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POLENERGIA S.A.

**INTERIM CONDENSED STANDALONE FINANCIAL STATEMENTS
FOR A 6-MONTH PERIOD ENDED 30 JUNE 2019
INCLUDING THE REPORT OF THE INDEPENDENT AUDITOR**

*Michał Michalski – President of the Management
Board*

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Board*

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Department*

Warsaw, 13 August 2019

1. Interim condensed balance sheet

As at 30 June 2019

ASSETS

	Note	30.06.2019	31.12.2018
I. Non-current assets		856 906	844 764
Tangible fixed assets		4 289	1 375
Intangible assets		88	123
Financial assets	2.7	844 857	836 002
Long term receivables		1 995	2 160
Deferred income tax assets		5 677	5 104
II. Current assets		222 820	247 842
Inventories		10 362	10 362
Trade receivables		6 754	10 865
Income tax receivable		-	3 986
Other short term receivables		7 835	7 922
Prepayments and accrued income		1 581	3 152
Short term financial assets	2.7	37 084	3 000
Cash and equivalent		159 204	208 555
Total assets		1 079 726	1 092 606

EQUITY AND LIABILITIES

	Note	30.06.2019	31.12.2018
I. Shareholders' equity		1 061 630	1 074 139
Share capital		90 887	90 887
Share premium account		557 611	601 539
Reserve capital from option measurement		13 207	13 207
Other capital reserves		349 478	349 478
Capital from merger		89 782	89 782
Retained profit (loss)		(26 826)	(26 826)
Net profit (loss)		(12 509)	(43 928)
II. Long term liabilities		1 670	301
Provisions	2.5	21	21
Other liabilities		1 649	280
III. Short term liabilities		16 426	18 166
Trade payables		144	760
Other liabilities		10 427	10 260
Provisions	2.5	649	767
Accruals and deferred income		5 206	6 379
Total equity and liabilities		1 079 726	1 092 606

Interim condensed profit and loss account

For a 6-month period ended on 30 June 2019

	Note	For 6 months ended		unaudited	unaudited
		30.06.2019	30.06.2018	30.06.2019	30.06.2018
Sales revenues		7 682	7 132	3 767	3 500
Sales revenues		7 682	7 132	3 767	3 500
Cost of goods sold		(7 096)	(6 300)	(2 334)	(2 999)
Gross sales profit		586	832	1 433	501
Other operating revenues		1 277	2	1 277	-
General overheads		(7 948)	(9 366)	(5 331)	(6 149)
Other operating expenses		(1 276)	(11)	(1 234)	(5)
including receivables impairment losses		(1 233)	-	(1 233)	-
Financial income		4 875	56 155	2 007	53 271
including dividends		-	50 003	-	50 003
Financial costs	2.7	(10 591)	(90 618)	(9 300)	(89 100)
including financial assets impairment losses		(10 512)	51 127	9 254	49 971
Profit (loss) before tax		(13 077)	(43 006)	(11 148)	(41 482)
Income tax	2.4	568	(9 168)	265	(9 349)
Net profit (loss)		(12 509)	(52 174)	(10 883)	(50 831)
Earnings (loss) per share:					
- basic earnings (loss) for period attributable to parent company shareholders		-0,28	-1,15	-0,24	-1,12
- diluted earnings (loss) for period attributable to parent company shareholders		-0,28	-1,15	-0,24	-1,12

Interim condensed statement of other comprehensive income**for a 6-month period ended on 30 June 2019**

	For 6 months ended		For 3 months ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
			unaudited	unaudited
Net profit (loss)	(12 509)	(52 174)	(10 883)	(50 831)
Other net comprehensive income	-	-	-	-
COMPREHENSIVE INCOME FOR PERIOD	(12 509)	(52 174)	(10 883)	(50 831)

