

Polenergia Group

**CONSOLIDATED QUARTERLY REPORT
FOR Q1 2015**

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A. INTRODUCTION TO THE CONSOLIDATED QUARTERLY REPORT

1. Consolidated statement of profit or loss for the three months ended March 31st 2015

Presented below is the consolidated statement of profit or loss for Q1 2015. The presented comparative data for Q1 2014 has been prepared to present the Group's financial performance assuming that the merger of the assets of Polish Energy Partners S.A. and Neutron Sp. z o.o. took place on January 1st 2014. For a description of individual Neutron Group assets contributed to the Polenergia Group, see Section A.2 of this Report.

The presented performance data can serve as a basis for a complete analysis of the economic effects of the Transaction and give a full picture of the scale of the combined entities' operations, together with comparative data.

The consolidated financial information has been prepared based on the following assumptions:

- The Transaction Closing, described in more detail in Note A.2, took place on January 1st 2014.
- In comparative data, the purchase price allocation effect was recognised for the period of three months ended March 31st 2014.

Polenergia Group's performance (assuming that the acquisition date is the beginning of the full-year reporting period) (PLN '000)	For period ended Mar 31 2015	For period ended Mar 31 2014	Change y/y	Change y/y [%]	
Revenue	650,243	622,571	27,672		
Revenue from certificates of origin	27,546	25,898	1,648		
Revenue	677,789	648,469	29,320		
including trading segment	490,767	475,587	15,180		
Cost of sales, including	(625,622)	(610,625)	(14,997)		
Trading segment	(487,042)	(474,379)	(12,663)		
Gross profit	52,167	37,844	14,323	38%	
Other income	1,204	1,971	(767)		
Administrative expenses	(8,045)	(8,287)	242		
Other expenses	(1,381)	(1,135)	(246)		
EBITDA	64,696	51,245	13,451	26%	
Elimination of purchase price allocation effect	603	(6,197)	6,800		A
Cost of securing corporate financing	143	-	143		E
Adjusted EBITDA*	65,442	45,048	20,394	45%	
Finance income	4,212	3,391	821		
Finance costs	(11,745)	(11,340)	(405)		
Profit (loss) before tax	36,412	22,444	13,968		
Income tax expense	(9,780)	(2,202)	(7,578)		
Net profit (loss)	26,632	20,242	6,390	32%	
Elimination of purchase price allocation effect	2,538	(4,262)	6,800		A
Elimination of unrealised exchange differences effect	(1,154)	227	(1,381)		B
Elimination of discount income effect	-	(126)	126		C
Elimination of loan valuation effect	477	229	248		D
Cost of securing corporate financing	116	-	116		E
Adjusted net profit*	28,609	16,310	12,299	75%	
Adjusted EBITDA (excluding trading segment)	65,442	45,662	19,780		
Adjusted EBITDA margin (excluding trading segment)	35.0%	26.4%	8.6%		

* Adjusted for non-cash/one-off income (expenses) recognised in a given financial year.

A Elimination of purchase price allocation effect (assuming the acquisition was settled on January 1st 2014)

B Unrealised foreign exchange differences on a foreign currency-denominated loan

C Unrealised foreign exchange differences (mainly on a foreign currency-denominated loan)

D AMC loan valuation

E Cost of corporate financing

Consolidated adjusted EBITDA and net profit have grown significantly on the previous year, by PLN 20.4m (45%) and PLN 12.3m (75%) respectively.

As regards the Group's EBITDA, a major increase in the **wind power** segment should be highlighted (up by PLN 21.8m), resulting mainly from the launch of new wind farms (Gawłowice and Rajgród) in the second half of 2014 and improved performance of Amon and Talia thanks to better wind conditions.

Stronger performance was also recorded in the **trading** segment, whose EBITDA went up by PLN 2m year on year, mainly in connection with the optimisation of electricity trading within the Group and focus on the most profitable segments of the electricity and gas markets.

Performance and margins in the other segments were stable and similar to those recorded in 2014.

The performance of the **distribution** segment was consistent with expectations and similar, at the principal activities level, to the results recorded in 2014. The drop was primarily the effect of positive events relating to final settlements with customers in Q1 2014.

The performance of the **conventional energy** segment was consistent with expectations and resulted from lower income from compensation for gas costs and stranded costs related to the termination of long-term contracts for the Nowa Sarzyna CHP plant (due to lower gas prices and higher loss on electricity generation), which were partly offset with income from yellow certificates (none in Q1 2014).

An analysis of performance data as at the end of Q1 2015 shows a significant increase in profitability (at the EBITDA margin level). As a result of the developments described above, the **adjusted EBITDA margin** (excluding trading operations, which are characterised by minimum unit margins and very high transaction volumes, accounting for more than 70% of the Group's revenue in the first three months of 2015) grew by over 8pp in the reporting period, from **26.4% to 35%**, which was mainly attributable to the launch of new wind farms.

As regards net finance income/cost, it should be noted that finance costs remained the same as in the previous year despite launching new projects, which was chiefly attributable to lower interest rates and lower outstanding debt related to other projects.

Higher tax expense results from the recognition in the profit/(loss) for 2014 of a reversal of a provision for deferred tax liability related to the revenue of limited joint-stock partnerships (SKA) and the fact that a tax asset to offset a part of tax losses incurred in 2015 was not recognised (conservative approach).

Given that the adjusted EBITDA for the last twelve months (from April 1st 2014 to March 31st 2015) was PLN 189.4m, and the Group's net debt as at March 31st 2015 amounted to PLN 411m, the net debt/EBITDA ratio stood at 2.2x.

At present, wind farms with a total capacity of 98.6 MWe are under construction (Skurpie wind farm, Mycielin wind farm, extension of Gawłowice wind farm). They are expected to be placed in service by the end of 2015. It is anticipated that these projects will contribute approximately 280 GWh per annum to the Group's total electricity sales.

Presented on the next page is a breakdown of the Group's consolidated performance in Q1 2015 and Q1 2014 by operating segments.

For period ended Mar 31 2015	Conventional energy	Development	Biomass	Wind power	Distribution	Trading	Unallocated management costs	Purchase price allocation	TOTAL
Revenue	87.6	0.3	16.3	44.4	38.4	490.8	-0.0	-	677.8
Operating expenses	-67.6	-0.6	-14.6	-17.8	-33.8	-487.0	-1.1	-3.1	-625.6
incl. depreciation and amortisation	-4.6	-	-1.0	-11.3	-1.0	-0.0	-0.3	-2.5	-20.8
Gross profit	20.0	-0.3	1.7	26.7	4.6	3.7	-1.1	-3.1	52.2
Administrative expenses	-1.8	-0.1	-0.2	-0.3	-1.0	-2.3	-2.2	-	-8.0
Net other income/expenses	-0.4	-0.2	0.2	1.3	-0.6	-0.0	-0.5	-	-0.2
Operating profit	17.8	-0.6	1.7	27.6	3.0	1.4	-3.8	-3.1	43.9
EBITDA	22.4	-0.6	2.7	38.9	4.0	1.4	-3.5	-0.6	64.7
Elimination of costs of securing financing							0.1		0.1
Elimination of purchase price allocation effect								0.6	0.6
Adjusted EBITDA	22.4	-0.6	2.7	38.9	4.0	1.4	-3.4	-	65.4
Net finance income/cost	-2.4	0.1	-0.3	-5.7	-0.5	-0.4	1.7	-	-7.5
Profit (loss) before tax	15.4	-0.5	1.4	22.0	2.5	0.9	-2.1	-3.1	36.4
Income tax expense									-9.8
Net profit (loss) for period									26.6
Elimination of purchase price allocation effect									2.5
Elimination of unrealised exchange differences effect									-1.2
Elimination of loan valuation effect									0.5
Elimination of costs of securing financing									0.1
Adjusted net profit									28.6

For period ended Mar 31 2014	Conventional energy	Development	Biomass	Wind power	Distribution	Trading	Unallocated management costs	Purchase price allocation	TOTAL
Revenue	94.1	0.1	18.8	20.0	33.7	475.6	-	6.2	648.5
Operating expenses	-79.3	-0.2	-16.8	-9.6	-27.8	-474.4	-0.0	-2.5	-610.6
incl. depreciation and amortisation	10.8	0.0	0.9	5.6	0.9	0.0	-	2.5	20.9
Gross profit	14.9	-0.1	2.0	10.4	5.9	1.2	-0.0	3.7	37.8
Administrative expenses	-1.5	-0.2	-	-	-1.6	-1.8	-3.1	-	-8.3
Net other income/expenses	-0.0	-0.1	-0.2	1.1	0.5	0.0	-0.5	-	0.8
Operating profit	13.3	-0.5	1.7	11.5	4.8	-0.6	-3.6	3.7	30.4
EBITDA	24.2	-0.5	2.7	17.1	5.8	-0.6	-3.6	6.2	51.2
Elimination of purchase price allocation effect								-6.2	-6.2
Adjusted EBITDA	24.2	-0.5	2.7	17.1	5.8	-0.6	-3.6	-	45.0
Net finance income/cost	-2.0	0.3	-0.5	-5.0	-0.4	-0.3	-0.0	-	-7.9
Profit (loss) before tax	11.3	-0.1	1.3	6.5	4.4	-1.0	-3.6	3.7	22.4
Income tax expense									-2.2
Net profit (loss) for period									20.2
Elimination of purchase price allocation effect									-4.3
Elimination of unrealised exchange differences effect									0.2
Elimination of discount income effect									-0.1
Elimination of loan valuation effect									0.2
Adjusted net profit									16.3
Adjusted EBITDA yoy	-1.8	-0.1	0.1	21.8	-1.8	2.0	0.2	0.0	20.4

2. The Group's organisational structure

On August 27th 2014, the Company and Capedia Holdings Limited of Nicosia, Cyprus ("Investor") finalised ("Closing") the transaction provided for in their investment agreement of July 18th 2014 ("Agreement").

As part of the Closing:

1) the Investor subscribed for 7,266,122 new shares in the Company at an issue price of PLN 33.03 per share, for a total of PLN 240,000,009.66 paid in cash;

2) Elektron Sp. z o.o. of Warsaw subscribed for 16,863,458 new shares in the Company at an issue price of PLN 33.03 per share, in exchange for a non-cash contribution in the form of 100% of shares in Neutron Sp. z o.o. of Warsaw (a subsidiary of Polenergia Holding S.a.r.l. of Luxembourg, which is controlled by Kulczyk Investments S.A.) with a total value of PLN 557,000,017.74 ("Contribution");

The Contribution made in exchange for Contribution Shares ("Contribution Shares") comprised 100% of shares in Neutron Sp. z o.o., a holding company with the following shareholdings in the following companies:

- 100% of shares in Elektrociepłownia Nowa Sarzyna Sp. z o.o. – operator of the Nowa Sarzyna gas-fired CHP plant with a capacity of 116 MWe and 70 MWt;
- 100% of shares in Polenergia Kogeneracja Sp. z o.o. – a company whose business consists in natural gas distribution and trading; in the past it was engaged in cogeneration activities;
- 100% of shares in Elektrownia Północ Sp. z o.o. – a company responsible for the construction of a base-load coal-fired power plant with a capacity of approximately 1,600 (2*800) MWe;
- 100% of shares in Polenergia Dystrybucja Sp. z o.o. – a company whose business consists in distribution and sale of electricity;
- 100% of shares in Polenergia Obrót S.A. – a company whose business consists in trading in electricity, gas and certificates;
- 100% of shares in Natural Power Association Sp. z o.o., a sole shareholder of: Bałtyk Północny S.A., Bałtyk Środkowy II Sp. z o.o., Bałtyk Środkowy III Sp. z o.o. – companies responsible for the construction of offshore wind farms with a total capacity of up to 1,200 MWe, including 600 MWe by 2022 ("Green Group");
- 100% of shares in PPG Pipeline Projektgesellschaft mbH;
- 100% of shares in PPG Polska Sp. z o.o. – a company responsible for the construction of a pipeline connecting gas systems of Poland and Germany;
- 20% of shares in GEO Kletnia Sp. z o.o. – a company responsible for the construction of a wind farm with a capacity of approximately 40 MW.

3. The Group's development strategy

The Group's development strategy and an overview of the Group's business is presented on the Company's website at <http://www.polenergia.pl/pol/pl/prezentacje>, Investors/Presentations section.

