperly interpreted and applied). This applies in particular to the RES Act, the Act on the Promotion of Electricity Generation in Offshore Wind Farms, and in particular to the Act on Emergency Measures. The last Act is also difficult to apply due to the lack of clarity of numerous provisions thereof.

Factors relevant to the Group's operations also include decisions issued by competent authorities, in particular the President of the Energy Regulatory Office, which are characterized by a high level of arbitrariness and thus are often subject to legal disputes. The legislative and regulatory changes may also, in certain areas, contribute to a lower than expected return on investment in renewable energy sources.

The Company's representatives participate in the work of working teams at industry associations in order to monitor and minimize the risk of regulatory changes unfavorable for the Group; however, the Company has very limited possibilities of actually influencing decisions taken at the Community and national level in such scope. Any changes in the regulations of the energy market may prove unfavorable for the capital group.

Risk of volatility of electricity market prices

The Group's financial performance is dependent on the market prices of electricity. The Group keeps monitoring the electricity market, making decisions to secure the sale of electricity generated by offshore wind farms, photovoltaic farms, and gas and clean fuels segment. In addition, Polenergia Obrót and Polenergia Dystrybucja purchased electricity for their customers from third parties; therefore, the Group is exposed to the risk of changes in electricity prices also at the stage of electricity purchase. The Group has monitored the situation on the energy market on an ongoing basis, and as a result electricity is purchased when the energy prices are at the most favorable level for the Group.

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

The volatility of electricity prices directly impacts the electricity profiling costs in the Group's wind and photovoltaic farms and the profiling costs of energy consumers served by the Group (the so-called profiling costs). The risk related to the level and volatility of profiling costs remains outside the Group's control to a large extent; when materialized, such risk may have a significant effect on the results obtained by the Group. This was the case in 1H and 2H 2022, when adverse impact was observed on the results in the business line of sale of the Group's RES assets, external RES aggregations and the sale to end consumers.

At the same time, support granted to RES under the auction-based scheme will protect the producer against market risk for 15 years in the scope of electricity sales' prices. The support solely applies to the projects implemented in the Group which won the auction. After a significant increase in market prices, the support under the auction system in 2022 adversely impacted the revenues of RES sources participating in the auction (compared to the market prices possible to be obtained).

Notwithstanding the foregoing, the increase in the price of electricity generally has a positive effect on the results related to the production of energy from RES, provided that it relates to the period for which the sale was not previously secured, be it in the form of a contract for difference, PPA or on the futures market. In addition, changes in electricity prices with variable RES production may also affect the so-called production profile costs. If a contract for the sale of electricity concluded with a customer concerns a specific volume in a selected period (a form of a significant part of contracts), then, given the volatility of production generated in RES, the Issuer purchases or sells on the energy market and supplies the customer with the amount of energy specified in such contract. With dynamic price increases, energy consumption by customers deviating from the contracted values may generate a significant result (both positive and negative), disproportionate to the original assumptions.

Since October 2022 restrictions on maximum offer prices have been imposed on the balancing market, and from 1 December 2022 maximum energy sales rates have been applied, also with respect to renewable energy sources. The excess over the price limit is calculated each day and must be transferred to the Settlement Authority. In addition, trading companies must calculate the sale price of energy and its purchase price in ten-day periods - the difference of these prices reduced by a 1-3.5% margin, depending on the direction of sale, must be transferred to the Settlement Authority. Regulatory changes affecting the revenues of producers and trading companies were implemented by the end of 2023 as a response to drastically increasing energy prices. The risk is systemic and concerns both the Group and all other participants of the electricity market in Poland.

The onshore wind farm segment in 2022 and 2023 was hedged in a significant part of the portfolio on the futures market with prices lower than the current market quotations. There is a risk that in low wind conditions, the Company will have to buy back the hedged energy from the current market at prices much higher than the hedging price, which may have a negative impact on the result. Such risk already materialized in some periods of 2022. Therefore, the Company has changed the approach and in the coming years hedging will be implemented in a flexible manner and at much higher prices. In the event of a long term decline in electricity prices and the resulting lower prices of futures contracts' quotations, the potential of the segment's financial result may be limited in the coming years. Moreover, the increase in the number of wind sources and photovoltaic sources may negatively affect the revenues of the onshore wind farm segment and photovoltaic farm segment in the coming years due to the decline in energy prices in the periods of high energy volumes generated in energy sources and in photovoltaic sources, contributing to an increase in profiling costs.

The above risk has materialized in the Group's activity so far. Over the last few years, significant changes in electricity prices had a material impact on the Group, which produced approximately 1.05 TWh of electricity in 2022.

Periods of high wind and low prices and periods of low wind and high prices can be observed on the market, and the price volatility between such periods can be as high as 1000 PLN/MWh (on a windy day, the Group produces over 6.500– 7,000 MWh of electricity). Thanks to wind farms covering part of the power demand of the whole country, wholesale electricity prices have been reduced significantly. This situation results mainly from the fact that the price of electricity produced in RES installations such as wind farms in 2022 was twice or three times cheaper than the energy generated in conventional power plants using coal or gas, and with prices of gas, coal and emission allowances increasing, the difference has been growing. In the summer, the "duck curve" effect is also observed, caused by a significant volume of energy from PV sources. The increased volume generated by wind turbines also significantly reduces the import of electricity. On less windy days energy is obtained from the oldest coal-fired units, with very high fuel costs and CO2 emissions, as a result electricity prices on the power exchange are rising, and thus much more energy is imported from outside Poland.

Moreover, Polenergia Obrót, Polenergia Sprzedaż and Polenergia Dystrybucja are parties to electricity sales agreements for end customers. To fulfil these contracts, the above companies purchase electricity generated, inter alia, in wind and solar sources, as well as on the wholesale market. The energy is then sold by these companies to end users. In order to meet the obligation to deliver a certain amount of energy to end users, companies purchase (or sell) the missing (or surplus) electricity on the market at prices other than those provided for in contracts with end customers and operators of generating assets. In accordance with the principle of adjusting the volumes and prices of energy obtained from own and external generation sources, as well as sales volumes and prices to end customers (through portfolio management), the Group minimizes exposure to the risk of changes in market prices of electricity in the trading, sales and distribution segments.

Additionally, high volumes of transactions hedging the sale of electricity from generation assets, secured on the TGE (Polish Power Exchange) futures market, require the appropriate level of collateral margins to be maintained, the amount of which depends on the quotations of relevant stock indexes and may be subject to fluctuations. In 2022 the above risk materialized due to high volatility of the production profile of wind farms combined with a significant increase in market prices of electricity and resulted in a greater demand for working capital. Moreover, Polenergia Obrót concludes contracts with electricity consumers, which may also be secured on the POLPX futures market, generating a demand for security deposits. Additionally, given the persistent high electricity prices, these contracts require an increased involvement of working capital. Due to the materialization of the above risk factors, the Group identified a temporary decrease in the liquidity of Polenergia Obrót and therefore took appropriate actions to improve liquidity.

<u>Risk of volatility in market prices of natural gas</u>

Increase of prices in forward contracts for natural gas, accompanied by high prices of carbon dioxide emission allowances entails the negative Clean Spark Spreads (CSS). Should the unfavorable CSS spreads persist, there is a risk of the inability to secure the operation of assets generating electricity from natural gas. In addition, CSS volatility has effect on the Group's financial results in connection with the evaluation of forward transactions hedging the ENS production and sale with reference to the periods for which the reversal of prior forward transactions started. The company analyzes the levels of CSS market spreads for subsequent periods on an ongoing basis and shall make decisions on securing the future margin for ENS depending on market conditions. Unfortunately, in 2022 it was not possible to secure positive spreads for ENS on the futures market for 2023 energy supply.

<u>Risk of volatility in market prices of green certificates and their oversupply</u>

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

On 25 September 2017 the provisions of the Act of 20 July 2017 came into force amending the RES Act entered into force (OJ PL of 2017, item 1593) whereby the method for calculating the unit emission charge was linked to averaged annual market prices of property rights incorporated in certificates of origin, as published by the Polish Power Exchange pursuant to art. 47 section 3 item 2 of the amended Act. Under Art. 56.1 of the amended RES Act, the unit emission charge for green certificates is calculated as the product of 125% ratio and the annual weighted average price of property rights incorporated in certificates of origin other than certificates issued in respect of energy generated from agricultural biogas on or after 1 July 2016, but may not exceed PLN 300.03 per 1 Mwh (Ozjo).

The oversupply of green certificates is systematically reduced and due to the increased energy consumption and the hedging by market entities for the coming years, the potential effect of oversupply is leveled and postponed to the last years of the system's operation.