Interim condensed statement of changes in equity

for a 6-month period ended on 30 June 2019

	Share capital	Share premium account	Reserve capital from option measurement	Other capital reserves	Capital from merger	Retained loss	Net loss	Total equity
As at January 2019	90 887	601 539	13 207	349 478	89 782	(70 754)	-	1 074 139
Other comprehensive income for period								
Net loss for reporting period	-	-	-	-	-	-	(12 509)	(12 509)
Allocation of profit/loss	-	(43 928)	-	-	-	43 928	-	-
As at 30 June 2019	90 887	557 611	13 207	349 478	89 782	(26 826)	(12 509)	1 061 630

for a 6-month period ended on 30 June 2018

	Share capital	Share premium account	Reserve capital from option measurement	Other capital reserves	Capital from merger	Retained loss	Net loss	Total equity
As at January 2018	90 887	680 405	13 207	349 478	89 782	(105 692)	-	1 118 067
Other comprehensive income for period								
Net loss for reporting period	-	-	-	-	-	-	(52 174)	(52 174)
Allocation of profit/loss	-	(78 866)	-	-	-	78 866	-	-
As at 30 June 2018	90 887	601 539	13 207	349 478	89 782	(26 826)	(52 174)	1 065 893

Interim condensed statement of cash flows

for a 6-month period ended on 30 June 2019

	For 6 months ended	
	30.06.2019	30.06.2018
A.Cash flow from operating activities		
I.Profit (loss) before tax	(13 077)	(43 006)
II.Total adjustments	16 613	33 048
Depreciation	915	398
Foreign exchange losses (gains)	25	96
Interest and profit shares (dividends)	(594)	(52 761)
Losses (gains) on investing activities	8 735	90 054
Income tax	3 981	(9 606)
Changes in provisions	(118)	(87)
Changes in receivables	4 363	4 141
Changes in short term liabilities, excluding bank loans and borrowings	(1 092)	1 119
Changes in accruals	398	(306)
III.Net cash flows from operating activities (I+II)	3 536	(9 958)
B.Cash flows from investing activities		
I. Cash in	110 792	141 137
1. Disposals of intangibles and tangible fixed assets	170	140
2. From financial assets, including:	110 622	140 997
- disposal of financial assets	-	101 447
- dividends and shares in profits	-	7 200
- repayment of loans given	74 000	31 500
- interest	413	155
- other inflows from financial assets	36 209	695
II.Cash out	162 751	96 370
1. Acquisition of intangible and tangible fixed assets	942	335
2. For financial assets, including:	161 809	96 035
- acquisition of financial assets	54 229	15 835
- loans given	107 580	80 200
III.Net cash flows from investing activities (I-II)	(51 959)	44 767
C.Cash flows from financing activities		
I.Cash in	-	-
II.Cash out	903	185
1. Lease payables	840	169
2. Interest	63	16
III.Net cash flows from financing activities (I-II)	(903)	(185)
D.Total net cash flows (A.III+/-B.III+/-C.III)	(49 326)	34 624
E.Increase/decrease in cash in the balance sheet, including:	(49 351)	34 528
- change in cash due to fx differences	(25)	(96)
F.Cash at the beginning of period	208 555	168 096
G.Cash at the end of period, including:	159 204	202 624
- restricted cash	47	40

2. Notes and Explanations

2.1 Accounting principles (policy) applied

These interim condensed financial statements of the Company as at 30 June 2019 comply with International Accounting Standard 34.

The accounting principles applied have been outlined in the financial statements for 2018 published on 4 March 2019. Said Financial Statements provided detailed information on the principles and methods of measuring assets and liabilities, as well as measuring the financial result, the method of preparing financial statements and compiling comparable data. Such principles have been applied on a consistent basis, except for the adoption of IFRS 16 Lease

2.2 Changes to International Financial Reporting Standards

As of 1 January 2019 the Company adopted a new financial reporting standard IFRS 16 Lease. According to the transition provisions in IFRS 16, the new principles were adopted retrospectively, with recognition of the cumulative effect of initial implementation of the new standard under equity as at 1 January 2019. Consequently, there has been no adjustment of the comparative data for the financial year 2018 (modified retrospective approach).

Recognition of lease payables

The Company recognizes lease payables due to lease that was earlier classified under "operating lease" in line with the principles of IAS 17 Leases. Such payables have been measured at the present value of the outstanding lease payments as at the inception of IFRS 16 application. Discounting using the marginal interest range of the Company as at 1 January 2019 was applied.

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

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

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

As at 1 January 2019 the discount rate derived by the Company for EUR denominated contracts was 4.54%.