**B. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31ST 2015**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at March 31st 2015

Assets

	Mar 31 2015	Dec 31 2014
I. Non-current assets	2,043,282	1,968,359
1. Property, plant and equipment	1,773,799	1,706,722
2. Intangible assets	54,723	57,383
3. Goodwill related to subordinated entities	184,662	184,662
4. Financial assets	14,540	7,413
5. Equity-accounted financial assets	1,456	1,456
6. Non-current receivables	4,374	4,269
7. Deferred tax asset	9,636	6,353
8. Prepayments and accrued income	92	101
II. Current assets	682,603	763,935
1. Inventories	46,045	41,113
2. Trade receivables	130,550	109,042
3. Income tax receivables	1,431	1,927
4. Other current receivables	68,184	69,251
5. Prepayments and accrued income	10,737	8,563
6. Current financial assets	52,249	117,230
7. Cash and cash equivalents	373,407	416,809
Total assets	2,725,885	2,732,294

Equity and liabilities

	Mar 31 2015	Dec 31 2014
I. Equity	1,355,328	1,333,984
1. Share capital	90,887	90,887
2. Share premium	802,909	802,909
3. Capital reserve from valuation of options	13,207	13,207
4. Other capital reserves	371,621	372,427
5. Retained earnings	49,334	22,188
6. Net profit	26,622	31,345
7. Non-controlling interests	958	948
8. Translation differences	(210)	73
II. Non-current liabilities	885,985	864,884
1. Bank and other borrowings	708,474	695,168
2. Deferred tax liability	61,413	57,150
3. Provisions	2,045	2,045
4. Accruals and deferred income	66,369	67,439
5. Other liabilities	47,684	43,082
III. Current liabilities	484,572	533,426
1. Bank and other borrowings	75,981	91,993
2. Trade payables	150,559	128,487
3. Income tax payable	5,429	1,064
4. Other liabilities	230,347	285,357
5. Provisions	3,828	3,070
6. Accruals and deferred income	18,428	23,455
Total equity and liabilities	2,725,885	2,732,294

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the three months ended March 31st 2015

	Notes	For period ended Mar 31 2015	For period ended Mar 31 2014
Revenue	3.1	650,243	30,456
Revenue from certificates of origin	3.2	27,546	11,744
Revenue		677,789	42,200
Cost of sales	3.3	(625,622)	(29,171)
Gross profit		52,167	13,029
Other income	3.4	1,565	1,360
Distribution costs	3.3	(361)	-
Administrative expenses	3.3	(8,045)	(3,119)
Other expenses	3.5	(1,381)	(903)
Finance income	3.6	4,212	1,017
Finance costs	3.7	(11,745)	(5,892)
Profit before tax		36,412	5,492
Income tax expense		(9,780)	179
Net profit		26,632	5,671
Net profit attributable to:		26,632	5,671
Owners of the parent		26,622	5,707
Non-controlling interests		10	(36)
 – basic earnings for the period attributable to owners of the parent		 0.59	 0.27
– diluted earnings for the period attributable to owners of the parent		0.59	0.27

ADJUSTED EBITDA

	For period ended Mar 31 2015	For period ended Mar 31 2014
Operating profit	43,945	10,367
Depreciation and amortisation	20,751	7,217
EBITDA	64,696	17,584
Cost of securing financing	143	-
Purchase price allocation:		
Valuation of long-term contracts	603	-
Adjusted EBITDA	65,442	17,584

	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
NET PROFIT attributable to owners of the parent	26,622	5,707
Unrealised foreign exchange gains/losses	(1,425)	280
Tax on foreign exchange gains	271	(53)
Finance income from discount on sale of wind farm projects	-	(156)
Tax on discount on sale of wind farm projects	-	30
(Income)/expense from valuation of non-current bank borrowings	589	283
Tax on (income)/expense from valuation of non-current bank borrowings	(112)	(54)
Cost of securing corporate financing	143	-
Tax	(27)	-
Purchase price allocation:		
Depreciation and amortisation	2,532	-
Valuation of long-term contracts	603	-
Tax	(597)	-
Adjusted NET PROFIT attributable to owners of the parent	28,599	6,037

EBITDA is the key measure of the Group's profit. The Group defines EBITDA as operating profit before depreciation and amortisation. Since EBITDA is not defined in the IFRS, it may be calculated differently by other entities.

The adjusted items presented above are profit figures adjusted through the elimination of non-monetary items.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the three months ended March 31st 2015

	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
Net profit for period	26,632	5,671
Other comprehensive income that may be reclassified to profit or loss once specific conditions are met		
- Cash-flow hedges	(5,005)	166
Net other comprehensive income	(5,005)	166
COMPREHENSIVE INCOME FOR PERIOD	21,627	5,837
Total comprehensive income for period:	21,627	5,837
Owners of the parent	21,617	5,873
Non-controlling interests	10	(36)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended March 31st 2015

	Notes	For period ended Mar 31 2015	For period ended Mar 31 2014
A. Cash flows from operating activities			
I.		Profit before tax	36,412
	5,492		
II.		Total adjustments	30,636
	17,953		
1. Depreciation and amortisation	3.3	20,751	7,217
2. Foreign exchange losses		(2,271)	293
3. Interest and profit distributions (dividends)		9,877	5,068
4. Gain (loss) on investing activities		384	(27)
5. Income tax		(4,067)	(35)
6. Change in provisions		540	3
7. Change in inventories	3.8	(4,932)	1,467
8. Change in receivables	3.8	34,342	12,012
9. Change in current liabilities (net of borrowings)	3.8	(20,102)	(3,507)
10. Change in accruals and deferrals	3.8	(3,925)	(4,538)
11. Other adjustments		39	-
III. Net cash from operating activities (I+/-II)		67 048	23,445
B. Cash flows from investing activities			
I. Cash receipts		691	33
1. Disposal of intangible assets and property, plant and equipment		3	33
2. Proceeds from financial assets, including:		688	-
a) repayment of non-current loans advanced		661	-
b) interest		27	-
II. Cash payments		100,198	22,721
3. Acquisition of intangible assets and property, plant and equipment		99,713	22,664
4. Payments for financial assets, including:		485	57
a) acquisition of financial assets		15	57
b) non-current loans advanced		470	-
III. Net cash from investing activities (I-II)		(99,507)	(22,688)

C. Cash flows from financing activities		
I. Cash receipts	33,208	6,924
1. Proceeds from borrowings	33,208	6,924
II. Cash payments	44,470	21,523
1. Repayment of borrowings	34,813	16,631
2. Payment of finance lease liabilities	223	177
3. Interest	8,448	4,715
4. Other payments	986	-
III. Net cash from financing activities (I-II)	(11,262)	(14,599)
D. Total net cash flows (A.III+/-B.III+/-C.III)	(43,721)	(13,842)
E. Net increase/decrease in cash, including:	(43,402)	(13,831)
- effect of exchange rate fluctuations on cash held	319	11
F. Cash at beginning of period	416,809	208,142
G. Cash at end of period, including:	373,407	194,311
- restricted cash	3.8	102,083
		15,998

External financing sources – bank borrowings (statement of cash flows)	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
item C.I.2 Proceeds from borrowings	33,208	6,924
item C.II.2 Repayment of borrowings	(34,813)	(16,631)
Change in external financing sources, including:	(1,605)	(9,707)
net increase in investment facilities	17,495	(5,299)
net increase/decrease in VAT financing facility	(8,146)	(3,408)
net increase/decrease in overdraft facility	(10,954)	(1,000)

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended March 31st 2015**

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserve	Retained earnings	Net profit	Non-controlling interest	Translation differences	Total equity
As at Jan 1 2015	90,887	802,909	13,207	372,427	53,533	-	948	73	1,333,984
Total comprehensive income for period									
- Net profit for reporting period	-	-	-	-	-	26,622	10	-	26,632
- Other comprehensive income for period	-	-	-	(5,005)	-	-	-	-	(5,005)
- Allocation of profit	-	-	-	4,199	(4,199)	-	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	(283)	(283)
as at March 31st 2015	90,887	802,909	13,207	371,621	49,334	26,622	958	(210)	1,355,328

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserve	Retained earnings	Net profit	Non-controlling interest	Translation differences	Total equity
As at Jan 1 2014	42,628	78,521	13,207	370,469	9,398	-	1,038	-	515,261
Total comprehensive income for period									
- Net profit for financial year	-	-	-	-	-	5,707	(36)	-	5,671
- Other comprehensive income for period	-	-	-	166	-	-	-	-	166
As at Mar 31 2014	42,628	78,521	13,207	370,635	9,398	5,707	1,002	-	521,098

1. Policies applied in the preparation of the interim condensed consolidated financial statements

1.1 Duration of the Company and other Group companies

The Company and all of its related entities have been established for an indefinite period.

1.2 Periods covered by the interim condensed consolidated financial statements

These interim condensed consolidated financial statements cover the three months ended March 31st 2015 and contain comparative data for the three months ended March 31st 2014 and as at December 31st 2014. The statement of profit or loss and the notes to the statement of profit or loss cover the three months ended March 31st 2015, as well as comparative data for the three months ended March 31st 2014.

These interim condensed consolidated financial statements have been prepared on the assumption that the Company and the Group will continue as going concerns in the foreseeable future, that is for at least 12 months after the end of the reporting period, i.e. March 31st 2015.

1.3 Authorisation of the financial statements

These interim condensed consolidated financial statements were authorised for issue by the Parent's Management Board on May 12th 2015.

1.4 Policies applied in the preparation of the financial statements

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 and cover the three months from January 1st to March 31st 2015, a comparative period from January 1st to March 31st 2014, as well as the data as at December 31st 2014, presented in the statement of financial position. These interim condensed financial statements for the three months ended March 31st 2015 have not been reviewed by an independent auditor, whereas the comparative data for the financial year ended December 31st 2014 have been audited.

These interim condensed consolidated financial statements have been prepared in compliance with the historical cost convention, except for the following material items in the statement of financial position:

- financial derivatives, which were measured at fair value,
- certificates of origin (green certificates), which were measured at fair value,
- borrowings, measured at adjusted cost.

The International Financial Reporting Standards comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Some of the Group companies maintain their accounting books in accordance with the policies set out in the Polish Accounting Act of September 29th 1994 ("Act") as amended, and the regulations issued thereunder ("Polish GAAP"). These interim condensed consolidated financial statements include a number of adjustments not included in the accounting books of the Group companies, which were made to bring the financial statements of those companies into conformity with Group's accounting policy.

These interim condensed consolidated financial statements do not include all the information and disclosures required in the case of full-year consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31st 2014.

These interim condensed consolidated financial statements have been prepared using the same accounting policies and calculation methods as those applied in the most recent full-year financial statements, for the year ended December 31st 2014.

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the annual periods ended December 31st 2015 and, consequently, they have not been applied in preparing these interim condensed consolidated financial statements. None of the new Standards, amendments to Standards, and Interpretations will have a material effect on the Group's financial statements.

1.5 The Group's organisational structure

In the quarter ended March 31st 2015, there were no changes in the Group's organisational structure.

2. Operating segments

For management purposes, the Group performed an analysis to identify potential operating segments, as a result of which it distinguished: the conventional energy segment comprising generation of electricity and heat, development and implementation segment, wind power segment, biomass segment responsible for the production of pellet from energy crops, distribution segment, and electricity and certificates of origin trading segment. The table below presents key data on the operations of these segments:

For period ended Mar 31 2015	Conventional energy	Development and implementation	Biomass	Wind power	Distribution	Electricity sales and trading	Unallocated management costs*	Total
Revenue from sales to external customers	87,602	305	16,345	44,408	38,373	490,767	(11)	677,789
Gross profit/(loss)	19,955	(274)	1,730	26,656	4,577	3,725	(4,202)	52,167
Administrative expenses	(1,836)	(145)	(224)	(284)	(978)	(2,330)	(2,248)	(8,045)
Interest income/(expense)	(2,053)	97	(192)	(6,460)	(504)	118	1,565	(7,429)
Finance income/(costs) from unrealised exchange gains/losses	(236)	50	12	1,646	-	(47)	-	1,425
Other finance income/(costs)	(109)	(79)	(133)	(848)	(15)	(516)	171	(1,529)
Other income/(expenses)	(367)	(166)	229	1,258	(587)	(10)	(534)	(177)
Profit (loss) before tax	15,354	(517)	1,422	21,968	2,493	940	(5,248)	36,412
Income tax expense	-	-	-	-	-	-	(9,780)	(9,780)
Net profit/(loss)								26,632
EBITDA (Operating profit/(loss) + depreciation and amortisation)**	22,353	(585)	2,722	38,944	4,001	1,391	(4,130)	64,696
Segment assets	378,924	524,569	79,438	913,917	120,715	209,128	-	2,226,691
Unallocated assets	-	-	-	-	-	-	499,194	499,194
Total assets	378,924	524,569	79,438	913,917	120,715	209,128	499,194	2,725,885

* Including purchase price allocation

** Operating profit (loss), i.e. Gross profit (loss) - Administrative expenses + Other income - Other expenses

For period ended Mar 31 2014	Conventional energy	Development and implementation	Biomass	Wind power	Unallocated	Total
Revenue from sales to external customers	3,395	14	18,799	19,992	-	42,200
Gross profit/(loss)	806	(115)	1,961	10,377	-	13,029
Administrative expenses	-	-	-	-	(3,119)	(3,119)
Interest income/(expense)	287	159	(345)	(4,041)	-	(3,940)
Finance income/(costs) from sales of wind farms	-	156	-	-	-	156
Finance income/(costs) from unrealised exchange gains/losses	-	(1)	-	(279)	-	(280)
Other finance income/(costs)	-	-	(151)	(652)	(8)	(811)
Other income/(expenses)	-	-	(213)	1,140	(470)	457
Profit (loss) before tax	-	-	-	-	-	5,492
Income tax expense					179	179
Net profit/(loss)						5,671
EBITDA (Operating profit/(loss) + depreciation and amortisation)*	1,469	(115)	2,671	17,148	(3,589)	17,584
Segment assets	65,417	308,977	82,197	454,863	-	911,454
Unallocated assets	-	-	-	-	34,030	34,030
Total assets	65,417	308,977	82,197	454,863	34,030	945,484