Pursuant to the provisions of the Regulation of the Minister of Climate and Environment on the change in the volume share of the total amount of electricity resulting from redeemed certificates of origin confirming the production of electricity from renewable energy sources in 2023, the shares for the so-called green and blue certificates have been reduced compared to 2022. Consequently, the shares are at the level of 12.0% and 0.5%, respectively. In the following years, the Ministry announces the further gradual reduction of the level of obligations related to abandoning after 15 years the certification system of subsequent installations. As at the publication date of the report, the RES obligation for 2024 is unknown.

The Group reduces its exposure to the risk of a drop in the price of green certificates on an ongoing basis by securing in advance the sales price of certificates corresponding to energy production in the coming years. The above risks have materialized in the Group's activity so far. For the production of energy from renewable sources the Group obtains approx. 650 thousand MWh of green certificates per year. The drop in prices by over PLN 100 / MWh observed in the years 2014-2016 meant a decrease in the group's revenues by over PLN 65m per year.

Risk related to seasonality of activity

Wind conditions, which determine the electricity generation in wind farms and insolation conditions which determine the electricity generation in photovoltaic farms are variable depending on the season of the year, and are characterized by variability in several years' cycles. Wind conditions in autumn and winter are significantly better than in spring and summer, and sunlight conditions in spring and summer are significantly better than in autumn and winter.

Decisions on selecting the locations to build wind farms and photovoltaic farms are made by Polenergia S.A. based on professional wind and sunlight measurements confirmed by independent and reputable specialists. That said, there can be no assurance that the actual wind conditions will not be different than those used in the models for specific investment projects.

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

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

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

Company Polenergia S.A. and companies belonging to the capital group entered into insurance contracts that protect them against risks related to the conducted business activity. However, it cannot be excluded that the amount of losses caused by events covered by insurance will not exceed the sums insured as determined in the policies. Further, the occurrence of events not covered by the existing insurance cannot be ruled out, as a result the Company may be forced to spend significant amounts to cover the resulting losses.

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

This may prove less favorable than expected and result in the actual volume of electricity generated falling below the projected volume. Moreover, in certain situations, the construction of a new wind farm in the vicinity of the existing project may have a negative impact on the volume of electricity produced in such previously built project.

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

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

Risk related to renewable energy sources auctions

Under the RES (auction-based) support scheme, support for energy generation from RES, and the amount of such support depends on winning the auction. As a consequence, there exists a risk of obtaining no support for wind farm and photovoltaic farm projects implemented by the

Group. At the same time, support granted to RES under the auction-based scheme will secure the generator, as a principle, against market risk in the scope of electricity prices for 15 years.

The Group is working on the further development of wind and photovoltaic projects to achieve the goals set out in the Group's Strategy for 2020-2024. In December 2022 the auction was won by Polenergia Farma Wiatrowa Namysłów sp. z o.o. developing a set of 4 Szprotawa photovoltaic farm projects with a total target capacity of approx. 47 MW.

In a situation where a project of a wind farm or a photovoltaic farm does not receive support through an auction, the manner of such project’s further implementation is subject to verification, alternative forms of obtaining revenues through the project are examines, in particular, it is possible to build such project in order to supply electricity directly to the end user, e.g. based on the power purchase agreement (PPA).

The above risks have materialized in the Group’s activity so far. For example, in the event of failure to win the RES auction, some projects implemented by the Group were forced to wait until successive auction or alternatively, the Group analyzed the possibility of entering into power purchase agreements for such projects. Each delay in implementing such projects as a result of failure to win a RES auction means for a delay for Polenergia S.A. In starting to obtain return on investment in such projects.

Risk of regulatory changes concerning the support system for conventional generation sources (‘capacity market’) and the support system for RES

The Polish energy market is characterized by a material over-exploitation in the scope of conventional production capacities. The above is mainly due to low replacement investments in recent years. The measures implemented by Polskie Sieci Elektroenergetyczne S.A. in recent years within the Balancing Market (including intervention cold reserve, operational capacity reserve) and several investment decisions made by energy companies controlled by the State Treasury have postponed the risk of insufficient capacity reserve for several years. On 8 December 2017 the Sejm adopted the Capacity Market Act. In the following years auctions were carried out for capacity supply for the years 2021-2027. In the auctions held, ENS contracted capacity up to and including 2027. In July 2025 the 550 g/kWh limit for carbon dioxide emissions will come into effect. The generation sources of the Group meet this limit, but it cannot be observed using coal sources, which constitute the majority of units in the capacity market. Depending on adopted specific solutions and auction parameters for the following years, the economic viability of the existing facilities (such as the Nowa Sarzyna CHP Plant) may change significantly after 2027. Furthermore, it cannot be ruled out that the capacity market will exert an adverse impact on wholesale electricity market prices, which can potentially affect projects whose economic viability rests on revenues from sale of electricity (wind and photovoltaic farms), and which are exposed to the risk of electricity prices. This risk is partly mitigated by hedging the prices of electricity sold from wind and photovoltaic farms in forward contracts and by participating in auction system for RES sources.

The above risk already materialized in the Group’s activity. With regard to the support systems for RES, in 2015 the system of certificates of origin implemented in 2005 was replaced with the auction system for new installations and the first auctions after the implementation of the auction system were organized at the end of 2016. The RES Act allows for the transition of RES installations in operation from the green certificate system to the auction system. However, the same reference prices (prices that determine the maximum price level of offers submitted by green energy producers in auctions) apply to migration auctions. The determination of such prices is therefore a condition enabling the URE President to announce an auction for the sale of energy from RES in a given year. These prices are generally determined by a regulation, which significantly reduces the attractiveness of migration auctions for RES installations built many years ago, which, due to the available technologies at that time, are not able to generate electricity with the same efficiency as new RES installations. The reference price is to take into account, inter alia, current costs and efficiency of RES installations. At the same time, these installations were significantly affected by the crisis on the green certificates market which cannot be compensated by migration auctions, under the regulatory system implemented by the RES Act and the formula for calculating the substitution fee introduced in 2017. The results of the auctions in 2019 confirmed that there was little interest in these auctions, and no such auctions were held in the following years.

Some entities operating in the electricity sector are defined as entities under obligation in virtue of energy regulations. These entities are required to submit certificates of RES origin for redemption to the URE President or to pay a substitution fee. The entity obliged to fulfill the obligation to redeem certificates of origin may pay a substitute fee, even if the grounds for fulfilling the redemption obligation exist, The amount of the substitution fee is calculated on the basis of the mathematical formula specified in the RES Act. In the past, there have been cases of limiting the amount of the substitution fee that energy companies could pay instead of presenting the RES certificates of origin for redemption to the URE. The originally determined amount of the substitution fee allowed for creating favorable business models and financing energy, in particular wind energy. At that time, the generator could rely on the maximum price of the green certificate limited only by the supply-to-demand ratio. The first reduction in the amount of the substitution fee in 2016 caused a violation of acquired rights of many companies operating in the wind energy sector, which resulted in lawsuits. Subsequent legislative changes resulted in further unfavorable changes which had adverse impact primarily on investors burdened with loans and financing institutions, causing problems with debt restructuring, risk assessment and providing financing for new RES investments.

Moreover, the support system for gas and coal-biomass co-generation was also transformed. As part of these changes, the certification system was replaced by the auction system, which began to function only several years after the end of support under the certification system.

Risk related to the unstable tax regime

Tax law provisions undergo numerous changes every year. The implemented regulations are not clearly formulated, which gives the tax authorities the opportunity to interpret them to the detriment of taxpayers. The Ministry of Finance issues numerous and extensive tax clarifications concerning the regulations being introduced, however, due their complicated nature taxpayers still have many doubts as to their practical implementation. This is because published clarifications frequently contradict the literal wording of the regulations. As a result of such actions taxpayers may be exposed to numerous tax risks.

Risk related to the necessity of meeting environmental requirements provided for in the environmental protection regulations

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

Further, under the EU CO2 Emissions Trading Scheme, participation permits had to be obtained for installations used in the course of the operations by Polenergia S.A. and other Polenergia S.A. capital group companies. Trade in emission allowances is an environmental policy instrument designed to reduce pollutant emissions. Both EU membership and the Kyoto protocol require Poland to participate in the Emissions Trading Scheme. The emissions trading scheme was launched on 1 January 2005 by virtue of Directive 2003/87/EC, transposed into Polish legislation by virtue of the Act on Trading in Allowances for Emissions of Greenhouse Gases and Other Substances of 22 December 2004. The current EU ETS 2021-2030 period is governed by the Act amending the Act on Trading in Allowances for Emissions of Greenhouse Gases of 15 April 2021 and certain other acts.