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

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

The lease payables have been recognized in the balance sheet under other payables. Interest on lease payables have been recognized in the profit and loss account under other finance costs.

Recognition of the right-of-use assets

Right-of-use assets are measured at cost.

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

The right-of-use assets have been recognized in the balance sheet under the same item where the base assets owned by the Company would be recognized. Depreciation of the right-of-use assets has been recognized in the profit and loss account under the same items where costs of the similar type are recognized.

Application of estimates and judgments

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

- assessment of lease payments as fixed, variable or de facto fixed,
- assessment whether a given contract provides for a lease in line with IFRS 16,
- determination of term of contracts (including indefinite term contracts and extendable contracts),
- determination of the discount rate applied to future cash flows,
- determination of the depreciation rate.

Application of practical expedients

At the initial application of IFRS 16 the Group applied the following practical expedients permitted by the standard:

- a single discount rate shall be applied to the lease contract portfolio which share similar characteristics,
- operating lease contracts with the outstanding lease term not exceeding 12 months as at 1 January 2019 have been recognized as short term lease,

Impact on the financial position report as at 1 January 2019

The impact of IFRS 16 implementation on the recognition of additional financial liabilities and relevant right-of-use assets is shown in the tables below:

Operating lease commitments disclosed as at 31 December 2018	4 337
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Discounted using the lessee's incremental borrowing rate of at the date of initial application	2 852
Finance lease liabilities recognised as at 31 December 2018	327
Lease liability recognised as at 1 January 2019	3 179
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Of which are:	
Current liabilities	1 473
Non-current lease liabilities	1 706
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Right-of-use assets under lease	1.1.2019
Other real estate	2 852
Total	2 852

Impact on equity

The implementation of IFRS 16 has no impact on retained profit and equity as at 1 January 2019 in view of the recognition of the right-of-use assets and lease liabilities in identical amounts.

Impact on financial ratios

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

In the period between 1 January 2019 and 30 June 2019 the total depreciation cost of the right-of-use assets amounted to PLN 739 k. Interest expense on lease payables increased, with the respective amount of PLN 63 k in the first half of 2019.

2.3 Seasonality and cyclical nature of operations

In terms of the business of Polenergia S.A., seasonality and cyclical nature of operations have no significant impact on the results generated by the Company.

2.4 Income tax

	For 6 months ended		For 3 months ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
Current income tax	5	9 031	5	9 031
Current income tax charge	5	9 031	5	9 031
Deferred income tax	(573)	137	(270)	318
Related to temporary differences and their reversal	(573)	137	(270)	318
Income tax charged to the profit and loss account	(568)	9 168	(265)	9 349

	For 6 months ended	
	30.06.2019	30.06.2018
Income tax charged to the profit and loss account, including	(568)	9 168
Current tax *)	5	9 031
Deferred tax	(573)	137
Profit (Loss) before tax	(13 077)	(43 006)
Tax on gross profit at effective tax rate of 19%	(2 485)	(8 171)
Current tax of limited partnerships	(265)	(34)
Deferred tax (change) of limited partnerships	196	78
Non-deductible costs:	(1 838)	(26 884)
- permanent differences	195	(47)
- temporary difference on which no tax asset/provision is established **)	(2 033)	(26 837)
Non-taxable income:	(10)	9 501
- dividends	-	9 501
- other	(10)	-
Income tax in the profit and loss account	(568)	9 168

*) current tax for the 6-month period ended 30 June 2018 stems mostly from the sale of 50% interest in MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o.***) refers mostly to the difference between the bookkeeping and tax values of financial fixed assets

2.5 Provisions

	30.06.2019	31.12.2018
Long term provisions		
- pension plan and related provision	21	21
Total long term provisions	21	21

Short term provisions

- pension plan and related provision	12	12
- accrued holiday leave provision	637	755
Total short term provisions	649	767

Change in long term and short term provisions

	30.06.2019	31.12.2018
Provisions at the beginning of the period	788	805
- recognition of provisions	-	70
- reversal of provisions	(118)	(87)
Provisions at the end of the period	670	788

2.6 Interest bearing bank loans and long term borrowings

In the 6-month period ended 30 June 2019 the Company incurred no further bank loans.