* Operating profit (loss), i.e. Gross profit (loss) - Administrative expenses + Other income - Other expenses

3. Other notes

3.1 Revenue

	For period ended Mar 31 2015	For period ended Mar 31 2014
- revenue from sales of electricity	565,115	9,581
- revenue from sales of heat	10,883	2,029
- revenue from consulting and advisory services	611	-
- income from re invoicing and reimbursement of expenses	2	5
- lease income and revenue from operator services	42	-
- revenue from sales of merchandise	3	2,287
- revenue from sales of straw	1,537	-
- revenue from sales of pellet	14,799	16,497
- rental income	34	4
- income from stranded costs and costs of gas	39,978	-
- net revenue from sale of gas	16,714	-
- other revenue	525	53
Sales revenue, total	650,243	30,456

3.2 Revenue from certificates of origin

	For period ended Mar 31 2015	For period ended Mar 31 2014
- revenue from certificates of origin	23,724	11,744
- revenue from reduced CO2 emissions	3,822	-
Total revenue from certificates of origin	27,546	11,744

3.3 Expenses, by nature of expense

	For period ended Mar 31 2015	For period ended Mar 31 2014
- depreciation and amortisation expense	20,751	7,217
- raw materials and consumables used	68,207	11,742
- services	10,654	5,768
- taxes and charges	3,929	1,076
- salaries and wages	9,549	3,214
- social security and other benefits	1,554	403
- other expenses, by nature of expense	890	52
Total expenses by nature	115,534	29,472
- cost of merchandise and materials sold (positive amount)	518,494	2,818
- distribution costs (negative amount)	(361)	-
- administrative expenses (negative amount)	(8,045)	(3,119)
Cost of products sold	625,622	29,171

3.4 Other income

	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
- other, including:	1,565	1,360
- compensations and additional charges	400	100
- settlement of grants	1,112	1,070
- gain on disposal of non-financial non-current assets	-	178
- other	53	12
Total other income	1,565	1,360

3.5 Other expenses

	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
- impairment losses and write-downs, including:	81	1
- impairment losses on receivables	81	-
- inventory write-downs	-	1
- other, including:	1,300	902
- penalties, fines, compensation	522	214
- other development costs	180	570
- loss on disposal of non-financial non-current assets	39	-
- other	559	118
Total other expenses:	1,381	903

3.6 Finance income

	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
- income from interest on deposits and loans	2,242	798
- interest on finance leases	42	-
- foreign exchange losses, including:	1,760	-
- unrealised	1,705	-
- realised	55	-
- valuation of financial liabilities*)	-	63
- income from discount	-	156
- other	168	-
Total finance income	4,212	1,017

*) applicable to bank borrowings measured with amortised cost method

3.7 Finance costs

	For period ended Mar 31 2015	For period ended Mar 31 2014
- interest expense	9,713	4,738
- foreign exchange gains and losses, including:	435	346
- unrealised	280	280
- realised	155	66
- fees and commissions	778	451
- valuation of financial liabilities *)	589	346
- other	230	11
Total finance costs	11,745	5,892

*) applicable to bank borrowings measured with amortised cost method

3.8 Cash flows

Restricted cash	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
- cash for credit facility repayments	16,076	15,989
- cash for the settlement of compensation for stranded costs	81,091	-
- cash for long- and medium-term overhauls	4,798	-
- other restricted cash	118	9
Total	102,083	15,998

Explanation of differences between changes in certain items in the statement of financial position and changes in the statement of cash flows

Inventories:	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
- change in inventories in the statement of financial position	(4,932)	1,344
- recognition of wind farm development under non-current assets	-	123
Change in inventories in the statement of cash flows	(4,932)	1,467

Receivables:	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
- change in current and non-current receivables, net in the statement of financial position	(20,546)	12,679
- change in investment receivables	-	(667)
- change in financial receivables	54,888	-
Change in receivables in the statement of cash flows	34,342	12,012

Liabilities:	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
- change in liabilities, net of borrowings, in the statement of financial position	(28,336)	(448)
- change in finance lease payables	219	(325)
- change in investment liabilities	12,464	(2,900)
- change in financial liabilities	(4,449)	166
Change in liabilities in the statement of cash flows	(20,102)	(3,507)

Accruals and deferrals:	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
- change in accruals and deferrals in the statement of financial position	(8,262)	(4,538)
- commissions on credit facilities	578	-
- property, plant and equipment under construction, not invoiced	3,759	-
Change in accruals and deferrals in the statement of cash flows	(3,925)	(4,538)

4. Notes explaining seasonal or cyclic nature of the issuer's operations in the reporting period

The Polenergia Group operates in the following market segments:

- Conventional power generation
- Development of building projects and project implementation
- Biomass
- Wind power generation
- Distribution
- Energy trading and sale

Of these, conventional and wind power generation are seasonal by nature.

Polenergia Group's key customers use the heat and electricity supplied by the Group mostly for production purposes at their industrial facilities, and this business is not subject to seasonal fluctuations. However, a small proportion of heat delivered by the Group is used for heating purposes, both by industrial and municipal customers. Those delivery patterns are seasonal, with higher consumption of heat in the first and the fourth quarters of the financial year. However, this seasonality does not have a material effect on the Group's financial performance.

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

5. Interest-bearing borrowings

On January 30th 2015, Grupa PEP - Biomasa Energetyczna Wschód Sp. z o.o. ("GPBEWSCH") signed Annex No. 9 to the working capital facility agreement concluded with Bank Polska Kasa Opieki S.A. (PEKAO), under which the final repayment date of the facility was postponed until March 31st 2016.

On March 6th 2015, Grupa PEP – Farma Wiatrowa 1 Sp. z o.o. ("FW1"), Grupa PEP – Farma Wiatrowa 4 Sp. z o.o. ("FW4"), and Grupa PEP – Farma Wiatrowa 6 Sp. z o.o. ("FW6") signed an annex to the credit facility agreement concluded with Bank Ochrony Środowiska SA on October 4th 2013, relating to the extension of the Gawłowice (FW1) and Skurpie (FW 4) projects by three additional wind turbines for each project.

6. Changes in accounting estimates

a) Effective tax rate

	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
Tax expense recognised in profit or loss, including:	9,780	(179)
Current income tax	8,903	(10)
Deferred income tax	877	(169)
Profit before tax	36,412	5,492
Tax at the effective rate of 19% (2014: 19%)	6,918	1,043
Adjustments to current income tax from previous years	(41)	-
Non-tax-deductible costs:	2,821	(133)
- permanent differences	153	(220)
- tax asset on account of tax losses in Special Economic Zone	(134)	(363)
- tax asset on account of other tax losses	2,802	450
Non-taxable income:	-	1,089
- deferred tax liability on income of limited joint-stock partnerships	-	1,089
Tax recognised in profit or loss	9,780	(179)

b) Change in provisions

Change in current and non-current provisions

	Mar 31 2015	Dec 31 2014
At beginning of period	5,115	2,135
- provisions recognised	738	3,344
- provisions reversed	20	(183)
- utilised	-	(181)
At end of period	5,873	5,115

c) Trade and other receivables

In the period ended March 31st 2015, impairment losses on unrecoverable trade receivables went up to PLN 8,934,000.

	Mar 31 2015	Dec 31 2014
At beginning of period	8,853	925
- Increase	81	8,282
- Use	-	(354)
At end of period	8,934	8,853

Presented below is a breakdown of trade receivables past due as at March 31st 2015, for which no impairment losses have been recognised.

	Total	Not past due	Past due but recoverable				
			< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	>120 days
Mar 31 2015	130,550	127,083	2,812	85	72	146	352
Dec 31 2014	109,042	101,112	6,904	266	116	197	447

Receivables past due more than 120 days relate mainly to the distribution business, which is characterised by a large number of clients and in the case of which impairment losses are recognised as follows:

- Receivables past due from 181 to 270 days – 25%
- Receivables past due from 271 to 365 days – 50%
- Receivables past due more than 365 days – 100%

Receivables which have been cancelled, have become time-barred or unrecoverable, for which no impairment losses have been recognised (or where recognised impairment losses do not cover the full amount receivable), are posted to other expenses or finance costs, as appropriate.

d) Valuation of contracts on purchase and sale of electricity and green certificates

Forward contracts as derivative instruments are measured at fair value, with changes in fair value recognised in profit or loss. Valuation was performed with respect to the outstanding part of the contracts, with a break-down into current and non-current portion.

7. Issue, redemption and repayment of debt and equity securities

The Group does not issue any debt securities. As at the date of this report, the Parent did not issue any debt securities in the first quarter ended March 31st 2015.

8. Dividend paid or declared – aggregate and per share amounts, separately for ordinary and preference shares

No dividend was paid in the period of three months ended March 31st 2015.

9. Changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year

In Q1 2015, there were no changes in contingent liabilities. The table below presents guarantees received in the period.

Responsible entity/issuer of surety or guarantee	Basis	Value	Period
Siemens sp. z o.o. / Siemens Aktiengesellschaft	Turbine supply contract – FW Skurpie	Current contract value – extension of the project by three wind turbines	Nov 20 2020
VESTAS Poland Sp. z o.o. / VESTAS Northern Europe A/S	Turbine supply contract – FW Mycielin	Current contract value	Apr 30 2018
SGS Polska sp. z o.o. / Societe Generale Corporate & Investment Banking	Contract related to the role of Contract Engineer – extension of the FW Skurpie project	PLN 28,000.00	until Feb 8 2016
		PLN 8,400.00	until Feb 9 2018
Consortium of ERBUD SA and PBDI SA/ Sopockie Towarzystwo Ubezpieczeniowe Ergo Hestia	Construction work contract – extension of the FW Skurpie project	PLN 341,064.84	Feb 3 2016
Electrum sp. z o.o. /PKO Bank Polski SA	Electrical work contract – extension of the FW Skurpie project	PLN 123,713.40 PLN 61,856.70	until Jan 14 2016 until Jan 15 2019
Consortium of ERBUD SA and PBDI SA / Sopockie Towarzystwo Ubezpieczeniowe Ergo Hestia	Contract related to construction works – construction of FW Mycielin	PLN 7,254,899.00	May 2 2016
Siemens sp. z o.o. / Siemens Aktiengesellschaft	Turbine supply contract – FW Gawłowie	Current contract value – extension of the project by three wind turbines	Feb 20 2020
URS Polska Sp. z o.o. / AIG Europe Ltd	Contract for contract engineer services – construction of FW Mycielin	PLN 145,000.00	until March 3 2016
		PLN 43,500.00	until March 12 2018
Electrum sp. z o.o. /PKO Bank Polski SA	Electrical work contract – extension of the FW Gawłowie project	PLN 61,487.7 PLN 30,743.85	until Apr 16 2019 until Apr 16 2019
Consortium of ERBUD SA and PBDI SA / Sopockie Towarzystwo Ubezpieczeniowe Ergo Hestia	Construction work contract – extension of the FW Gawłowie project	PLN 450,435.74	Mar 7th 2016

SGS Polska sp. z o.o./ Societe Generale Corporate & Investment Banking	Contract for contract engineer services - construction of FW Gawlowice	PLN 28,000.00	until Mar 24 2016
		PLN 8,400.00	until Mar 26 2018

10. Proceedings pending before common courts of law, arbitration courts or public administration authorities, including the following information:

Information on proceedings relating to liabilities or receivables of the issuer or its subsidiary with a value representing 10% or more 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 representing 10% or more of the issuer's equity.

Information on two or more proceedings relating to liabilities or receivables with a total value of 10% or more of the issuer's equity, specifying the total value of all proceedings involving receivables and all proceedings involving liabilities, together with the issuer's position and – for the proceeding relating to liabilities and receivables of the highest value – their subject matter, value, date of commencement, and parties to the proceedings

There were no proceedings relating to liabilities or receivables with a total value representing 10% or more of the issuer's equity.

Other proceedings

The Company's subsidiary, Grupa PEP – Biomasa Energetyczna Północ Sp. z o.o. is seeking a total of PLN 160,000 from its trading partners, as a refund of advance payments. The proceedings are pending. Moreover, the subsidiary is seeking payment of receivables of approximately PLN 420,000.

The Company's subsidiary Grupa PEP – Biomasa Energetyczna Wschód Sp. z o.o. is party to a number of minor litigations with a total value of below PLN 100,000.

Due to the nature of the Company's business (supply of electricity to end customers), the Company's subsidiary Polenergia Dystrybucja Sp. z o.o. is enforcing claims against a number of customers in relation to sale and distribution of electricity, for a total amount of ca. PLN 850,000.

The Company's subsidiary Polenergia Obrót S.A. has secured an enforceable title against one customer for the total amount of PLN 5,000, with respect to which enforcement proceedings are pending.

Moreover, the Company's subsidiary Elektrownia Północ Sp. z o.o. is in dispute concerning obliging the other party to a preliminary property sale agreement to execute the final sale agreement. Elektrownia Północ Sp. z o.o. has initiated proceedings against the same person, for payment of penalty for breach of contract. The amount in dispute is PLN 100,000.

11. Significant related-party transactions

As at March 31st 2015 and December 31st 2014, the Group did not have any associates involved in material related-party transactions.