The only facility of the Polenergia Group that is subject to the above-mentioned legislation is Nowa Sarzyna CHP (ENS) (KPRU number: PL 0– 72-05). ENS is the combustion installation with a rated thermal input in excess of 20 MW, participating in the EU Emissions Trading Scheme.

Risk of failure to implement new projects

The Group has been pursuing a significant number of projects in the segment of onshore and offshore wind farms, photovoltaic, gas and clean fuel projects, and investments to develop distribution infrastructure and electric cars charging stations. Projects pursued by the Polenergia Group require significant capital expenditure. The expenditure is particularly high in case of development projects and construction of onshore and offshore wind farms. The Group makes decisions to commence the development stage of a project on the basis of detailed financial models, technical analyses and expert reports prepared by its dedicated Group Development Service. Such analyses include a series of assumptions, related to power generation volume, revenue, production costs, required investment amount and costs of financing.

The Group Development Department has extensive experience in all aspects of project preparation and implementation, such as development, operating activities of facilities or financing, but there is a risk that the Issuer will adopt assumptions more favorable than realistic, which will result in the Group achieving a lower than expected return on investment in a given project. Moreover, the costs of preparing a project, even before the development stage, are also significant, especially in the wind farm construction segment. A project's failure would prevent the Group from recovering such costs.

In addition, the Group's inability to implement some wind farm projects was due to the entry into force of the provisions of the Wind Farm Investments Act (including the 10H rule referred to in the description of the "Risk of changes in the legal and regulatory environment in the energy sector".

Risk of failure to execute or delay in execution of investment plans

Non-execution or delay in the implementation of investment plans involves a risk of not reaching the assumed operational objectives within the defined time limit. This, in turn, can cause worse financial results of the Group than the results obtained in case the project is completed as planned, and may lead to the failure to comply with the requirements set in the loan agreements.

Intending to implement the investment plans set forth, the Group is taking steps to minimize such risk such as precise planning and analyzing factors which may affect the achievement of objectives, ongoing monitoring of results and immediate response to any signals showing that the achievement of objectives could be at risk, and a set of insurance policies. The Management Board of the Company prepares the process of implementing individual projects with particular care, refining all the details of the investment from the technological point of view and providing appropriate financing, however, the actions taken by the Group may turn out to be insufficient.

On 29 June 2020, the President of the Energy Regulatory Office issued a decision for Polenergia Farma Wiatrowa 3 Sp. z o.o., implementing the Dębsk wind farm project, according to which the deadline for meeting the obligation referred to in Art. 79 sec. 3 item 8 letter a of the RES Act (the participant's commitment to sell the energy produced in a renewable energy source installation for the first time under the auction system within 33 months from closing the auction session) was extended by an additional period of 12 months, i.e. no later than by 5 September 2023.

On 26 July 2021 the President of the Energy Regulatory Office issued a decision for Dębice / Kostomłoty sp. z o.o. implementing the Kostomłoty wind farm project, stating that the deadline for meeting the obligation referred to in Art. 79 sec. 3 item 8 letter a of the RES Act (the participant's commitment to sell the energy produced in a renewable energy source installation for the first time under the auction system within 33 months from closing the auction session) was extended by an additional period of 12 months, i.e. no later than by 5 September 2023.

On 14 December 2021 the President of the Energy Regulatory Office issued a decision for Polenergia Farma Wiatrowa Rudniki sp. z o.o., implementing the Buk I photovoltaic farm projects, according to which the deadline for meeting the obligation referred to in Art. 79 sec. 3 item 8 letter a of the RES Act (the participant's commitment to sell the energy produced in a renewable energy source installation for the first time under the auction system within 24 months from closing the auction session) was extended by an additional period of 12 months, i.e. no later than by 3 September 2023.

On 12 January 2022 the President of the Energy Regulatory Office issued a decision for Polenergia Farma Wiatrowa Grabowo sp. z o.o., implementing the Sulechów III photovoltaic farm projects, according to which the deadline for meeting the obligation referred to in Art. 79 sec. 3 item 8 letter a of the RES Act (the participant's commitment to sell the energy produced in a renewable energy source installation for the first time under the auction system within 24 months from closing the auction session) was extended by an additional period of 12 months, i.e. no later than by 3 September 2023.

On 13 January 2022 the President of the Energy Regulatory Office issued a decision for Polenergia Farma Wiatrowa 17 sp. z o.o., implementing the Sulechów II photovoltaic farm projects, stating that the deadline for meeting the obligation referred to in Art. 79 sec. 3 item 8 letter a of the RES Act (the participant's commitment to sell the energy produced in a renewable energy source installation for the first time under the auction system within 24 months from closing the auction session) was extended by an additional period of 12 months, i.e. no later than by 3 September 2023.

Currently, the Grabowo and Piekło WF projects are being implemented according to the assumed schedule. The implementation schedule of the PV Strzelino project assumes its completion as planned, i.e. on the auction date, and additionally an amendment to the Act of 15 December 2022 on special protection of certain gaseous fuel consumers in 2023 in connection with the situation on the gas market (OJ PL of 2022, item 2687), in art. 74 sec.1 extended the deadline for the first sale of energy from the installation from 24 months to 33 months, after the investor submits a relevant statement to the President of the Energy Regulatory Office, such extension providing a safe time reserve.

Risk related to the implementation of Offshore Wind Farm projects

Offshore Wind Farm projects are exposed to a number of risks due to the market situation and the scale of the projects:

a. The risk of an increase in investment costs projected for the development and construction phases, which result, among others, from high demand for services and supplies, changes in raw material prices and information obtained regarding the geotechnical conditions of the seabed.

The global offshore wind market has seen significant changes in the past 2 years, driven by three main factors - the technological development of generators, the collapse of supply chains, and the increase in the cost of components, supplies and service, triggered by rising energy, fuel, and metal prices. Very dynamic changes in technology that permit increasing the unit power of turbines and, at the same time, their productivity, are not correlated with the development of logistics facilities, which gives rise to bottlenecks in the supply chain, especially in terms of installation vessels. A huge demand for installation services, as well as the supply of the offshore wind farm components projected for the years 2025 - 2030, juxtaposed with the limited market capacity observed, has been contributing to the increase in prices of services. On top of that, the situation is aggravated by the return to oil and gas prospecting and exploration in many offshore areas following the outbreak of war in Ukraine, which contributes to increased competition for skilled employees, vessels and other key resources. This difficult situation is compounded by cost increases caused by higher prices of steel, copper, aluminum, which are key raw materials for the construction of the offshore wind farm components. Other cost drivers include rising fuel prices, directly affecting the cost of installation services. All these factors may increase the cost of project development and construction. The Company manages the risk by leveraging the global position of its JV partner (Equinor) whose procurement process makes the most of the market potential of its offshore wind projects portfolio.

In the case of the Bałtyk II and Bałtyk III projects, an additional factor affecting the risk of increased investment costs is the less favorable than assumed geotechnical conditions of the Baltic seabed. Detailed geotechnical investigations and analyses performed last year at project sites indicate that there is a significant risk of requiring a bigger number of jacket foundations than originally anticipated. Such foundations are better suited to less favorable geological conditions than monopile-type foundations, but are more expensive, as their construction requires more steel to be used. The Company manages this risk through the JV availing itself of services of the best, experienced institutions and analytical and design firms which seek solutions to optimize the risk and foundation costs in projects prepared.

b. The risk of incurring high investment costs prior to the Final Investment Decision, which stems from the need to secure capacity from suppliers and obtain the data required for a Building Permit.

Increased interest in offshore wind power investments, driven by both the implementation of global climate policies and the need for European countries to become independent of fossil fuels following the outbreak of war in Ukraine, is adding to the problems of planning deliveries and construction in the forthcoming years. The market has become suppliers and installers market with those actors expecting hard financial guarantees before booking production and installation capacity, while extending their service performance schedules. Making capacity reservations may result in the need to incur significant capital expenditures prior to the final investment decision and the issuance of guarantees by the Company for the JV's payment of obligations. The Company manages this risk through optimization and detailed control of schedules and the negotiation process during the establishment of the supply chain.

c. Risk of project implementation delays.