On 17 June 2019 Polenergia S.A. granted a loan of PLN 80 k to Polenergia Bałtyk 1 S.A. The maturity date of said loan is 31 December 2019.

On 25 June 2019 Polenergia S.A. granted a loan of PLN 7,000 k to Polenergia Farma Wiatrowa 17 Sp. z o.o. The maturity date of said loan is 30 June 2020.

The debt on the revolving loan granted to Polenergia Obrót S.A. by Polenergia S.A. increased per saldo by PLN 27,000 k, by way of a repayment of PLN 73,500 k and a drawdown of PLN 100,500 k.

In the first half of 2019 the written-off loans were contributed to Polenergia S.A. by Energopep Sp. z o.o. amounting to PLN 136,550 k. The shares created in the process were covered by the write-off, thus the result remained unaffected. Also partial repayment of the loan of PLN 5000 k was effected by Mercury Energia Sp. z o. o. i Wspólnicy Spółka Komandytowa to Polenergia S.A.

2.7 Amounts having a significant impact on the items of assets, liabilities, equity, net financial result or cash flows

a) Financial assets

	30.06.2019	31.12.2018
- share or stock in non-listed companies	834 307	825 191
- loans given	10 479	10 740
- guarantees issued to subsidiaries	71	71
Total long term financial assets	844 857	836 002

(PLN K)

	30.06.2019	31.12.2018
- held in subsidiaries	37 084	3 000
- loans given	37 084	3 000
Total short term financial assets	37 084	3 000

Cash flows from investing activities - other inflows from financial assets

	30.06.2019	30.06.2018
Refund of additional capital contributions	36 209	7 899
Total	36 209	7 899

Cash flows from investing activities - other outflows from financial assets

	30.06.2019	30.06.2018
Additional capital and capital increase	54 229	15 835
Total	54 229	15 835

b) Financial expenses

	For 6 months ended		For 3 months ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
- interest expenses	63	524	38	181
- fx differences, including:	-	-	-	(3)
- realized	-	-	-	(3)
- commission an other fees	16	20	8	10
- financial assets impairment losses	10 512	51 127	9 254	49 971
- other *)	-	38 947	-	38 941
Total financial cost	10 591	90 618	9 300	89 100

*) refers to the loss on sale of interest in MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o. amounting to PLN 38,934 k.

In the reporting period the Company recorded impairment loss on the shares in the company in development phase. In addition, the Company granted a loan and increased the share capital in its subsidiary up to PLN 9.5m in order to discharge liabilities of such subsidiary. In view of the difficult situation of the company in that it has a prior years' long term contract in force for the purchase of green certificates at a fixed price, with the concurrent drop in market prices in the current period, impairment loss was recognized in full amount.

c) Fair value

As at 30 June 2019 the Company held no financial instruments that would be measured at fair value.

Fair value of other financial assets and liabilities enumerated below is not materially different from their carrying amount:

- long term receivables,
- trade debtors and other receivables.
- financial assets,
- cash and equivalent,
- bank loans and borrowings,

- other long term liabilities,
- trade creditors and other payables.

d) Transaction of sale of 50% of shares in a subsidiary to Wind Power AS

On 20 December 2018 the Company entered into a preliminary conditional sale contract (“Preliminary Contract”) concerning 50% of shares (“the Shares”) in the Company’s subsidiary Polenergia Bałtyk I S.A. (“SPV”) which pursues a project of building an offshore wind farm in the Baltic Sea. The Preliminary Contract provides for the execution of a final contract that would transfer the ownership title to the Shares held by the Company to Wind Power. The total base sales price of the SPV shares is PLN 33,351 k. The execution of the final contract for the transfer of Shares is contingent upon the fulfilment of certain conditions precedent, including: (i) each party obtaining unconditional consent of the President of the Competition and Consumer Protection Authority to establish a joint venture and (ii) obtaining a valid and binding registration with the Court of Registration of a resolution concerning transformation of SPV from joint stock company into a limited liability company. On 5 March 2019 the Company and Wind Power AS (“Wind Power”) obtained an unconditional consent of the President of the Competition and Consumer Protection Authority to establish a joint venture. Obtaining such consent by the Company and Wind Power was tantamount to the fulfilment of one of the conditions precedent to the SPV Share sale transaction. In view of the fact that as at 30 June 2019 the second condition precedent remained unfulfilled, the transaction has not been recognized in these financial statements. As at 30 June 2019 the book value of the Shares amounted to PLN 28,550 k.