In the three months ended March 31st 2015, the following material related-party transactions took place:

	Revenue	Expenses	Receivables	Liabilities
Ciech Sarzyna S.A.	7,955	711	2,596	299
Krucza Inwestycje KREH 1 Sp. z o.o. S.K.	-	430	-	-
Polenergia Holding Sarl	125	-	183	-

12. Loan sureties or guarantees issued by the issuer or its subsidiary where the aggregate value of such outstanding sureties and guarantees issued to a single entity or its subsidiary represents 10% or more of the issuer's equity

As at March 31st 2015, the Group did not issue any external guarantees.

13. Other information the issuer considered material to the assessment of its human resources, assets, financial standing and financial performance, and changes in any of the foregoing, as well as information material to the assessment of the issuer's ability to fulfil its obligations

In the issuer's opinion, there is no information material to the assessment of its ability to fulfil its obligations other than the information presented in this report.

14. Factors which in the issuer's opinion will affect its performance over at least the next quarter

In the Company's opinion, the following factors will have a material effect on its performance (consolidated and separate) in the coming quarters:

- macroeconomic situation in Poland
- final wording of the RES Bill and the related secondary legislation
- prices of electricity and green and yellow certificates
- wind conditions in the areas where the Puck, Łukaszów, Modlikowice, Rajgród, and Gawłowice wind farms are located
- changes in the price of natural gas and biomass and their availability
- financial standing of the Company's customers
- ability to obtain financing for the planned projects
- EUR exchange rates.

15. Objectives and policies of financial risk management

Apart from derivatives, the key financial instruments used by the Group include credit facilities, cash, and short-term deposits. The primary purpose of holding those financial instruments is to secure financial resources to finance the Group's operations. The Group also holds other financial instruments, such as trade payables and receivables arising in connection with its activities.

The Group also enters into transactions on derivatives, such as forwards, aimed to manage the foreign exchange risk, and swaps, aimed to manage the interest rate risk.

In accordance with a policy followed by the Group currently and throughout the reporting period, the Group does not trade in financial instruments.

The key risks connected with the Group's financial instruments are: interest rate risk, liquidity risk, currency risk, and credit risk. The Management Board verifies and establishes rules for managing each of these types of risk; the rules are briefly discussed below. The Group also monitors the risk of market prices with respect to the financial instruments it holds.

15.1 Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its non-current financial liabilities.

The table below presents sensitivity of the Group's annual profit before tax (in connection with floating-rate liabilities) to reasonably possible movements in interest rates, assuming that other factors remain unchanged.

period ended Mar 31 2015	Increase/decrease (percentage points)	Effect on pre-tax profit/loss over three consecutive months (PLN '000)
WIBOR 1M	1%	(1,528)
EURIBOR 1M	1%	(97)
WIBOR 1M	-1%	1,528
EURIBOR 1M	-1%	97

period ended Mar 31 2014		
1M WIBOR	1%	(699)
1M EURIBOR	1%	(121)
1M WIBOR	-1%	699
1M EURIBOR	-1%	121

15.2 Currency risk

The Group's currency risk involves primarily the risk of changes in the euro exchange rate with respect to its open passive currency position under currency deposit transactions, investment liabilities, and investment credit facilities. As at March 31st 2015, the position was valued at EUR 9.5m.

The position is not hedged against exchange rate changes, as it is related to the balance-sheet valuation of assets and liabilities denominated in foreign currencies.

The table below presents the sensitivity of the Group's profit/loss before tax (due to changes in the fair value of monetary assets and liabilities) to reasonably possible movements in the euro exchange rate, with all other factors unchanged.

	Exchange rate increase/decrease	Effect on profit/loss
Mar 31 2015 – EUR	+ 0.01 PLN/EUR	(95)
	- 0.01 PLN/EUR	95
Mar 31 2014 – EUR	+ 0.01 PLN/EUR	(112)
	- 0.01 PLN/EUR	112

In the period ended March 31st 2015, the Group realised finance income of PLN 1,425,000 from unrealised exchange differences.

In March 31st 2015 – June 30th 2015, movements in the PLN/EUR exchange rate may affect the amount of unrealised exchange differences. The result on unrealised exchange differences as at June 30th 2015 will depend primarily on the relation of the exchange rate as at June 30th 2015 to the exchange rate as at March 31st 2015, with appreciation/depreciation of the zloty against the euro having, respectively, a positive/negative impact on the net profit, in the amount of ca. PLN 95 thousand per each PLN 0.01 of the difference in relation to the exchange rate as at March 31st 2015 (PLN/EUR 4.0890).

15.3 Liquidity risk

The table below presents the Group's financial liabilities by maturity as at March 31st 2015 and December 31st 2014, based on undiscounted contractual payments.

Mar 31 2015	up to 3 months	from 3 to 12 months	from 1 year to 5 years	over 5 years	Total
Interest-bearing borrowings	43,359	77,060	419,142	497,926	1,037,487
Other liabilities	229,712	708	47,611	-	278,031
Trade payables	150,555	-	4	-	150,559

16. Capital management

The primary objective behind the Group's capital management is to maintain good credit rating and safe capital ratios, in order to support the Group's operations and build shareholder value.

The Group manages its capital structure and modifies it in response to changes in the economic environment. To maintain or adjust its capital structure, the Company may make changes regarding dividend distributions, return capital to the shareholders, or issue new shares. In the period ended March 31st 2015 and in the year ended December 31st 2014, there were no changes in the capital structure management objectives, policies and processes.

The Group monitors its capital position using the leverage ratio, calculated as the ratio of net debt to the sum of total equity and net debt. The Group's net debt includes interest-bearing borrowings, cash, and cash equivalents.

	Mar 31 2015	Dec 31 2014
Interest-bearing borrowings	784,455	787,161
Less cash and cash equivalents	(373,407)	(416,809)
Net debt	411,048	370,352
Equity	1,355,328	1,333,984
Total equity	1,355,328	1,333,984
Equity and net debt	1,766,376	1,704,336
Leverage ratio	23%	22%

17. Events subsequent to the date as at which these interim condensed financial statements were prepared, which have not been presented in the statements but may have a material bearing on future financial performance

As at the date of preparation of these interim condensed consolidated financial statements, i.e. May 12th 2015, no events had occurred which should have been but were not disclosed in the accounting records for the reporting period.

C. OTHER INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT

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

Key economic and financial data concerning the issuer's performance:

Key economic and financial data [PLNm]	Period from Jan 1 to Mar 31 2015	Period from Jan 1 to Mar 31 2014	Change
Revenue	677.8	42.2	635.6
EBITDA incl. purchase price allocation effect	64.7	17.6	47.1
Adjusted EBITDA excl. purchase price allocation effect and costs of securing financing	65.4	17.6	47.9
Net profit	26.6	5.7	20.9
Net profit after elimination of purchase price allocation effect	29.2	5.7	23.5
Net profit after elimination of purchase price allocation effect, costs of securing financing, unrealised exchange differences, loan valuation and discount valuation	28.6	6.0	22.6

In comparison with the corresponding period of 2014, Q1 2015 performance was driven by the following factors:

a) EBITDA (up by PLN 47.1m):

- The markedly better performance in the renewable energy segment (up 21.8), driven chiefly by the Gawłowice and Rajgród wind farms placed in service in H2 2014;
- The PLN 20.9m higher EBITDA in the conventional energy segment, following the recognition of the results of Nowa Sarzyna CHP plant, contributed to the Group in H2 2014;
- Higher costs of the development segment, up by PLN 0.5m, related to the recognition in Q1 2015 of the costs of offshore wind farm construction projects and the Bernau-Szczecin gas pipeline (both contributed to the Group in H2 2014), as well as higher expenditure on the development of onshore wind farms;
- PLN 0.5m increase in unallocated Group management costs, attributable to the recognition of the negative purchase price allocation effect of PLN -0.6m;
- The performance of the trade and distribution segments contributed in H2 2014 (PE-Dystrybucja, PE-Kogeneracja, PE-Obrót), which added PLN 5.4m to the 2015 EBITDA.

b) Net profit after elimination of the purchase price allocation effect, unrealised exchange differences, loan valuation and discount valuation (up by PLN 22.6m):

- Impact of EBITDA excluding the purchase price allocation effect and the costs of securing financing (up by PLN 47.9m);
- Higher depreciation and amortisation excluding depreciation and amortisation on purchase price allocation (up PLN 11.0m) was driven by the launch of new wind farm projects and recognition of contributed assets;
- Higher interest income (up PLN 1.5m) followed from higher cash and cash equivalents;
- Higher interest and commission expense (up PLN 5.3m) following the recognition of cost of debt servicing, contributed assets and launch of new wind farm projects;
- Lower income from discount (down PLN 0.2m);
- Higher income tax (up PLN 10.4m);
- Other factors (positive effect of PLN 0.1m).

c) Net profit (up by PLN 20.9m):

- Impact of net profit after elimination of the purchase price allocation effect, unrealised exchange differences, loan valuation and discount valuation (up by PLN 22.6m);
- Positive effect of unrealised exchange differences (of PLN 1.7m);
- Negative effect of loan valuation (of PLN 0.3m) – chiefly on the back of valuation of loans taken out to finance the Gawłowice and Rajgród projects (recognised as of H2 2014);
- Costs of purchase price allocation (negative effect of PLN 3.1m);
- Positive effect of income tax on events listed above (PLN 0.4m);
- Cost of securing financing and other costs (minus PLN 0.4m).

2. Brief description of significant achievements or failures in the reporting period, including identification of key events.**CONVENTIONAL ENERGY**Nowa Sarzyna CHP Plant

In Q1 2015, the plant operated in line with the schedule.

Mercury power plant

Mercury power plant's operating result for the current period was higher than the previous year's due to higher electricity sales volumes resulting from increased supply of the coking gas supplied by WZK Victoria.

Zakrzów CHP plant

Zakrzów CHP plant's operating result (and consequently its EBITDA) for the reporting period was relatively flat year on year.

WIND POWERPuck wind farm

The Puck wind farm generated slightly less electricity in the first three months of 2015 than in the corresponding period of 2014 due to more favourable wind conditions, which translated into a higher operating result.

Łukaszów and Modlikowice wind farms

During the first quarter of 2015, electricity output at the two wind farms was higher than that recorded in Q1 2014.

Gawłowice and Rajgród wind farms

Gawłowice and Rajgród wind farms launched operations in H2 2014, and therefore their Q1 2015 result is the main factor behind the higher EBITDA recorded by the Polenergia Group.

DISTRIBUTION

In Q1 2015, Polenergia Dystrybucja and Polenergia Kogeneracja operated in line with the plan. The companies were contributed to the Group in H2 2014.

SALES AND TRADING

The segment's operations went on without any disruptions. Polenergia Obrót was contributed to the Group in H2 2014.

BIOMASS

The segment's aggregated performance improved year on year, with EBITDA up by PLN 0.2m. Below is presented detailed information on individual companies.

Biomasa Energetyczna Północ

The performance recorded by the Sępólno Krajeńskie plant was relatively stable year on year, with the sales volumes of company-produced pellet flat on Q1 2014. The plant's operating margin improved on the back of lower raw material prices (straw) and reduced cost of technical support.

Biomasa Energetyczna Południe

The performance recorded by the Zabkowice Śląskie plant was relatively stable year on year, with the sales volumes of company-produced pellet flat on Q1 2014. Despite lower average sales prices, the operating margin of the plant was similar to previous year's figure, chiefly because of lower raw material prices.

Biomasa Energetyczna Wschód

The Zamość plant improved its performance slightly year on year, as the sales volumes of company-produced pellet increased relative to Q1 2014. The plant's operating margin improved mainly on the back of lower raw material prices, higher sales volumes and reduced cost of technical support.

DEVELOPMENT AND IMPLEMENTATION

Onshore wind farms

In Q1 2015, as well as in previous periods, the Company continued the efforts to expand its portfolio of wind farms.

All projects currently at the development stage, scheduled for completion between 2014 and 2021, have a combined capacity of approximately 1,000 MW. The following documents have been obtained for the projects: local land development plans, environmental decisions, grid connection conditions, and building permits for projects with an aggregate capacity of 135.8 MW; local land developments plans, environmental decisions and grid connection conditions for projects with a total capacity of 342.32 MW; local land development plan and grid connection conditions for a 51 MW project; local land development plan for a 69 MW project; grid connection conditions and an environmental decision for a 9 MW project; and grid connection conditions for an 18 MW project.

On January 7th 2015, an annex was executed to the supply and installation contract with Siemens Sp. z o.o., providing for the supply and installation of three additional 2.3 MW wind turbines at the Skurpie Wind Farm. As a result, the installed capacity of the Skurpie Wind Farm is to reach 43.7 MW by the end of 2015.

On February 9th 2015, a contract for the delivery and installation of wind turbines and a contract on technical support and availability of wind turbines for the Mycielin wind farm (48 MW) were executed with Vestas-Poland Sp. z o.o.

On February 11th 2015, a contract for the construction of the Mycielin wind farm was executed with a consortium of Erbud S.A. and Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego S.A.

On March 6th 2015, an annex to the financial documentation of October 4th 2013 was executed with EBRD and BOŚ. Under the annex, the value of the financing granted by EBRD and BOŚ increased by PLN 32.2m and PLN 26.3m, respectively. The additional funds will be used to finance the expansion of the Gawłowice and Skurpie projects (2 x 6.9 MW).