The volatility and uncertainty of the market environment, "bottlenecks" in the supply chain and labor shortages in the market increase risk of delays in project preparation and implementation. Currently, there are three streams of project development processes underway which are of key importance for timely preparation for construction and execution as intended: design processes, construction permitting and supply chain organization. These processes are closely interrelated and require very efficient and professional coordination and management. They involve a number of third-party consulting and design firms, permitting, procurement, engineering, stakeholder management teams at both JV partners, suppliers, and a dozen of institutions, government agencies and local authorities. Limited human resources may also become a problem, due to the high competition in the market and the lack of educated, experienced staff in the domestic market, as well as the lack of experience in the development of offshore wind farms on the part of national institutions and administration. The Company manages this risk by increasing employment, seeking the best-prepared employees, and conducting education and information activities vis a vis administration.

Another factor contributing to the risk of project delays is the challenging global supply market situation and limited logistics resources in the context of plans to implement other major projects in the Baltic. Any delay in execution of other projects, resulting in overlapping installation periods, may pose a significant problem in ensuring proper logistics and construction safety background. Also, any delay within the supply chain (for example, delays in production or installation) may affect subsequent construction phases. Delays in the use of production and installation periods booked, as well as any restrictions concerning permitted offshore installation periods, may make it necessary to halt the installation process for some period, entailing increased costs.

d. The risk that the President of the Energy Regulatory Office may set the support price for the offshore wind farm to be applied in settling the negative balance at a level below the maximum price and the risk of the support price reduction as part of the clawback procedure in case of a significant change is made to the substantive and financial parameters of the offshore wind farm project

According to the Act on Promoting Electricity Generation in Offshore Wind Farms, the offshore wind farm projects Bałtyk II and Bałtyk III have been granted the right to cover the negative balance for electricity generated in the offshore wind farm, based on the decisions of the ERO President issued in 2021. These projects will sell the generated energy to the market, retaining, however, the right to cover the so-called negative balance, i.e. the difference between the market price of energy and the support price set by the ERO President after completing the process of individual notification of State aid to the European Commission. The Commission will determine at what level of the project's internal rate of return, hence at what support price, there is no overcompensation of the State aid provided. Once the European Commission issues its decision, the ERO President will set an individual support price for each project. It may not be higher than: a) the maximum price, b) the support price yielding the IRR at the level accepted by the European Commission. However, the ERO President is authorized to set a support price lower than that resulting from the European Commission's decision.

On top of that, the projects will be subject to additional safeguarding schemes against the occurrence of overcompensation (clawback). The clawback means that the individual support price for a project, set by the ERO President, will be revised again if, before the commencement of construction work, there is any significant change in the substantive and financial parameters of the project's implementation resulting in a material (i.e. in excess of 0.5 percentage point) increase in its internal rate of return.

In order to prevent the risk of the support price reduction resulting from the clawback, the notification procedure involves the most recent forecasts and regulations.

Risk related to credit facility agreements

The concluded loan agreements contain a number of requirements to be met by individual design companies or projects run; the breach of such requirements may result in the termination of the loan agreement, making the loan immediately mature or increasing the cost of financing. The Group has continued to analyze the indebtedness level and the risk of non-fulfillment of the requirements set forth in the loan facility agreements on an on-going basis and remained in contact with the financing institutions. Detailed information concerning the conclusion of new loan facility agreements and changes to the existing agreement in 2022 are included in Note 30 to the Consolidated Financial Statements.

In the Group's activities to date, the above risk has materialized to a limited extent and consisted in breaches of less significant provisions of loan agreements and in the incidental non-compliance by special-purpose vehicles with certain requirements relating to financial ratios. Nevertheless, in each case of non-compliance with the requirements concerning financial ratios, the Group's special purpose vehicles previously notified the relevant financing bank about such possibility and obtained waiver in this regard. None of the financing banks has ever terminated the loan agreement or initiated enforcement proceedings against any of the Group's entities.

Risk related to financial standing of customers and contracting parties

In the area of industrial energy, the Group generates revenues on the basis of long-term contracts for the supply of electricity and heat concluded with one or more consumers. The financial standing of customers and their ability to settle liabilities with the Group companies is, therefore, of key significance for the success of the Group’s projects, its financial results and financial standing. A sudden drop in energy consumption by a customer may also affect energy production efficiency.

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

In the event of a deterioration in the financial situation of the clients of the Group's entities, in particular due to the deterioration of the economic situation, as well as other factors, such as, without limitation, increased competition in the market on which the Group operates, the Group cannot rule out the loss of clients or contractors, which could adversely affect the financial situation of the Issuer or the Group.

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

Amon sp. z o.o. („Amon”) and Talia sp. z o.o. (“Talia”) the Company's subsidiaries, each filed an action to state ineffectiveness of the declarations of termination by Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. (“PKH”)(a company operating within the Tauron Group) of the Agreements for the sale of property rights resulting from certificates of origin confirming the production of electricity in renewable energy sources - wind farms in Łukaszów (Amon) and Modlikowice (Talia) and the Agreements for the sale of electricity generated in the above-mentioned wind farms. In the above cases, preliminary and partial judgments were issued in favor of Amon and Talia. They were appealed against by the defendant.

On 20 December 2021 the Court of Appeal in Gdańsk announced a judgment in the case brought by Talia against PKH, which dismissed in full both appeals brought by PKH, i.e. both: (i) an appeal against the judgment of the District Court in Gdańsk of 6 March 2020; and (ii) an appeal against the judgment of the District Court in Gdańsk of 8 September 2020.

After the Court of Appeal in Gdańsk issued the judgment of December 20, 2021, Talia received a letter from PKH informing Talia of its readiness to perform the duties and rights resulting from this judgment, i.e. to commence the performance of the above-mentioned contracts and expecting Talia to do the same. Talia's position is that the judgment of 20 December 2021 stated that the contracts were not effectively terminated by PKH and that the contracts were in force until the judgment was issued. In connection with the above, before proceeding with the performance of contracts, Talia demands that PKH settle the arrears for the period of non-performance of contracts in the years 2015-2021 and present a clear declaration that PKH will perform contracts until the end of the period for which the contracts were concluded. On 16 August 2022 PKH filed a cassation appeal to the Supreme Court against the judgment of the Court of Appeal in Gdańsk of 20 December 2021.

On 17 November 2022 the Court of Appeal in Gdańsk issued a judgment in the case brought by Amon Sp. z o. o. against PKH, which dismissed the entire appeal brought by PKH against the judgment of the District Court in Gdańsk of 25 November 2019, file no IX GC 449/15. The judgment is final.

Amon, after the judgement of 17 November 2022 issued by the Court of Appeal in Gdansk, received a letter from PKH, informing Amon of its readiness to perform its obligations and rights under this judgement and therefore to commence the performance of the above-mentioned agreements and expects the same from Amon. Amon's position is that the judgment of 17 November 2022 determined that the agreements had not been effectively terminated by PKH and were also in force until the date of this judgment. Accordingly, Amon will require PKH to settle the arrears for the period of non-performance of the contracts between 2015 and 2022 and to provide a clear declaration that PKH will perform the contracts until the end of the period for which they were concluded, before proceeding to perform the contracts. Amon on 17 March 2023 by e-mail and on 21 March 2023 by mail received a letter from PKH calling on Amon to pay the amount of PLN 55,691,856.47 as contractual penalties for the non-assignment of property rights to PKH in the period from August 2019 to February 2023. Amon considers the call to be completely unfounded and to be a part of the already pending lawsuits by Amon against PKH.

At the end of April 2018 Amon and Talia brought an action against Tauron Polska Energia S.A. The basis of Tauron's tort liability for damages is the cessation of performance by Polska Energia– Pierwsza Kompania Handlowa Sp. z o.o., - a subsidiary of Tauron, of long-term agreements for the sale of electricity generated from renewable sources and long-term agreements for the sale of property rights resulting from certificates of origin confirming the production of electricity from renewable sources, entered into with Amon and Talia.

As at the day of the publication of the report, after modifications to the claims, the value of claims for damages in the case of Amon is PLN 78,204,905.55, and in the case of Talia, PLN 53,127,847.08. The above amounts do not include interest claimed by the companies. The disputed amount, taking into account the estimated Tauron's liability for future damages as of the day of bringing the action is over PLN 236m in the case of Amon and PLN 160m in case of Talia.

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

Eolos Poland sp. z o.o. („Eolos”) pursues a claim for payment jointly from two companies of the Group: Certyfikaty sp. z o.o. and Polenergia Obrót and from Green Stone Solutions sp. z o.o. (formerly: Polenergia Usługi sp. z o.o.) contractual penalties for the termination of agreements for the sale of property rights resulting from certificates of origin for electricity generated in renewable energy sources and for the payment of balancing costs totaling over PLN 27m. The defendant companies demand to dismiss the claim. The parties were heard at the hearing held online on 24 March 2021. The Court decided to continue the taking of evidence, including the appointment of an expert in the case. The expert is expected to prepare the opinion.

Risk related to the dispute with Jeronimo Martins Polska S.A.

Polenergia Obrót S.A. was bound with contracts for sale of energy for 2022 concluded with Jeronimo Martins Polska S.A. ("JMP"), which were terminated by Polenergia Obrót S.A. effective as at 30 June 2022. In connection with the termination of the said agreements, JMP sent to Polenergia Obrót S.A. calls for payment of PLN 3.5m and PLN 36m, i.e. a total of PLN 39.5m. The claims reported by JMP relate to periods falling after the date of expiry of the sale contracts, and therefore the Company considers them groundless. Thus, the Company also deems ineffective the statement of JMP on setting off the requested amounts with the Company's receivables towards JMP.

In this connection on 1 December 2022, Polenergia Obrót S.A. filed a claim against JMP with the District Court in Warsaw, demanding payment of PLN 40,853,352.00 plus statutory interest for delay in commercial transactions, calculated from the date of filing the claim to the date of payment. The amount of the claim includes the amount of PLN 39,528,578 of the invoices for energy unpaid by JMP and the amount of PLN 1,324,774.00 for accrued interest for the period until the date of filing the claim. The difference in the value of the claims pursued in relation to the amounts covered by JMP's statement on setting off results from the adjustments of settlements made in the meantime related to the update of measurement data and the submission by Polenergia Obrót S.A. of statements on setting off.

Counterparty risk

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

On 13 July 2021 Polenergia Farma Wiatrowa 1 Sp. z o.o. received a claim for compensation for non-contractual use of the real property. The plaintiffs demand the payment because the access road to one of the wind turbines was located on the real property belonging to the plaintiffs as a result of a court judgment delimiting the property. The real property was previously owned by another Lessor. The company prepared a statement of defense. The Court appointed an expert in the case who prepared the analysis of the amounts of rent.

Risk related to loss of key personnel

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

The risk of loss of key personnel is mitigated through:

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

Operating risk in facilities

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

Risk related to application of hedge accounting to cash flow hedges

As at 31 December 2022 the Group recognized PLN 65 456k in other comprehensive income being a component of equity: (PLN 102 699 k as at 31 December 2021) on account of the effective portion of the assessment of the hedging instrument to the fair value.

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

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

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

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

As at 31 December 2022 the Group held the following hedging instruments for cash flow hedge accounting purposes:

Transactions hedging the risk of interest rate changes.

Date of maturity of hedging instrument	Hedged value	Hedged interest rate	Instrument
29.09.2025	38 930	0.52%	IRS
29.06.2026	22 582	0.56%	IRS
26.02.2027	7 891	1.25%	IRS
26.02.2027	1635	1.25%	IRS
29.03.2028	124 831	0.79%	IRS
15.12.2028	104554	0.75%	IRS
22.12.2031	8 920	2.60%	IRS
2033-12-12	15,750	6.71%	IRS
2033-12-12	15 750	6.71%	IRS
2034-03-13	79 365	6.65%	IRS
30.06.2034	12391	0.89%	IRS
11.06.2035	142998	1.10%	IRS
10.09.2035	425550	1.20%	IRS
31.12.2035	17 966	2.39%	IRS
11.03.2036	107202	2.22%	IRS
Total	1 126 315		

Transactions hedging the risk of foreign exchange rates changes.

Date of maturity of hedging instrument	Hedged value	Hedged rate	Instrument
2023.Q1	EUR 10,490	4.8139	Forward
2023.Q2	EUR 977	4.8206	Forward
Total	EUR 11 467		

Risk related to real estate lease agreements concluded by entities from the Group

In the ordinary course of business of the Group, certain entities within the Group conclude lease agreements for undeveloped real estate with their owners. Next, wind farm projects and photovoltaic farms are implemented on real estate leased by the Group's entities, and transformer stations and accompanying infrastructure (service yards and roads) are built. Lease agreements are usually concluded for a period of 29 years, and the conclusion of a successive agreement requires the consent of both parties. Agreements are concluded for a period of 29 years for two reasons: property owners are afraid of incumbency by wind farm operators after 30 years from the conclusion of the agreement, and on the part of farm operators, long-term lease agreements may be concluded for a maximum period of 30 years. It should be borne in mind that if the lease contract is concluded for a period longer than 30 years, then after 30 years it is assumed that the contract is concluded for an indefinite period, which results in the possibility of termination by the lessor and the lessee while observing statutory deadlines specified in the Civil Code.

Due to the fact that the lease agreements are concluded at an early stage of project development, the duration of some of them may be shorter than the planned lifetime of a given wind or photovoltaic farm. In such a situation, in the next several years' perspective, the Group may be forced to take steps to conclude new agreements in such a way that the lease agreement for a given property used for the implementation of a given component of a wind or photovoltaic farm project is valid at least until the end of the period of the project operation.

The Group does not rule out that in some situations the conclusion of another lease agreement may be difficult, and the negotiations on this matter may take longer and generate additional costs. If the parties fail to agree on the new terms and the lease agreement expires prior to the end of the project's operation period, the Group may be forced to prematurely terminate the operation of a part of the wind/photovoltaic farm.

14. Statement of compliance with corporate governance rules

The statement on compliance of governance rules was described in item 7 of the Directors' Report on the Operations of Polenergia S.A.

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

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

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

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

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

c. other proceedings

   The court dispute continued between Amon Sp. z o.o. and Talia Sp. z o.o. and Tauron Polska Energia S.A. and Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. as the Tauron subsidiary. Detailed informations were presented in item 13 - "Risk related to the dispute with Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. and Tauron Polska Energia S.A."

   The information concerning the action brought in by Eolos Polska Sp. z o.o. against Certyfikaty Sp. z o.o. and Polenergia Obrót S.A. and Polenergia Usługi Sp. z o.o. Subsidiaries were described in item 13 „Risk related to the dispute with Eolos Polska Sp. z o.o.".

   Information on the dispute between Polenergia Obrót S.A. and Jeronimo Martins Polska S.A. are presented in item 13 "Risk related to the dispute with Jeronimo Martins Polska S.A."

   Other disputes with counterparties have been covered in sec. 13 "Counterparty risk".

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

	For the 12 months' period ended	
	31.12.2022	31.12.2021
- revenues from the sale and distribution of energy	5 057 820	2 167 717
- revenues from the sale of certificates of origin	863 747	402 533
- revenues from the sale of heat	37 267	34 240
- revenues from consulting and advisory projects	11 118	6585
- revenues from lease and operator services	453	4 864
- net revenues from the sale and distribution of gas	646 024	447 094
- revenues from the sale of goods	991	31
- revenues from rental	352	364
- revenues from the capacity market and system renewal service	23 552	27 640
- revenues of account of installation of photovoltaic panels and heat pumps	418 035	0
- other	9 876	5 248
Total revenues from agreements with customers	**7 069 235**	**3 096 316**
- revenues from the evaluation of futures contracts	-32 650	62 979
- revenues from stranded costs and gas costs	0	34 625
- revenues from CO2 emission allowances	52 646	805 133
Total other revenues	**19 996**	**902 737**
Revenues from sales, total	**7 089 231**	**3 999 053**

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

The Group generates revenues from sales of goods and services both on domestic and foreign markets, while revenues generated in Poland represent a vast majority (90% in 2022).

REVENUES BY GEOGRAPHICAL REGIONS

	Revenues for the 12 month period ended		
	31.12.2022	31.12.2021	Change y/y
Domestic market	6 374 353	2 948 405	3 425 948
Foreign market	714 878	1 050 648	(335 770)
Total revenues from contracts with customers	**7 089 231**	**3 999 053**	**3 090 178**

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

Supplier	Goods purchased	Type of link with the Group	2022
Warsaw Commodity Clearing House	Electricity, property rights	no link	43%
Zespół Elektrowni "Pątnów-Adamów-Konin "S.A.	CO_2 emission allowance	no link	10%

Below are presented suppliers of goods and services which accounted for 10% or more of the Group's total revenue in 2022.

Name of Supplier	Goods purchased	Type of link with the Group	2022
Warsaw Commodity Clearing House	Electricity, natural gas and property rights	no link	61%
Marex Spectron International Limited	Electricity	no link	12%

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

Agreements significant for the Issuer's business, including agreements between shareholders (partners) of which the Issuer is aware

1) On 3 January 2022, the ownership of all shares in the company under the business name of Polenergia Fotowoltaika S.A. (then under the name: Edison Energia S.A.) with the registered office in Warsaw was transferred from the then shareholders to the Issuer.