On April 2nd 2015, the Company (the sponsor), and its subsidiary Polenergia – Farma Mycielin Spółka z ograniczoną odpowiedzialnością, its subsidiary (the borrower), executed a Credit Facility Agreement with the European Bank for Reconstruction and Development, Bank of China (Luxembourg)

S.A., Branch in Poland, Alior Bank S.A. and Bank Ochrony Środowiska S.A. (the Lenders) and Bank Zachodni WBK S.A. (the agent). The agreement provides for an investment credit facility of PLN 257.8m, to be used to finance the construction of the Mycielín wind farm.

Development of off-shore wind farms

The Group plans to construct two off-shore wind farms on the Baltic Sea (Bałtyk Środkowy II and Bałtyk Środkowy III) with an aggregate capacity of up to 1,200 MWe, including 600 MWe by 2022 and 600 MWe by 2026.

The off-shore wind farm project is of a long-term nature: the first wind farm is planned to be placed in service in 2022. The Group assumes that the project will be implemented in cooperation with a partner that will acquire a 50% interest in the project after all necessary approvals and permits are obtained (i.e. when the project is ready for construction). The Group does not exclude the option of selling the 100% interest in the project to increase dividend distributions to the shareholders.

Construction of the Bernau-Szczecin gas pipeline

The Group is considering construction of the Bernau-Szczecin gas pipeline, which would connect the Polish and German transmission systems. With a planned annual throughput capacity of 3-5 billion cubic metres, it would help diversify gas supplies to Poland, enabling gas imports from Germany, as well as exports of gas imported to Poland through the LNG terminal which is now under construction in Świnoujście.

The pipeline would be placed in service in 2020.

Development of the Elektrownia Północ power plant project

The Group is developing a hard-coal fired power plant in northern Poland. Ultimately, the Elektrownia Północ power plant project will comprise two 800MWe power generating units.

The Group's plans provide for the sale of the coal-fired power plant in 2018. However, if appropriate signals come from the market, the Group could continue the project, subject to the shareholders' prior consent.

3. Management Board's position on the feasibility of meeting any previously published forecasts for a given year in light of the results presented in the quarterly report

The Management Board upholds its 2015 performance forecast published in the current report of March 11th 2015 and announces that in the three months ended March 31st 2015 the forecast was performed as follows:

Item [PLNm]	2015 Forecast (full year)	Q1 2015 actual performance	Actual performance after Q1 (%)
Adjusted EBITDA	204.0	65.4	32%
Adjusted net profit	72.4	28.6	40%

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

For more information on factors with a material bearing on financial performance, see Section A.1 and C.1-2 of this Report.

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

No	Shareholder	Shares	Voting rights	% share
1	Kulczyk Investment S.A.*	29,811,757	29,811,757	65.60%
2	China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF**	7,266,122	7,266,122	15.99%
3	Generali OFE	2,943,731	2,943,731	6.48%
4	Aviva OFE	3,060,872	3,060,872	6.74%
5	Other	2,361,065	2,361,065	5.20%
Total		45,443,547	45,443,547	100.00%

* Through Mansa Investments Sp. z o.o., a subsidiary.

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

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

In Q1 2015, ended March 31st 2015, there were no changes resulting from business combinations, acquisitions or disposals of Group entities, long-term investments, demergers, restructuring or discontinuation of operations.

7. General information on the Group

The Polenergia Group, formerly Polish Energy Partners S.A. (the company registered the change of its name with the National Court Register on September 11th 2014) (the "Group") comprises Polenergia S.A. (the "Company", the "Parent") and its subsidiaries. The Company was established under a notary deed of

July 17th 1997. It is entered in the National Court Register maintained by the District Court for the Capital City of Warsaw, 20th Commercial Division of the National Court Register, under KRS No. 0000026545. The Company's Industry Identification Number (REGON) is 012693488. The Company's registered office is at ul. Krucza 24/26 in Warsaw.

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

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

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

8. Composition of the Parent's Management and Supervisory Boards

As at March 31st 2015, the composition of the Parent's Management Board was as follows:

Zbigniew Prokopowicz	President of the Management Board
Jacek Głowacki	Vice-President of the Management Board
Anna Kwarcińska	Vice-President of the Management Board
Michał Kozłowski	Vice-President of the Management Board

As at March 31st 2015, the composition of the Parent's Supervisory Board was as follows:

Tomasz Mikołajczak	Chairman of the Supervisory Board
Łukasz Rędziniak	Deputy Chairman of the Supervisory Board
Marek Gabryjelski	Member of the Supervisory Board
Mariusz Nowak	Member of the Supervisory Board
Arkadiusz Jastrzębski	Member of the Supervisory Board
Rafał Andrzejewski	Member of the Supervisory Board

9. Legal environment

9.1 Introduction

The operations of the Group companies are subject to numerous Polish and EU regulations. The Polish regulations include, in particular, the following legal acts:

- the Energy Law with the secondary legislation;
- the LTC Act;
- the Geological and Mining Law;
- the Act on Marine Areas of the Republic of Poland and Maritime Administration;
- the Act on Trading in Greenhouse Gas Emission Allowances, dated April 28th 2011;
- the Act on the System of Managing Emissions of Greenhouse Gases and Other Substances, dated July 17th 2009;.
- the Environmental Protection Law;
- the Environmental Impact Assessment Act;
- the Act on Prevention of Environmental Damage;
- the Nature Conservation Act.

The EU regulations include:

- Directive 2009/72/EC of the European Parliament and of the Council of July 13th 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC;
- Directive 2009/28/EC of the European Parliament and of the Council of April 23rd 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC;
- Directive 2010/75/EU of the European Parliament and of the Council of November 24th 2010 on industrial emissions (integrated pollution prevention and control);
- Directive 2004/35/EC of the European Parliament and of the Council of April 21st 2004 on environmental liability with regard to the prevention and remedying of environmental damage;
- Directive 2011/92/EU of the European Parliament and of the Council of December 13th 2011 on the assessment of the effects of certain public and private projects on the environment;
- Directive 2009/29/EC of the European Parliament and of the Council of April 23rd 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community;
- Directive 2003/87/EC of the European Parliament and of the Council of October 13th 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

The key laws and regulations affecting the Group's operations are presented and briefly discussed in this section.

9.2 Key regulations applicable to the mining sector

The main legislative act governing the activities of the energy sector in Poland is the Energy Law, along with its secondary legislation. The Energy Law lays down the rules governing development of the state's energy policy, rules and conditions for supply and use of fuels and energy, including heat, and operation

of energy companies, and specifies the authorities competent for fuel and energy management. The purpose of the Energy Law is to create conditions for the sustainable development of the country, its energy security, efficient and rational use of fuels and energy, development of competition, prevention of negative consequences of natural monopolies, respect for environmental protection requirements and obligations arising from international agreements, as well as to balance the interests of energy companies with those of fuel and energy consumers.

The Energy Law also determines the rules for development of the state's energy policy, which is drafted and approved by the Council of Ministers every four years. On November 10th 2009, the Council of Ministers approved Poland's Energy Policy until 2030, which sets out the key directions of the energy policy and measures for its implementation.

The power sector is also subject to European Law, and particularly Directive 2009/72/EC of the European Parliament and of the Council of July 13th 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC (OJ L 211/55 of August 14th 2009), as well as regulations adopted as part of the third energy package.

9.2.1 Regulator of the Polish energy sector

The regulator whose remit includes the management of fuels and energy as well as the promotion of competition in the energy sector is the President of URE, a central government authority. This official is appointed by the Prime Minister from among candidates selected in an open and competitive recruitment procedure, on the recommendation of the minister competent for the economy. The President of URE is also removed by the Prime Minister.

In particular, the responsibilities of the President of URE include:

- Granting and revoking of licenses,
- Approval of gas, electricity and heat tariffs and oversight of their application,
- Supervision of compliance with the requirement to redeem certificates of origin or pay the emission charge (i.e. supervision of the mechanism of support for renewable energy sources),
- Approval of the Grid Code,
- Resolution of certain disputes between energy companies and between energy companies and consumers (for instance disputes concerning refusal to connect a consumer to the grid),
- Imposition of fines on energy companies in accordance with the rules set out in the Energy Law,
- Issuance and redemption of certificates of origin and co-generation certificates of origin.

If an energy company is in breach of its obligations under the Energy Law, the President of URE may impose a fine, which may not exceed 15% of the previous fiscal year's revenue of that company, and if the fine is charged in connection with licensed activities, it may not exceed 15% of the company's revenue derived from its licensed activities in the previous fiscal year. The President of URE may also impose a fine on the head of an energy company, which, however, may not exceed 300% of their monthly remuneration. In determining the amount of a fine, the President of URE takes into account the extent of the adverse effects of the breach, the entity's culpability, its previous practice and financial standing. The President of URE may decide not to impose a fine if the extent of adverse effects of the breach is insignificant and the entity has ceased to be in breach of the law or has performed its obligation.

9.2.2 Licences

In accordance with the Energy Law, a licence is required, with certain exceptions specified therein, to conduct the following business activities:

- Electricity or heat generation,
- Electricity or heat transmission or distribution,
- Trade in electricity or heat.

Licences are granted by the President of URE to an applicant that meets the conditions specified in the Energy Law, provided that no circumstances occur, as specified in the Energy Law, that would prevent the granting of a licence. Licences are granted for a fixed term of at least 10 years, and 50 years as a maximum, unless an application for a shorter term is filed. Power utility companies may apply for licence extension not later than 18 months prior to licence expiry. Where so stipulated by the Energy Law, the President of URE may, or in certain cases is required to, revoke the licence or modify its scope.

Licence holders pay annual fees to the state budget, charged to their operating expenses. A relevant regulation of the Council of Ministers determines the amount and method of collection by the President of URE of annual fees payable by licence holding power utility companies. The amount of the annual fee is calculated based on the power utility company's revenues, as derived from activities covered by the licence. The fee for each type of activity covered by the licence may not be lower than PLN 200 nor higher than PLN 1,000 thousand. If multiple activities requiring a licence are conducted, the final fee is the total of fees for the individual activities.

9.2.3 Tariffs

The prices and rates charged for the supply of electricity, heat or gas fuel to consumers are specified by power utility companies in tariffs approved by the President of URE or determined on the competitive market (in the case of entities exempt from the obligation to submit their tariffs for approval to the President of URE).

Licence holders determine electricity, heat and gas fuels tariffs, which are subject to approval by the President of URE, on their own initiative or at the request of the President of URE, and indicate a proposed validity period for the tariffs. In accordance with the Energy Law, power utility companies determine electricity, heat and gas fuels tariffs, as applicable, depending on their scope of business, on terms provided for in the Energy Law and relevant secondary legislation. Tariffs should be calculated in a way ensuring the coverage of energy companies' reasonable operating expenses (related to the activity subject to the tariff, e.g. heat generation) and a reasonable return on capital employed in that activity, coverage of reasonable expenses incurred by distribution and transmission system operators in connection with the performance of their tasks, and protection of customers' interests against unreasonably high prices and charge rates. The detailed rules for calculating tariffs are set out in the Polish Energy Law and relevant secondary legislation. The President of URE approves the tariffs or rejects them if a tariff is found to be incompliant with the Energy Law and its secondary legislation.

The President of URE may exempt a power utility company from the obligation to submit its tariffs for approval if the President of URE confirms that the power utility company operates in a competitive environment, or may revoke an exemption if the conditions justifying the exemption are no longer met. Such exemptions may apply to a specific part of the business conducted by the power utility company, to the extent to which that business is conducted on the competitive market.

The President of URE had exercised that right on numerous occasions, gradually exempting power sector companies from the obligation to submit their tariffs for approval. In consequence, the obligation to submit tariffs for approval to the President of URE applied only to the tariffs of those power sector companies whose business consisted in the transmission and distribution of electricity, as well as tariffs related to sale of electricity to customers who do not conduct business activities, mainly households (G tariff group).

A Group company (Polenergia Dystrybucja), in connection with its business activity involving electricity distribution and sale of electricity to households, is required to submit electricity tariffs for approval to the President of URE.

In the heat sector, the President of URE has not granted any exemptions from the obligation to submit tariffs for approval, hence the tariffs concerning all types of heat-related operations are required to be submitted for approval to the President of URE. This obligation also applies to the heat producers from the Group.

In the gas sector, the President of URE ruled that the obligation to submit tariffs for approval should not apply to gas fuel trading on a commodity exchange (or a regulated market). As regards gas fuel trading between trading companies and LNG trading, the President of URE stated that the exemption is granted to the interested energy company upon application to the President of URE. As a result, the obligation to submit tariffs for approval applies to one Group company (Polenergia Kogeneracja), which operates in the area of gas fuel trading and distribution.

It is not certain whether an exemption from the obligation to submit tariffs for approval involves an exemption from the obligation to determine the tariffs in line with the regulations of the Energy Law and relevant secondary legislation. In accordance with the relevant provisions of the Energy Law, the President of URE has the right to grant an exemption from the obligation to submit tariffs for approval, but not from the obligation to apply tariffs. In practice, however, a different interpretation is applied, according to which an exemption from the obligation to submit electricity tariffs for approval is tantamount to an exemption from the obligation to apply tariffs. As a consequence, a number of entities operating on the market (including Group companies) in business activities for which the President of URE exempted them from the obligation to submit tariffs for approval, began to apply prices and rates determined on the competitive market, which may not meet all the requirements set out in the Energy Law and relevant secondary legislation pertaining to the method of determination and calculation of such tariffs.