The transfer of the above-mentioned shares took place in accordance with the provisions of the Preliminary Share Sale Agreement as amended and the Final Share Sale Agreement concerning the sale of 100% of the Company's shares to the Issuer by the current shareholders.

The Issuer informed about the above transaction in the current report of 3 January 2022 (1/2022).

2) On 4 February 2022, the Issuer's subsidiaries - Polenergia Farma Wiatrowa Piekło sp. z o.o. and Polenergia Farma Wiatrowa 16 sp. z o.o., developing the Piekło wind farm project ("Piekło Wind Farm"), concluded a contract with ONDE S.A. with the registered office in Toruń (the "Contractor") for the construction of the Piekło Wind Farm with a total maximum installed capacity of 13.20 MW ("BoP"). The contract is to be performed by 30 September 2023.

The BoP concerns the performance by the Contractor for the Piekło Wind Farm of comprehensive construction works in the scope of building foundations for wind turbines, adapting access roads for oversized transport, modernizing existing roads, building service roads and assembly platforms, and performing assembly and power works and necessary construction works for container transformer stations along with MV cable and fiber optic networks, for the performance of the Piekło Wind Farm.

The Issuer informed about the conclusion of the above significant agreement in the current report of 4 February 2022 (4/2022).

3) On 18 February 2022 Polenergia Farma Wiatrowa Grabowo sp. z o.o., the Issuer's subsidiary developing the Grabowo wind farm project ("Grabowo Wind Farm") concluded the contract with ELECTRUM sp. z o.o. with the registered office in Białystok (the "Contractor") for the construction of the Grabowo Wind Farm with a total maximum installed capacity of 44 MW ("BoP"). The contract is to be performed by 31 December 2023.

The BoP concerns the performance by the Contractor for the Grabowo Wind Farm of comprehensive construction works in in the scope of foundations for wind turbines, adaptation of access roads for oversized transport, modernization of existing roads, construction of service roads, assembly platforms as well as assembly and power works and necessary construction works for the 20/110 kV subscriber station with MV, HV and fiber optic cable networks for the performance of the Grabowo Wind Farm.

The Issuer informed about the conclusion of the above significant agreement in the current report of 18 February 2022 (5/2022).

4) On 22 February 2022, MFW Bałtyk II sp. z o.o. and MFW Bałtyk III sp. z o.o. project companies (jointly "Project Companies"), in which the Issuer holds 50% of shares, developing projects for the construction of two offshore wind farms, i.e. MFW Bałtyk II and MFW Bałtyk III, as part of a joint venture of the Issuer and Equinor Wind Power AS, signed agreements with Siemens Gamesa Renewable Energy Poland sp. z o.o. and Siemens Gamesa Renewable Energy A/S (Denmark) (jointly the "Supplier") (separate for each Project Company) regarding the preferred supplier of wind turbines for MFW Bałtyk II and MFW Bałtyk III (jointly: "Agreements").

The subject of the agreements is to grant the exclusivity to the Supplier by the Project Companies, during the term of the Agreements, for the delivery of wind turbines for the MFW Bałtyk II and MFW Bałtyk III projects, while the Supplier shall ensure supplies of wind turbines in accordance with the assumed project schedules for the supply, installation and commissioning of these turbines.

The Issuer informed about the conclusion of the above agreements in the current report of 22 February 2022 (6/2022).

5) On 21 March 2022 the Issuer concluded an investment agreement governed by Lithuanian law ("Investment Agreement") with the Modus Energy AB, Lithuanian company (operating under the Green Genius brand) ("Green Genius"), which is to act as a local partner in connection with the planned development of wind farm projects in the Baltic Sea in the region of the Lithuanian territorial sea or the exclusive economic zone of the Republic of Lithuania ("JV", "Project"). The condition for the implementation of the Investment Agreement is to obtain the consent of the competent competition authority, and the conclusion of a shareholders' agreement (in the agreed form) between the JV partners (the "Shareholders' Agreement").

The Investment Agreement provides for the creation of a special purpose vehicle under Lithuanian law, jointly controlled by the Issuer and Green Genius ("SPV"), which will implement the Project. The JV purpose is to formalize the Issuer's cooperation with Green Genius as a local partner, to further analyze the development of Lithuanian regulations aimed at adopting a legal framework for developing an building of offshore wind farms and taking further actions following the schedule agreed by the parties and based on the agreed investment criteria, also for the purpose of the Project development.

The Issuer informed about the conclusion of the above agreement in the current report of 21 March 2022 (11/2022).

6) On 23 December 2022 Polenergia Obrót 2 sp. z o.o., the Issuer's subsidiary developing the Strzelino photovoltaic farm project with a total installed capacity of 45.2 MWp ("Project" or "Strzelino Photovoltaic Farm") concluded an agreement for the construction of the Strzelino Photovoltaic Farm (the "EPC Contract") with P&Q sp. z o.o. with the registered office in Białystok

(the "Contractor"). On 9 December 2021 the project won the regular RES auction No. AZ/12/2021 conducted by the President of the Energy Regulatory Office, as notified by the Issuer in current report no 49/2021. The EPC Agreement is to be performed by 31 December 2023.

The EPC Agreement concerns the performance by the Contractor for the Strzelino Photovoltaic Farm of comprehensive assembly and electrical works, including: delivery and assembly of supporting structures for photovoltaic modules, assembly of photovoltaic modules and inverters, delivery and assembly of LV/MV power stations, delivery and assembly of LV, MV cables, construction of a 20/110 kV subscriber station along with the delivery of equipment, delivery and assembly of a HV cable line with a fiber optic network. The EPC agreement does not include the supply of photovoltaic modules and inverters.

The Issuer informed about the conclusion of the above agreement in the current report of 23 December 2022 (40/2022).

7) On 30 December 2022, MFW Bałtyk II sp. z o.o. and MFW Bałtyk III sp. z o.o. (each individually "Project Company" or jointly "Project Companies"), in which the Issuer holds 50% of shares, and which, as part of a joint venture of the Issuer and Equinor Wind Power AS, develop projects for the construction of offshore wind farms with a planned electric capacity of 720 MW each ("MFW"), concluded the agreements, each Project Company separately, with ("Contractor"), for: (i) execution of design works for the MFW electrical system; (ii) delivery of an onshore power station in the EPC formula; (iii) delivery of a complete control system, telecommunications network, all high-voltage equipment at the offshore and onshore power substation; (iv) system analysis; (v) integration of all third-party devices; (v) connection works (each individually "Agreement" or jointly "Agreements").

The entry into force of the Agreements depends on the fulfillment of a number of conditions, i.e. (i) the Contractor's providing a security for the proper performance of the Agreements; (ii) holding by the Project Company of the necessary permits to commence construction works; (iii) the Project Company making the final investment decision ("FID"); (iv) the provision of the required insurance policies by the parties; (v) issuing a notice to proceed by the Project Company ("NTP"); (vi) receipt by the Contractor of confirmation issued by banks that the Project Company has obtained financing or providing security for payment in the form of a corporate guarantee. The Project Companies may waive the requirement to meet the conditions set out in items (i) - (iv).

Pursuant to the Agreements, upon the execution thereof, the Project Companies will issue an interim notice to proceed ("INTP"), covering part of the contractual scope. INTP will apply to those works covered by the Agreements, the performance of which before the FID is necessary for the implementation of projects as assumed in the time schedule. The provisions of the Agreements will apply to the performance of the works.

In connection with the commencement of works prior to the fulfillment of the terms of the Agreements, the Issuer will be obliged to provide a security for payment in the form of a parent company guarantee (“PCG”). PCG issued by the Issuer will cover 50% of the Project Companies' liabilities to the Contractor. The maximum expected amount of the Issuer's liabilities under PCG securing works performed on the basis of INTP will total approx. EUR 18.1m for both Project Companies. The maximum expected amount of the Issuer's liabilities under PCG securing works performed on the basis of the NTP but prior to the financial close will depend on the final amount of the liability under the Agreement.

The Issuer informed about the conclusion of the above agreements in the current report of 30 December 2022 (43/2022).

The Issuer is not aware of any other agreements significant for its operations (including agreements between the Issuer's shareholders) concluded in 2022 (as well as after the balance sheet date), and in particular the Issuer is not a party to such potential agreements. To the extent required by law, in the past the Issuer made public the information on agreements between some shareholders which were known to the Issuer.

Information on concluded cooperation or cooperation agreements

On 23 September 2022, the Issuer, as the leader of the consortium, and Polenergia Elektrociepłownia Nowa Sarzyna sp. z o.o. ("ENS"), its subsidiary, as a consortium member, concluded a co-financing agreement ("Co-financing Agreement") with the National Center for Research and Development for the project under the name H2 HUB Nowa Sarzyna: Storage of Green Hydrogen as part of the competition New Energy Technologies I ("Project").

The aim of the Project is to develop an integrated water electrolysis process system for hydrogen production, using electricity generated in renewable energy sources, along with hydrogen storage and a hydrogen conversion system into synthetic aviation fuel which is CO2-neutral, and thus an ecological energy carrier.

The consortium, apart from the Issuer and ENS, is composed of the Wrocław University of Technology. The project is of a research and development nature and is divided into three phases. Pursuant to the Co-financing Agreement the total amount of potential co-financing of the Project in the form of subsidies is PLN 95,099,886.51, with the proviso that as at the date of this report, the amount of co-financing possible to obtain in the first phase is PLN 99,886.51, corresponding to 50% of the expected financial outlays for this phase of the Project ending in 3Q 2023. The beneficiary's eligibility (in particular, the Issuer's and ENS's) to obtain further funding under the Co-financing Agreement (implementation of phase II and phase III of the Project) depends on obtaining a positive result in as part of the selection after verification of the previous phase of the Project and approval of payment applications. Notwithstanding the foregoing, the Issuer stipulates that after the completion of the first phase of the Project, the Issuer will evaluate the Project and decide on its further implementation and method of financing, which may require obtaining appropriate corporate approvals.

The Issuer informed about the conclusion of the above agreement in the current report of 23 September 2022 (30/2022).

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

The Group’s equity structure is presented in the financial statements.
Information on the Issuer's investments, together with a description of the methods of their financing in 2022, are presented in item 2 of the Report.

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

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

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

For concluded credits and loans see Note 30 to the Consolidated financial statements.

22. Loans granted in the financial year, in particular loans granted to the Issuer's related entities, including at least the amounts, types, interest rates, currencies and maturity dates of the loans

Loans granted are presented in Note 36.1 to the Standalone financial statements.

23. Sureties and guarantees issued and obtained in the financial year, including without limitation sureties and guarantees issued for the benefit of the Issuer's related entities

For information on loan sureties or guarantees issued by the Issuer or the Issuer's subsidiary to a single entity or its subsidiaries, see Note 26.1 to the Standalone financial statements and Note 33 to the Consolidated financial statements.

The sureties and guarantees obtained are presented below:

Responsible entity/issuer of surety or guarantee	**Basis**	**Value**	**Period**
Freepoint Commodities Europe LLP / Freepoint Commodities LLC	Trade contract - Polenergia Obrót S.A.	EUR 5,000,000.00	Indefinite term
EDF Trading / EDF Ireland	Trade contract - Polenergia Obrót S.A.	EUR 3,000,000.00	16.08.2023
Fortum Oyi / FORTUM Marketing and Sales Polska SA	Trade contract with Polenergia Obrót S.A.	PLN 4,000,000.00	31.01.2023
Bilfinger Tebodin Poland Sp. z o.o. / Skandinawiska Enskilda Banken AB S.A. O/Polska	Contract Engineer services agreement – Polenergia FW Szymankowo	230.400,00 PLN On 15.06.2021 the guarantee amount will drop down to PLN 61.120,00	30.05.2023
VESTAS - POLAND Sp. z o.o. / VESTAS WIND SYSTEMS A/S	PCG wind turbines delivery, installation and commissioning agreement – Polenergia FW Dębice/Kostomłoty	EUR 25,830,000.00 net	31.12.2024
VESTAS - POLAND Sp. z o.o. / VESTAS WIND SYSTEMS A/S	PCG wind turbines delivery, installation and commissioning agreement – Polenergia FW 3	EUR 99,660,000.00 net	31.12.2024
Bilfinger Tebodin Poland Sp. z o.o. / Skandinawska Enskilda Banken AB S.A. O/Polska	Contract Engineer services agreement – Polenergia FW Dębice/Kostomłoty	PLN 267,000.00 on 01.10.2022 the amount of the guarantee decreased to PLN 80,100.00, on 03.11.2022 the annex was signed to increase the maximum guarantee amount to PLN 87,435.00	15.09.2024
PKP Energetyka / PKO SA	Trade contract with Polenergia Obrót S.A.	PLN 12,000,000.00	31.12.2023
Potęgowo Mashav / PEKAO S.A.	SWAP surety for delivery from Polenergia Obrót S.A.	PLN 789,221.00	extended from 30.06.2022 to 30.06.2023
Potęgowo Mashav / PEKAO S.A.	SWAP surety for delivery from Polenergia Obrót S.A.	PLN 824,353.00	extended from 30.06.2022 to 30.06.2023
Potęgowo Mashav / PEKAO S.A.	SWAP surety for delivery from Polenergia Obrót S.A.	PLN 613,200.00	09.03.2023

Potęgowo Mashav / PEKAO S.A.	SWAP surety for delivery from Polenergia Obrót S.A.	PLN 606,630.00	28.12.2022
Potęgowo Mashav / PEKAO S.A.	SWAP surety for delivery from Polenergia Obrót S.A.	PLN 641,670.00	08.03.2023
Potęgowo Mashav / PEKAO S.A.	SWAP surety for delivery from Polenergia Obrót S.A.	PLN 397.485,00	extended from 30.06.2022 to 15.01.2023
Potęgowo Mashav / PEKAO S.A.	SWAP surety for delivery from Polenergia Obrót S.A.	PLN 391,327.20	extended from 09.08.2022 to 09.08.2023
Potęgowo Mashav / PEKAO S.A.	SWAP surety for delivery from Polenergia Obrót S.A.	PLN 475,434.00	10.10.2023
IGNITIS Polska SP. z o.o. / OP Corporate Bank	Trade contract with Polenergia Obrót S.A.	EUR 1,000,000.00	on 28.09.2022 the validity was extended from 30.11.2022 to 30.11.2023
VESTAS - POLAND Sp. z o.o. / VESTAS WIND SYSTEMS A/S	PCG wind turbines delivery, installation and commissioning agreement – Polenergia FW Piekło, Polenergia FW 16	Maximum guarantee amount EUR 13,599,400 increased by VAT	30.06.2025
VESTAS - POLAND Sp. z o.o. / VESTAS WIND SYSTEMS A/S	PCG wind turbines delivery, installation and commissioning agreement – Polenergia FW Grabowo	Maximum guarantee amount EUR 48,860,000 increased by VAT	31.07.2025
ONDE / ERGO HESTIA	Performance bond– Polenergia FW Piekło	PLN 2,889,270.00 PLN 1,444,635.00 for defects and faults	31.08.2023 defects and faults 31.08.2028
Bilfinger Tebodin Poland Sp. z o.o. / Skandinawska Enskilda Banken AB S.A. O/Polska	Performance Bond, including obligations under the warranty for defects or quality guarantee - FW Piekło (a company of Polenergia FW Piekło)	PLN 112,125.00 from 01.09.2022 the maximum guarantee amount was reduced to PLN 33,637.50	15.09.2025
Bilfinger Tebodin Poland Sp. z o.o. / Skandinawska Enskilda Banken AB S.A. O/Polska	Performance Bond, including obligations under the warranty for defects or quality guarantee - FW Piekło (a company of Polenergia FW 16)	PLN 112,125.00 from 01.09.2022 the maximum guarantee amounts was reduced to PLN 33,637.50	15.09.2025
ELECTRUM / KUKE	Performance Bond - FW Grabowo	PLN 6,093,763.86	30.04.2023
WSP POLSKA Sp. z o.o. / HSBC	Performance Bond - FW Grabowo	PLN 246,000.00	30.06.2025

24. For issues of securities in the period covered by the report - description of the Issuer's proceeds use until the date of preparation of the report on operations

In 2022 the Company carried out a public offering of 21,358,699 newly issued AA series ordinary bearer shares with a nominal value of PLN 2.00 each (2022 Issue).

In 2022 the Company used a total of approximately 55% (approximately PLN 550m) of the proceeds from the 2022 Issue. The Company plans to use the remaining proceeds from the 2022 Issue by the end of 2023.

The table below presents the method of using the funds from the 2022 Issue, broken down into funds used in 2022 and funds that the Company plans to use by the end of 2023.