9.2.4 Right to free choice of suppliers and access to the grid (TPA)

Implementing the relevant regulations of EU law, the Energy Law provides for the right to free choice of suppliers and access to the grid (TPA).

The right to free choice of suppliers means that consumers may purchase electricity from the supplier of their choice (producer, trading company). Under the right of access to the grid, a power utility company whose business consists in the transmission or distribution of electricity is required to provide transmission or distribution services based on the principle of equal treatment, in compliance with the provisions of and in the scope specified in the Energy Law, to all consumers and electricity trading companies. These electricity transmission or distribution services should be provided on a contractual basis.

9.2.5 Connection to the grid

Pursuant to the Energy Law, power utility companies involved in the electricity transmission or distribution are required to conclude a grid connection agreement with entities applying for grid connection, based on the principle of equal treatment, if it is technically and economically feasible to make the connection and supply electricity, and the applicant satisfies the conditions for grid connection and receipt of electricity. If a power utility company refuses to conclude a grid connection agreement, it is required to make prompt written notification to both the President of URE and the applicant of its refusal, stating the relevant reasons.

At the request (meeting the conditions set out in the Energy Law and its secondary legislation) of the applicant, if it is technically and economically feasible to make the grid connection and supply electricity, and the applicant meets the conditions for grid connection and receipt of electricity, the power utility company issues the grid connection conditions valid for two years from delivery. In the validity period, the grid connection conditions represent a conditionally binding obligation of the power utility company to conclude the grid connection agreement.

A power utility company whose business consists in the transmission or distribution of electricity is required to provide for the implementation and financing of grid construction and extension projects, including for the purposes of connecting any entities applying for the grid connection, on the terms specified in detail in the secondary legislation to the Energy Law, in assumptions to local governments' electricity and heat supply plans or directly in such plans.

Any disputes concerning, among other things, refusal to conclude a grid connection agreement are resolved by the President of URE at the request of either party.

Grid connection is subject to a fee calculated according to the rules set out in the Energy Law. Grid connection of power generation facilities is subject to a fee calculated on the basis of the actual connection cost, except for renewable energy sources with an installed capacity of 5 MWe or less and cogeneration units with an installed electrical capacity of less than 1 MWe, which are subject to a fee equal to a half of the fee calculated on the basis of the actual costs incurred.

In the case of refusal of connection to the grid by a power utility company on grounds of economic infeasibility, the power utility company may determine a fee in the amount specified in the grid connection agreement, as agreed with the applicant entity.

An applicant for connection to the electricity grid with a source whose rated voltage is higher than 1kV is required to make an advance payment towards the grid connection fee. The advance is calculated at the rate of PLN 30 per each kilowatt of connected load as specified in the grid connection application. However, the total amount of the advance may not exceed the expected grid connection fee, subject to a PLN 3m cap.

9.2.6 Supplier of last resort

Pursuant to the Energy Law, a supplier of last resort (in the power sector) is a power utility which holds a licence for trade in electricity and provides comprehensive services to household consumers of electricity or gaseous fuels who do not exercise their right to choose their supplier. A comprehensive service is provided under an agreement that incorporates the provisions of an agreement on the sale of electricity and an agreement on the provision of electricity transmission or distribution services.

A supplier of last resort is required, to the extent specified in secondary legislation to the Energy Law, to purchase electricity from renewable energy sources connected to the network located within the area of such supplier's activity, offered by power utilities holding a licence for its generation (or entered in the relevant register if such entity generates electricity from agricultural biogas). Electricity is purchased for the average price on the competitive market in the previous calendar year, as announced by the President of URE (2014: PLN 181.55 per 1 MWh).

The procedure for selection of suppliers of last resort (or their designation where such supplier is not selected in a tender procedure) is specified in detail in the Energy Law, its secondary legislation and the relevant transitional regulations.

9.2.7 The public sale obligation of power utilities

In accordance with the Energy Law, a power utility company engaged in the generation of electricity is required to sell at least 15% of electricity produced in a given year on a commodity exchange, within the meaning of the Act on Commodity Exchanges of October 26th 2000, or on a market organised by the entity operating the regulated market in Poland.

In addition, a power utility company engaged in the generation of electricity which is entitled to receive funds to cover its stranded costs under the Act on Rules of Compensating Costs Incurred by Energy Producers Due to Early Termination of Long-Term Capacity and Electricity Purchase Agreements, dated June 29th 2007, is required to sell the generated volumes of electricity which are not required to be sold on a commodity exchange in a manner ensuring public and equal access to such electricity, in an open auction, on a market organised by the entity operating the regulated market in Poland or on a commodity exchange, within the meaning of the Act on Commodity Exchanges of October 26th 2000.

The above requirement does not apply to electricity:

- Supplied by a power utility company engaged in the generation of electricity to an end consumer through a direct line,
- Generated from a renewable energy source,
- Produced in a cogeneration process with an average annual efficiency of conversion of chemical energy of the fuel into electrical or mechanical energy and useful heat in cogeneration above 52.5%,
- Consumed for own needs by a power utility company engaged in the generation of electricity,

- Necessary for power system operators to perform the activities specified in the Energy Law,
- Produced from a generating unit with a total installed capacity of up to 50 MWe.

The President of URE may also exempt a power utility company from the above requirement to the extent related to generation of electricity sold in performance of long-term obligations under contracts executed with financial institutions with a view to implementing projects related to electricity generation, or generated to meet the needs of a transmission system operator and used to ensure proper functioning of the national power grid, provided that such exemption does not cause a material distortion of competition on the electricity market or a disruption on the balancing market.

Group companies are not subject to the requirement of public sale of electricity as they generate electricity from renewable energy sources or because their units have low installed capacities. Also Elektrociepłownia Nowa Sarzyna is not subject to the requirement of public sale of electricity as the capacity of any of its three generating units does not exceed 50 MWe. The legitimacy of the exemption has been confirmed by a decision of the President of URE.

9.2.8 Fuel stocks

In accordance with the Energy Law, a power utility company engaged in the generation of electricity or heat is obliged to maintain fuel stocks at a level which allows it to maintain continuity of the electricity or heat supplies to its customers. The precise quantities of hard coal, lignite and fuel oil stocks to be maintained are specified in a relevant regulation of the minister competent for economy.

The Energy Law provides for circumstances in which the stocks may be reduced, and specifies the procedure for their replenishment. Compliance with the requirement to maintain fuel stocks may be subject to review by the President of URE. If it is found that a power utility company fails to meet the requirement, the President of URE may, among other things, impose a fine of no more than 15% of the entity's revenue derived from licensed activities in the previous fiscal year.

9.2.9 Regulations on renewable energy sources and cogeneration

Energy from renewable sources

In accordance with the Energy Law, a supplier of last resort is required, to the extent specified in a relevant regulation, to purchase electricity produced from renewable energy sources connected to the distribution or transmission network located within the area of such supplier's activity, offered by power utilities holding a licence for its generation (or entered in the relevant register if such entity generates agricultural biogas or electricity from agricultural biogas). Electricity is purchased for the average price on the competitive market in the previous calendar year, as announced annually by the President of URE (2014: PLN 181.55 per 1 MWh).

Power utilities specified in the Energy Law (mainly power utilities engaged in the generation or trade in electricity and selling electricity to end users connected to the grid in Poland) are also required, to the extent specified in secondary legislation to the Energy Law, to obtain certificates of origin or else pay a relevant emission charge.

The requirement to obtain certificates of origin and submit them for redemption to the President of URE, or else to pay an emission charge, is considered satisfied if, in a given year, the share of the total volume of electricity credited under the certificates submitted for redemption, or the emission charge paid by the power utility company, in the power utility company's total annual volume of electricity sales to end users is at least equal to the values specified in a relevant regulation of the minister competent for economy.

Certificates of origin are issued by the President of URE, at the request of a power utility company engaged in the generation of electricity from renewable energy sources, filed through the power system operator operating in the area where the renewable energy source specified in the request is located.

Property rights incorporated in certificates of origin arise as of the first-time registration of the certificates in a relevant account of the certificates of origin register, and inure to the benefit of the holder of that account. Property rights incorporated in certificates of origin are a tradable commodity referred to in the Act on Commodity Exchanges of October 26th 2000.

An alternative to fulfilling the requirement laid down in the Energy Law by way of certificates redemption is the payment of a relevant emission charge. A unit emission charge (per 1 MWh) is

annually indexed by the inflation rate and published by the President of URE. In 2014, the unit emission charge, as published by the President of URE, is PLN 300.03 per 1 MWh.

An emission charge is the product of the unit emission charge (2014: PLN 300.03 per 1 MWh) and the difference between the volumes of electricity in MWh resulting from the requirement to obtain certificates of origin and submit them for redemption.

If a supplier of last resort fails to comply with the obligation to purchase electricity generated from renewable energy sources, the supplier is subject to a fine amounting to no less than the product of the average selling price of electricity for the previous calendar year, expressed in PLN per 1 MWh, and the difference between the volume of electricity from renewable energy sources offered for sale, expressed in MWh, and the volume of electricity from renewable energy sources purchased in a given year, expressed in MWh.

In the event of non-compliance with the requirement to obtain certificates of origin for electricity generated from renewable energy sources and submit them for redemption to the President of URE, a power utility company is required to pay an emission charge. In the event of non-compliance with the requirement and failure to pay the emission charge, a power utility company is subject to a fine equal to no less than the product of 1.3 and the difference between the emission charge due and the amount actually paid.

In addition, in accordance with the assumptions of the climate and energy package, the share of renewable energy in the EU energy mix is expected to increase to 20% by 2020. Directive 2009/28/EC of the European Parliament and of the Council of April 23rd 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC (OJ L 140, 2009, p. 16), sets a different target share for each Member State. In the case of Poland, the target share of energy from renewable sources in final consumption is 15%, to be achieved by 2020.

The Act on Renewable Energy Sources (the RES Act) was passed by the Polish Parliament on February 20th 2015 and became effective on May 4th 2015, with the main part of the Act, concerning the new support system for energy from renewable energy sources (RES), to enter into force as of January 1st 2016.

The RES Act provides for maintaining the existing RES support system based on green certificates for installations commissioned before the provisions of Chapter 4 of the RES Act enter into force, i.e. before January 1st 2016. Concurrently, in order to maintain high prices of the certificates, the RES Act contains mechanisms that should reduce the oversupply of the certificates by increasing the demand (higher redemption requirements), limiting the supply (limited support for biomass co-firing and hydroelectric power plants), and restricting the possibility of paying the emission charge if prices of certificates are lower than 75% of the emission charge amount.

In addition, all installations participating in the old support system will be able to switch to the new auction-based support system that will be the only available support system for the installations commissioned after January 1st 2016. The key objective behind the system is to provide a 15-year period of support for the RES installations that win the auctions, during which they will be guaranteed to receive compensation for the difference between the auction price and the price of energy on the market.

Under the RES Act, the system of green certificates is available for all wind farm projects commissioned before the RES Act enters into force, i.e. before January 1st 2016. The green certificate rights exist for a period of 15 years from the date of launching electricity generation for which it was possible to obtain green certificates (continuation of the green certificates system). All projects under the existing certificate system will be allowed to switch to the auction-based system.

The new, auction-based, system will give project operators the ability to obtain the right to receive compensation for the difference between the auction price and the market price in the period of 15 years from the date of launching operations. The price obtained in an auction will be indexed.

The target volume of energy for which an auction is held will be determined five times for three-year periods. Every year, the Ministry of Economy will set a reference price for each technology, taking into account the average capital expenditure and operating costs for standard projects. Only bids with prices equal to or lower than the reference price for a given technology will be considered. All technologies will be able to participate in the same auctions.

Energy from high-efficiency cogeneration

The Energy Law also provides for a system of support for units producing electricity in high-efficiency cogeneration, which is similar to the support system for renewable energy sources. The system is also based on a certificates of origin scheme:

- 'Yellow certificates' are issued for cogeneration units fired with gaseous fuels or having a total installed capacity of less than 1 MWe,
- 'Violet certificates' are issued for cogeneration units fired with methane released and captured during underground mining operations in active, inactive or decommissioned coal mines, or gas obtained from biomass processing, within the meaning of Art. 2.1.2 of the Act on Biocomponents and Liquid Biofuels,
- 'Red certificates' are issued for units other than those described above (mainly coal- and biomass-fired units).

The system of support under the red and yellow certificates scheme will operate until June 30th 2019.

Similarly to green certificates, power utilities specified in the Energy Law (mainly power utilities engaged in the generation or trade in electricity and selling electricity to end users connected to the grid in Poland) are required, to the extent specified in the applicable legal regulations, to obtain cogeneration certificates of origin or else pay a relevant emission charge.

The requirement to obtain cogeneration certificates of origin and submit them for redemption to the President of URE, or else to pay an emission charge, is considered satisfied if, in a given year, the share of the total volume of electricity credited under the cogeneration certificates submitted for redemption, or of the emission charge paid by the power utility company, in the power utility company's total annual volume of electricity sales to end users is at least equal to the values specified in a relevant act (amending the Energy Law).

The Energy Law also governs the calculation of the amount of a relevant emission charge (which is different for individual types of certificates), origination of property rights incorporated in certificates of origin for electricity produced in high-efficiency cogeneration, and fines for non-compliance with the requirement to redeem cogeneration certificates of origin or pay a relevant emission charge.

9.2.10 Stranded costs

The LTC Act sets out the rules of compensating costs incurred by producers due to early termination of long-term power purchase agreements, listed in Annex 1 thereto, including the rules of:

- Early termination of long-term contracts,
- Financing of costs which arose due to early termination of long-term contracts ('stranded costs'),
- Payment of funds to cover stranded costs,
- Calculation, adjustment, and settlement of stranded costs,
- The operation of 'Zarządca Rozliczeń Spółka Akcyjna', the company set up to administer the stranded cost settlement system.

Pursuant to the LTC Act, electricity producers who were parties to LTCs securing a specified revenue stream during the contract term had an option of voluntary termination of those contracts in exchange for payment of compensation for stranded costs arising from their termination, under a relevant compensation scheme. Under the LTC Act, 'stranded costs' are expenses incurred by an electricity producer which are not covered by revenues from sales of electricity, operating reserves and system control services on the competitive market, following early termination of a long-term contract, and which result from investments in electricity generation assets made by that producer before May 1st 2004.

In the Group, Elektrociepłownia Nowa Sarzyna is a producer of electricity which receives funds to cover its stranded costs; it will participate in the compensation scheme until 2020.

The LTC Act specifies the maximum level of stranded costs for individual producers (PLN 777,535 thousand for Elektrociepłownia Nowa Sarzyna), as well as the maximum amount of expenses incurred by

producers who use natural gas to generate electricity, resulting both from the use of collected gas and from uncollected gas (PLN 340,655 thousand for Elektrociepłownia Nowa Sarzyna).

9.3 Ownership of infrastructure for transmission or distribution of electricity

Under the general rule set forth in the Civil Code, any infrastructure permanently attached to land forms part of that land and, as such, is owned by the land owner. Art. 49 of the Civil Code provided for one exception to that rule, according to which (in the version effective before 2008), any facilities used to supply or collect water, steam, gas or electricity, and other similar infrastructure, did not form part of the property if they constituted the assets of an enterprise. Due to the ambiguity and differing interpretations of that provision, entrepreneurs occupied land without holding any legal title thereto, which led to disputes over the ownership of transmission infrastructure located on such properties. Under the 2008 amendment to the Civil Code, the above provision was slightly modified; at the same time, a paragraph was added under which a person who bore the costs of construction of transmission infrastructure, and remains its owner, may demand that an entrepreneur who has connected that infrastructure to its own network acquire ownership title thereto, for an appropriate consideration, unless agreed otherwise by the parties concerned. A claim for the transfer of ownership of such infrastructure may also be made by the entrepreneur.

Despite extending the rights of persons directly or indirectly involved in the infrastructure development process, the above provision still gives rise to certain ambiguities. On the one hand, it eliminates the general rule that any infrastructure permanently attached to land forms part of that land; on the other, it should not be interpreted as automatically entailing the transfer of ownership title to transmission infrastructure to the entrepreneur upon its connection to the entrepreneur's network. A direct agreement between the parties concerned is still required to settle that issue.

9.4 Transmission easement

The provisions on transmission easement were included in the Civil Code in August 2008, filling the legal vacuum connected with the lack of regulations that would govern the legal relations between transmission companies and owners of the properties on which transmission infrastructure is situated. The amendment offered the possibility of establishing transmission easements both for existing infrastructure and for planned investments, thus facilitating the planning of new energy projects.

Under the transmission easement regulations, a property may be encumbered for the benefit of an enterprise that has built (or intends to build) transmission infrastructure, including any structures and installations forming part of transmission lines used to supply and collect liquids, steam, gas or electricity, as well as other infrastructure used for similar purposes, in such a way that the enterprise may use the property within the specified scope, in accordance with the intended purpose of such infrastructure.

Transmission easement is established on the basis of an agreement, executed as a notary deed, between the enterprise and the owner of land on which transmission infrastructure is located, or is planned to be located. In a case where transmission easement is necessary for the use of transmission infrastructure but the owner of the property refuses to enter into the relevant agreement, the company may demand that the agreement be concluded against remuneration.

One downside of the transmission easement regime is the requirement to secure easements from the owners of all parcels of land crossed by a power line, which is usually a considerable number of persons. To facilitate the process of acquiring legal title to the property to be crossed by a power line, the lawmakers are currently considering the possibility of introducing so-called transmission corridors (see the following section: Transmission corridors).

9.5 Transmission corridors

As indicated in the document setting out the rationale for the draft Act on Transmission Corridors of June 6th 2012 prepared by the Ministry of Economy (available together with the rationale by the Government Legislation Centre from <http://legislacja.rcl.gov.pl/lista/2/projekt/23511>), the Ministry is considering the possibility of introducing so-called 'transmission corridors' into the Polish legal framework, in order to address the needs of Polish society and economy. Among other things, transmission corridors would eliminate difficulties related to the acquisition of legal title to the property on which power lines are to be installed. According to the draft, the new Act would introduce the mechanism of an administrative decision under which a single permit for the establishment of a transmission corridor would be issued, covering the required number of land parcels to be crossed by a planned power transmission line. In addition, the draft provides that such a decision may also incorporate other decisions required in the investment process, including building permits and a decision approving the building permit documentation (planning permission). As a result, the investor would not need to go through the lengthy procedure of obtaining a number of separate administrative decisions, which often can be very time-consuming, since it would obtain all the required permits by way of a single decision, which is expected to facilitate the investment process.

Beneficiaries of the new Act will include transmission entrepreneurs, i.e. individuals, legal persons or organisational units which operate transmission infrastructure or implement investment projects related to transmission infrastructure.

9.6 Environmental protection

The Group's operations are extensively regulated under Polish environmental protection laws (including with respect to the protection of air, water, land surface, animals and plants, as well as protection against noise and electromagnetic fields). They transpose, in full or in part, a number of EU laws, including specifically: (i) Directive 2008/98/EC of the European Parliament and of the Council of November 19th 2008 on waste and repealing certain Directives (OJ EU L 312 of November 22nd 2008), (ii) Directive 2010/75/EU of the European Parliament and of the Council of November 24th 2010 on industrial emissions (integrated pollution prevention and control) (OJ EU L 334 of December 17th 2010), (iii) Directive 2004/35/EC of the European Parliament and of the Council of April 21st 2004 on environmental liability with regard to the prevention and remedying of environmental damage (OJ EU L 143 of April 30th 2004), (iv) Directive 85/337/EEC of the Council of June 27th 1985 on the assessment of the effects of certain public and private projects on the environment (OJ EU L 175 of July 5th 1985), (v) Directive 92/43/EEC of the Council of May 21st 1992 on the conservation of natural habitats and of wild fauna and flora (OJ EU L 206 of July 22nd 1992), (vi) Directive 79/409/EEC of the Council of April 2nd 1979 on the conservation of wild birds (OJ EU L 103 of April 25th 1979), (vii) Directive 2000/60/EC of the European Parliament and of the Council of October 23rd 2000 establishing a framework for Community action in the field of water policy (OJ EU L 327 of December 22nd 2000), (viii) Directive 2003/87/EC of the European Parliament and of the Council of October 13th 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (OJ EU L 275 of October 25th 2003).

The individual national laws on environmental protection regulate the environmental issues both during the investment process and the operation of a completed project. They form a framework for the protection of the environment as a whole and of its individual components (by defining environmental quality standards and methods for assessing their achievement, as well as measures designed to ensure that those standards are respected or restored), and specify the administrative procedures and requirements applicable in this area.

This section contains a summary of the key national laws and regulations on environmental protection which are relevant to the Group's operations.

9.6.1 Environmental Protection Law

The Environmental Protection Law is the main legal act regulating environmental issues. It sets forth the

rules of environmental protection and the conditions for using environmental resources, including, in particular: (i) the principles of setting the conditions for release of certain substances or energy into the environment, (ii) the principles of determining costs related to the use of the environment, (iii) the duties of public authorities and environmental protection institutions, and (iv) liability for damaging or negative environmental impact, as well as sanctions imposed for non-compliance with the above rules.

The provisions of the Environmental Protection Law apply not only to completed projects (and their operation), but also to the implementation phase, i.e. the investment and construction process, which may have a negative impact on the environment. Already at the construction stage, the investor implementing a project is obliged to ensure compliance with all the environmental regulations in force in the area where the works are being carried out. Under the Environmental Protection Law, newly built or modified installations cannot be placed in service unless and until they meet the applicable environmental requirements.

In the operating phase, the investor may be required to obtain sector-specific permits or an integrated permit specifying the emission limits for all substances or types of energy and the environmental impact conditions (required for installations whose operation – due to its nature or scale – may lead to significant pollution of the environment as a whole or of its individual components; in the power industry, an integrated permit is required for any combustion unit with a rated thermal input of over 50 MWt), and may be required to pay environmental charges (charges for using the natural environment). Pursuant to the Environmental Protection Law, a sector-specific environmental permit is required, as a rule, to operate an installation which: (i) releases gases or dust into the air, (ii) releases effluents into the ground or waters, (iii) generates waste, unless that installation is already covered by an integrated permit. In addition, in cases specified in the Environmental Protection Law, a user of the natural environment is required to pay environmental charges at rates applying in the period in which the use of the environment took place.

The Environmental Protection Law also provides for civil, criminal and administrative liability for violation of its provisions or for non-compliance with any permits issued thereunder. For instance, where a given activity causes significant deterioration of the environment or poses a threat to human life or health, a decision is issued ordering that the activity be terminated to the extent necessary to prevent any further deterioration of the environment. The law also specifies situations where the operation of an installation may be optionally suspended (including in a case where the entity concerned releases any substances or energy into the environment without the required permit, or does not comply with the conditions of such a permit). In addition, the Environmental Protection Law contains provisions on administrative fines imposed, among other things, for exceeding or breaching the conditions for the use of the environment, as well as on increased environmental charges, for example where the required permits have not been obtained.

9.6.2 Environmental Impact Assessment Act

The Environmental Impact Assessment Act specifies, in particular: (i) the principles and procedures for the disclosure of information about the environment and its protection, (ii) the principles and procedures applying to environmental impact assessments, (iii) the rules of public participation in environmental protection, and (iv) the public authorities competent for the above areas. It also defines the procedure and rules for issuing decisions on environmental conditions (specifying the environmental conditions to be met by a project).

Under the Environmental Impact Assessment Act, a decision on environmental conditions is required to implement any projects which may always have a significant environmental impact or which may potentially have a significant environmental impact. Such projects are specified in detail (in terms of their possible environmental impacts) in the Regulation of the Council of Ministers of November 9th 2010 on projects with significant environmental impact (Dz.U. No. 213, item 1397). Typically, a decision on environmental conditions is obtained prior to other decisions, including the building permit, planning permit and water permit necessary to build any hydro-engineering structures or facilities.

Where a contemplated project may always have a significant environmental impact, an environmental impact assessment is performed in the course of the procedure related to the issuance of a decision on environmental conditions. Where a planned project may potentially have a significant environmental impact, an environmental impact assessment is performed if the competent authority decides that such an assessment is required. In addition, an assessment is required for projects other than those referred to above in relation to their impact on Natura 2000 sites (i.e. Special Protection Areas for birds, Special Areas of Conservation for habitats, or Sites of Community Importance established to protect the population of wild birds, natural habitats, or any species of Community importance) in a case where a contemplated project may have a significant impact on a Natura 2000 site but is not directly related to the protection of that site and does not result from its protection. An environmental impact assessment for a given project identifies, reviews and evaluates, among other things: (i) the direct and indirect impacts of the project on the environment and on human health and living conditions, (ii) the possibilities and methods of preventing and mitigating the negative environmental impacts of the project, and (iii) the necessary monitoring measures. An assessment of the impact of a given project on a Natura 2000 site identifies, reviews and evaluates the impact of the project on the Natura 2000 site.

In a decision on environmental conditions for a project, which is issued following the environmental impact assessment, the competent authority specifies, in particular: (i) the type and location of the project, (ii) the conditions for using the site during the implementation and operation/use phase, and (iii) in a case where the environmental impact assessment indicates the need to: a) provide environmental offsets (compensatory measures) – the competent authority states that such offsets are necessary, or b) prevent, mitigate and monitor the environmental impacts of the project – the competent authority imposes the obligation to take such measures. In addition, in a decision on environmental conditions the competent authority may oblige the applicant to submit a post-implementation review, specifying its scope and submission deadline. In a case where an environmental impact assessment has not been performed, a decision on environmental conditions will contain a statement of the competent authority to the effect that an environmental impact assessment is not required for the project.