Method of using the funds from the 2022 Issue	Funds disbursed in 2022	Funds planned to be disbursed in 2023
Further development of MFW Bałtyk I, MFW Bałtyk II and MFW Bałtyk IIII offshore wind farms.	ca PLN 111m	up to approx. PLN 350m
Further development and construction of onshore wind farm projects (Company's capital group covers planned expenses on the side of equity, which will be used in full to cover development costs) - the construction of FW Grabowo and FW Piekło wind projects with a total capacity of 57.2 MW will continue.	approx. PLN 176m	up to approx. PLN 3m
Further development and construction of photovoltaic farm projects (covering by the Company of the planned expenses on the side of equity, to be used in full to cover development costs and own contribution in the construction of the investment).	approx. PLN 8m	up to approx. PLN 90m
Development activities in the area of electromobility, including securing locations for the construction of publicly available charging stations and developing the product offer addressed to the end customer.	approx. PLN 5m	up to approx. PLN 10m
Development activities in the area of hydrogen projects development.	-	up to approx PLN 3m
Repayment of the loan granted to the Company by Deutsche Bank Polska S.A. on the basis of a short-term loan agreement concluded on 1 December 2021, in order for the Company to obtain funds for: (i) further development of MFW Bałtyk I, MFW Bałtyk II and MFW Bałtyk III; (ii) participation in the financing of onshore wind farms (WF Szymankowo, FW Dębsk and FW Kostomłoty) by repaying loans granted by Mansa Investments sp. z o.o.; (iii) further development and construction of onshore wind farm projects (FW Grabowo and FW Piekło); and (iv) further development and construction of photovoltaic farm projects (Sulechów III).	approx. PLN 250m	-
Total	**approx. PLN 550m**	**approx. PLN 454m**

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

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

26. Assessment (and grounds for the assessment) of financial resources management, including in particular an assessment of the ability to repay liabilities, as well as an identification of threats, if any, and measures used or intended to be used by the Issuer to mitigate such threats

The most important part of the Issuer's and the Group's financial liabilities are bank borrowings, described in more detail in the financial statements. As at 31 December 2022 all liabilities of the Issuer and the Issuer's capital Group were settled in a timely manner.

On the other hand, the observed increased volatility of electricity and natural gas prices and the regulation of maximum energy sales prices for producers and sellers in 2023 may result in a decrease in the economic parameters of the Group companies, and even failure to meet the financial ratios specified in the loan agreements

The Group is monitoring the situation and keeping in touch with the financing institutions. If the prices of electricity and green certificates decrease, in a longer run there may be temporary problems with the performance of the obligations resulting from certain credit facility agreements, which in the case of some projects may trigger payment under guarantees issued by Polenergia S.A. For details on the guarantees, see Note 26.1 to the Standalone financial statements.

27. Evaluation of feasibility of investment plans, including equity investments, in the context of available funds, taking into consideration possible changes in the investment financing structure

As at the publication hereof, the Group is planning to spend an estimated total amount of ca. PLN 959m on property, plant and equipment in 2023. The amount will largely be allocated to an investment program in the wind farm, photovoltaic and distribution segments and on project development, including in offshore and onshore wind power generation and photovoltaic generation.

Polenergia S.A. seeks to finance projects under a project finance model which assumes partial reliance on externally sourced funds. The funds for financing its own contribution are obtained by the Company from shareholders. In connection with the issue carried out at the beginning of 2022, the Company obtained PLN 1,003.9m, which will be spent as described in item 24 above. In addition, on 22 February 2023, the Company's Management Board adopted a resolution on initiating the process of increasing the Company's share capital by issuing new Company shares, under which the Company plans to raise proceeds in the amount from PLN 500m to 750m. The purpose of the next issue is to raise funds to finance investment projects and development plans of the Company, including in the field of wind farms (offshore and onshore) and photovoltaic farms, as well as projects in the field of hydrogen technologies, energy storage and electromobility; the implementation of such plans is in line with the assumptions of the Polenergia Group Strategy for 2020-2024 published by the Company in May 2020. The final purpose of the issue will be specified and described in the Company's prospectus to be prepared in connection with the issue.

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

Events with a material effect on the Issuer's business and financial performance are presented in Items 1 and 2 hereof. All of them are typical for the Issuer's business.

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

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

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

https://www.polenergia.pl/serwis-relacji-inwestorskich/

Description of the Group's business growth prospects

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

Currently, the Group is focused on:

- further optimizing its operating costs and improving asset efficiency,
- developing new projects and maintaining the existing projects, both in offshore and onshore wind farms and photovoltaic area,
- developing the projects from onshore wind farm portfolio which won auctions in 2020 and 2021 and preparing further projects to participate in subsequent RES auctions,
- implementing new projects from photovoltaic farm portfolio which won the auctions in 2021 and in 2022, and preparing further projects to participate in subsequent RES auctions,
- further developing business in trading segment,
- implementing an investment project in the distribution area (which targets an increase of the Regulatory Assets Base and a growth in the number of customers connected to the company's network on a permanent basis),
- developing the sales of solutions in the field of distributed energy and electromobility,
- intensifying efforts to grow energy sales to customers not connected to the company's network,
- developing gas and clean fuels segment based on the production and storage of green hydrogen produced in the process of electrolysis from own renewable energy.

More information on the Issuer's Group business development policy is available on the website at: https://www.polenergia.pl/serwis-relacji-inwestorskich/

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

In the financial year 2022, there were no changes to the fundamental management rules of the Issuer or its Group.

31. All agreements concluded between the Issuer and its management staff, providing for compensation in the event of resignation or removal from office without a good reason, or when resignation or removal from office is caused by acquisition of the Issuer by another company

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

Ms. Iwona Sierżęga is party to an employment contract concluded with the Company. The contract is entered into for an indefinite term. It may be terminated upon 6 months' notice. Furthermore, upon the termination of the employment relationship, Ms. Iwona Sierżęga is party to a non-competition agreement that obliges the Company to pay her an amount equal to 100% of her remuneration for 6 months as compensation for refraining from running competitive activity.

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

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

In 2022 Mr. Jarosław Bogacz was a Member of the Management Board and remained party to the employment contract concluded for an indefinite period. The notice period of the employment contract was 6 months Furthermore, upon the termination of the employment relationship, Mr. Jarosław Bogacz was party to a non-competition agreement that obliges the Company to pay him an amount equal to 100% of his remuneration for 6 months as compensation for refraining from running competitive activity.

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

For information on the remuneration of members of the Management and Supervisory Boards, see Note 48 to the Consolidated financial statements.
Moreover, members of the Management Board were also entitled to non-financial benefits, such as company apartments in justified cases or refinancing of accommodation costs, covering or refinancing travel costs, accident insurance, medical insurance and use of company cars.

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

The Issuer does not have the above liabilities

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

Ms. Dominika Kulczyk, through Kulczyk Holding S.à r.l., a Luxembourg law company, and Mansa Investments Sp. z o. o. ("Mansa"), holds 28,617,254 ordinary bearer shares of the Company with a total nominal value of PLN 57,234,508, representing approximately 42.84% of all the Issuer's shares. On 23 December 2022 agreement was concluded between Mansa and Santander Bank Polska S.A, regarding financial pledge on 1,200,000 shares of the Issuer, representing approximately 1.80% of all shares in the Company (current report No. 42/2022 of 28 December 2022).

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

The Issuer is not aware of any agreements concluded in 2022 (or those concluded after the balance sheet date), which may result in future changes in the proportions of shares held by the existing shareholders and bondholders, and in particular the Issuer is not a party to such potential agreements. To the extent required by law, in the past the Issuer made public the information on agreements between some shareholders which were known to the Issuer.

36. Employee stock ownership plan control system

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

37. Additional information:

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

Agreement of 30 June 2022 between Polenergia S.A. and Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with the registered address in Poznań, ul. abpa Antoniego Baraniaka 88 E for the performance of:

- review of the interim Standalone and Consolidated financial statements for the periods from 1 January 2022 until 30 June 2022 and from 1 January 2023 until 30 June 2023
- audit of the Standalone and Consolidated financial statements for the year ended 31 December 2022 and 31 December 2023

Moreover, individual Group companies concluded agreements with Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with the registered address in Poznań, ul. abpa Antoniego Baraniaka 88 E for the audit of their financial statements for the year ended 31 December 2022 and 31 December 2023.

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

In 2022 Group companies used services of the selected audit firm which comprised audits or reviews of their financial statements or Consolidated financial statements, as well as additional services, aimed at confirming the fulfillment of concluded loan agreements on the basis of analyses of financial information derived from audited financial statements.

c) The body that selected the audit firm

The audit firm is chosen by the Supervisory Board upon the recommendation from the Audit Committee

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

For detailed information on the entity authorized to audit the financial statements see Note 50 to the Consolidated financial statements

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

Off-balance sheet items by entity, type and value are presented in Note 33 to the Consolidated financial statements.