9.6.3 Natura 2000 sites

The Natura 2000 programme was established with a view to protecting the rich natural heritage of EU Member States (by protecting the most valuable and endangered habitats and species of plants and animals), and to implementing a cohesive policy for the protection of natural resources within the EU. The key objective behind the programme is to create a network of protected areas in order to preserve certain types of natural habitats as well as animal and plant species which are considered to be of value and importance. Within the meaning of the Nature Conservation Act, the network of Natura 2000 sites includes: (i) Special Protection Areas for birds, (ii) Special Areas of Conservation for habitats, and (iii) Sites of Community Importance. These all belong to the European network of protected areas.

The legal regulations on Natura 2000 sites provide for a number of restrictions on the implementation of projects within or near Natura 2000 sites. As a rule, it is prohibited to pursue any activities which may have, individually or in combination with other activities, a significant negative impact on the

protected natural resources within a Natura 2000 site, and particularly may: (i) cause the condition of natural habitats or habitats of animal and plant species protected within the designated Natura 2000 site to deteriorate, (ii) adversely affect the species protected within the designated Natura 2000 site, or (iii) adversely affect the integrity of the Natura 2000 site or its links to other areas. However, it should also be noted that the designation of an area as a Natura 2000 site does not preclude the use of that area or its surroundings for economic purposes. Subject to certain conditions (including performance of an assessment of the impact of the contemplated project on Natura 2000 sites and obtaining the necessary permits), investment projects may be located within such areas.

9.6.4 Act on Prevention of Environmental Damage

The Act on Prevention of Environmental Damage specifies the scope of responsibility for preventing and remedying environmental damage. The provisions of the Act apply to the direct threat of environmental damage or to actual environmental damage (caused by activities which pose a risk of environmental damage, or by other activities if they concern protected species or protected natural habitats and are caused by the user of the natural environment). The provisions of the Act do not apply, inter alia, in cases where more than 30 years have passed since the emission or event which caused a direct threat of environmental damage or actual environmental damage.

The Act imposes the following obligations on a user of the natural environment: (i) the obligation to take preventive measures in the event of a direct threat of environmental damage, (ii) the obligation to take remedial action or measures aimed at mitigating the effects of environmental damage and at preventing any subsequent environmental damage and any adverse impacts on human health, or any further deterioration of the functioning of the affected components of the environment, where the environmental damage has already occurred, (iii) the obligation to notify the environmental protection authority of any direct threat of environmental damage or of the occurrence of environmental damage, as well as of the completion of preventive or remedial measures, and (iv) the obligation to consult and agree the conditions for implementing remedial action with the environmental protection authority.

In line with the overriding rule of the environmental policy – namely the ‘polluter pays’ principle, any costs of preventive or remedial measures are paid by the user of the environment.

9.6.5 Nature Conservation Act

The Nature Conservation Act defines the objectives, rules and forms of protection of animate and inanimate nature as well as landscape (including Natura 2000 sites). It also defines the measures taken to protect nature, the authorities competent for and services dedicated to its protection, as well as the rules governing management of its components and resources.

9.6.6 Water Law

The Water Law sets forth the principles of water management, development and protection of water resources, as well as water consumption and management of water resources. Moreover, the Water Law regulates issues related to ownership rights to waters and water-covered land. The Water Law provides for some legal instruments designed to facilitate the management of water resources, the most important of these being water permits. Water permits are required for: (i) any special use of waters, (ii) regulation of water courses, (iii) construction of hydraulic engineering structures, as well as (iv) discharge of wastewater into waters or the ground. A water permit defines the purpose and scope of the use of waters, the terms of exercising the awarded rights, and the obligations which must be fulfilled to protect environmental resources and safeguard the interests of the local community and the economy.

9.6.7 Waste Act

The key piece of legislation governing the management of waste is the Waste Act. The Waste Act defines a range of measures designed to protect the environment, human life and health, measures intended to prevent or mitigate the negative impact of the generation of waste and its management on the environment and human health, as well as measures aimed to contain the overall effects of consumption of resources and improve the efficiency of their use.

As far as the ways of handling waste are concerned, the Waste Act imposes a certain hierarchy of actions. First, we should prevent generation of waste or limit the quantity of generated waste and its negative impact on human life and health, and on the environment. Waste whose generation cannot be prevented should be recycled, while waste which cannot be recycled should be neutralised. Waste should be managed in compliance with the 'proximity principle'. In line with the 'proximity principle', waste should first be processed at the place where it was generated. Any waste which cannot be processed at the place where it was generated should be transferred to the closest location where it can be processed, with due regard given to the waste management hierarchy and with the application of the best available technique or technology.

Furthermore, the Waste Act describes the waste management duties of waste owners (including their generators), as well as public administration bodies. Pursuant to the Act, any waste generator has the duty to manage the waste it has generated. The waste generator or another waste owner may contract out the performance of its waste management obligations to another entity (which must meet specific requirements). A relevant permit is required for generation of waste (i) with a weight of over 1 Mg per year – in the case of hazardous waste, or (ii) with a weight of over 5,000 Mg per year – in the case of non-hazardous waste, if such waste is generated in connection with the operation of an installation (unless an integrated permit has been issued for the installation). As a rule, a relevant permit is also required to conduct operations involving the collection of waste and its processing.

A catalogue of waste along with a list of hazardous waste and the manner of classifying waste is defined in the Regulation of the Minister of Environment on the catalogue of waste, dated September 27th 2001 (Dz.U. No. 112, item 1206).

9.6.8 Act on Protection of Agricultural and Forest Land

The Act on Protection of Agricultural and Forest Land defines the rules governing protection of agricultural and forest land and reclamation of such land, as well as the rules for improving such land's value in use. The Act also defines the manner in which the designation of some agricultural and forest land may be changed into non-agricultural or non-forest land, as well as the manner of excluding land allocated for non-agricultural and non-forest purposes from agricultural or forest production.

9.6.9 CO2 emissions

The operation of a number of industrial installations, especially power sector installations, which emit pollutants (such as greenhouse gases), leads to irreversible changes in the natural environment (including climate changes). The main instrument of the EU's policy in the area of climate protection designed to reduce emissions of greenhouse gases into the air is the European Union Emissions Trading Scheme.

Poland's national regulations with respect to emissions of greenhouse gases, implementing the relevant EU regulations, are set out primarily in: (i) the Act on Greenhouse Gas Emission Allowances Trading, dated April 28th 2011 (Dz.U. No. 122, item 695) and (ii) the Act on the System of Managing Emissions of Greenhouse Gases and Other Substances (Dz.U. No. 130, item 1070, as amended).

These two Acts define, in particular: (i) the rules governing the management of emissions of greenhouse gases and other substances, (ii) the rules governing the operation of the greenhouse gas emissions trading scheme (the "scheme"), (iii) the list of greenhouse gases and other substances released into the air which are covered by the management system, (iv) the types of installations covered by the system or the types of activities conducted in the installations covered by the system in the trading period starting January 1st 2013, as well as the threshold values referring to the installations' production capacities or activities, and the greenhouse gases assigned to a given installation or activity.

It needs to be noted, however, that the Polish regulations provide for only partial implementation of Directive 2009/29/EC of the European Parliament and of the Council of April 23rd 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community (OJ EU L 140 of June 5th 2009), because they do not include the basic principles underlying the scheme in the 2013–2020 trading period, beginning on January 1st 2013. Relevant regulations have not yet been implemented.

Generally, the scheme covers emissions of greenhouse gases from those installations whose operations

involve the emission of such gases and which meet the threshold values referring to production capacities. With respect to carbon dioxide emissions, such installations include fuel combustion installations, other than those burning hazardous or municipal waste, with a rated thermal input in excess of 20 MWt (e.g. power plants or CHP plants). In order to be able to release a given quantity of carbon dioxide into the air, entities operating such installations must hold an appropriate number of emission allowances (corresponding to their actual CO₂ emission volumes). Allowances may either be obtained through free allocation or be purchased. In the current trading period (2013-2020), in the case of installations for electricity production, the proportion of allowances purchased relative to those obtained free of charge is generally assumed to increase every year, so that in 2020 all emission allowances will be purchased. In the third trading period (2013-2020), auctioning is assumed to be the key method of allocating emission allowances for installations generating electricity.

With respect to the free allocation of allowances, by virtue of its decision of January 22nd 2014, the European Commission conditionally granted Poland's application for transitional allocation of free carbon dioxide emission allowances as part of the scheme for the power sector (installations for electricity production) for 2013-2020.

D. QUARTERLY FINANCIAL INFORMATION OF POLENERGIA S.A.

INTERIM CONDENSED SEPARATE STATEMENT OF FINANCIAL POSITION as at March 31st 2015

Assets

	<u>Mar 31 2015</u>	<u>Dec 31 2014</u>
I. Non-current assets	1,336,188	1,253,065
Property, plant and equipment	2,531	2,761
Intangible assets	1,165	1,252
Investment property	2,680	2,803
Financial assets	1,319,549	1,236,903
Non-current receivables	3,138	3,203
Deferred tax assets	7,125	6,143
II. Current assets	209,436	285,943
Inventories	17,500	17,500
Trade receivables	9,644	18,688
Other current receivables	804	3,516
Accruals and deferred income	3,591	4,449
Current financial assets	23,813	25,343
Cash and cash equivalents	154,084	216,447
Total assets	1,545,624	1,539,008

Equity and liabilities

	<u>Mar 31 2015</u>	<u>Dec 31 2014</u>
I. Equity	1,258,307	1,263,111
Share capital	90,887	90,887
Share premium	802,909	802,909
Capital reserve from valuation of options	13,207	13,207
Other capital reserves	372,199	372,199
Retained earnings (loss)	(16,091)	-
Net loss	(4,804)	(16,091)
II. Non-current liabilities	2,732	2,846
Bank and other borrowings	1,000	1,000
Provisions	1,187	1,187
Other liabilities	545	659
III. Current liabilities	284,585	273,051
Bank and other borrowings	264,287	259,264
Trade payables	658	1,033
Other liabilities	10,176	1,702
Provisions	2,042	2,042
Accruals and deferred income	7,422	9,010
Total equity and liabilities	1,545,624	1,539,008

INTERIM CONDENSED SEPARATE STATEMENT OF PROFIT OR LOSS
for the three months ended March 31st 2015

	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
Revenue	6,357	1,348
Cost of sales	(4,948)	(104)
Gross profit	1,409	1,244
Other income	26	155
Administrative expenses	(3,672)	(3,117)
Other expenses	(560)	(35)
Finance income	2,144	818
Finance costs	(5,133)	(5,497)
Loss before tax	(5,786)	(6,432)
Income tax expense	982	1,409
Net loss	(4,804)	(5,023)

INTERIM CONDENSED SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the three months ended March 31st 2015

	For period ended	For period ended
	Mar 31 2015	Mar 31 2014
Net loss for period	(4,804)	(5,023)
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR PERIOD	(4,804)	(5,023)

**INTERIM CONDENSED SEPARATE STATEMENT OF CHANGES IN EQUITY
for the three months ended March 31st 2015**

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net loss	Total equity
As at Jan 1 2015	90,887	802,909	13,207	372,199	(16,091)	-	1,263,111
Total comprehensive income for period							
Net profit for reporting period	-	-	-	-	-	(4,804)	(4,804)
as at March 31st 2015	90,887	802,909	13,207	372,199	(16,091)	(4,804)	1,258,307

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net loss	Total equity
As at Jan 1 2014	42,628	78,521	13,207	372,199	(12,790)	-	493,765
Total comprehensive income for period							
Net profit for reporting period	-	-	-	-	-	(5,023)	(5,023)
As at Mar 31 2014	42,628	78,521	13,207	372,199	(12,790)	(5,023)	488,742

INTERIM CONDENSED SEPARATE STATEMENT OF CASH FLOWS
for the three months ended March 31st 2015

	For period ended Mar 31 2015	For period ended Mar 31 2014
A. Cash flows from operating activities		
I. Loss before tax	(5,786)	(6,432)
II. Total adjustments	14,442	10,206
Depreciation and amortisation	442	288
Interest and profit distributions (dividends)	4,487	5,023
Loss on investing activities Change in provisions	32	-
	-	3
Change in inventories	-	(1,285)
Change in receivables	9,974	8,785
Change in current liabilities (net of borrowings)	237	(1,528)
Change in accruals and deferrals	(730)	(1,080)
III. Net cash from operating activities (I+/-II)	8,656	3,774
B. Cash flows from investing activities		
I. Cash receipts	10,373	4,798
1. Proceeds from financial assets, including:	8,526	-
- repayment of non-current loans advanced	7,961	-
- interest	27	-
- other proceeds from financial assets	538	-
2. Other cash receipts from investing activities	1,847	4,798
II. Cash payments	81,240	12,138
1. Acquisition of intangible assets and property, plant and equipment	32	406
2. Payments for financial assets, including:	81,208	11,732
- acquisition of financial assets	74,592	11,732
- non-current loans advanced	6,616	-
III. Net cash from investing activities (I-II)	(70,867)	(7,340)
C. Cash flows from financing activities		
I. Cash receipts	-	-
II. Cash payments	152	173
Payment of finance lease liabilities	152	173
III. Net cash from financing activities (I-II)	(152)	(173)
D. Total net cash flows (A.III+/-B.III+/-C.III)	(62,363)	(3,739)
E. Net increase/decrease in cash, including:	(62,363)	(3,739)
F. Cash at beginning of period	216,447	34,703
G. Cash at end of period (F+/- E), including:	154,084	30,964
- restricted cash	50	9