2.8 Changes to estimates

In the 6-month period ended 30 June 2019, the Group made no significant changes to its estimates.

2.9 Dividend distribution

No dividends were paid by the parent in the 6-month period ended 30 June 2019. No dividends are intended to be paid by the parent in the second half of 2019.

2.10 Revenue and profit/loss in individual operating segments

The Company is active in a single industry, on one specific market and in a single operating segment. Revenues from core business come predominantly from sale of services.

2.11 Information on changes in contingent liabilities or contingent assets

On 15 February 2019 a bank guarantee issued by mBank to Energa Operator S.A. to order of Polenergia S.A. on behalf of Polenergia Farma Wiatrowa 3 Sp. z o.o. Said guarantee referred to the connection agreement entered into by Polenergia Farma Wiatrowa 3 Sp. z o.o. with Energa Operator S.A.

On 20 February 2019 a guarantee issued under the guarantee facility issued by the Company to Polenergia Obrót S.A. on 19 June 2017 to EDF Trading was extended until 31 March 2020. The amount of said guarantee has been increased from EUR 1,000 k to EUR 2,000 k.

On 9 April 2019 a guarantee issued by the Company on 21 November 2017 to PKN Orlen S.A. to the amount of PLN 5,000 k under the a/m guarantee facility was renewed after it had expired on 28 February 2019. The expiration date of the renewed guarantee has been agreed at 29 February 2020.

On 23 May 2019 Polenergia S.A. paid a deposit of PLN 8,400 k to Polenergia Farma Wiatrowa 17 Sp. z o.o. („FW17”) to the account with ING Bank Polska S.A. („ING”). The deposit was a collateral for the letter of credit opened by ING to order of FW17 for the delivery of equipment. Said deposit was released by ING on 28 June 2019.

2.12 Information on related party transactions

30.06.2019	Sale to related entities	Financial income	Receivables from related entities
Entities over which Company has control or material influence:			
Polenergia Biomasa Energetyczna Wschód Sp. z o.o.(GRUPA PEP-Biomasa Energetyczna Wschód Spółka z o.o.)	50	-	435
Polenergia Farma Wiatrowa 1 Sp. z o.o.(GRUPA PEP-Farma Wiatrowa 1 Sp. z o.o.)	420	-	243
Polenergia Farma Wiatrowa 3 Sp. z o.o.(GRUPA PEP-Farma Wiatrowa 3 Sp. z o.o.)	558	-	554
Polenergia Farma Wiatrowa 4 Sp. z o.o.(GRUPA PEP-Farma Wiatrowa 4 Sp. z o.o.)	505	-	342
Polenergia Farma Wiatrowa 6 Sp. z o.o.(GRUPA PEP-Farma Wiatrowa 6 Sp. z o.o.)	338	-	176
Amon Sp. z o.o.	147	-	119
Polenergia Farma Wiatrowa Piekło Sp. z o.o. (GRUPA PEP-Farma Wiatrowa Piekło Sp. z o.o.)	158	-	154
Dipol Spółka z o.o.	222	-	93
Polenergia Farma Wiatrowa 17 Sp. z o.o. (GRUPA PEP-Farma Wiatrowa 17 Sp. z o.o.)	167	4	163
Polenergia Farma Wiatrowa Szymankowo Sp. z o.o (Pepino Sp. z o.o.)	339	83	335
Polenergia Farma Wiatrowa 23 Sp. z o.o. (GRUPA PEP-Farma Wiatrowa 23 Sp. z o.o.)	109	-	41
Talia Sp. z o.o.	115	-	88
Polenergia Farma Wiatrowa Dębice/ Koszmioty Sp. z o.o (GRUPA PEP-Farma Wiatrowa Dębice/Koszmioty Sp. z o.o.)	291	-	287
Polenergia Farma Wiatrowa Mycielin Sp. z o.o. (GRUPA PEP-Farma Wiatrowa Mycielin Sp. z o.o.)	454	-	292
Polenergia Kogeneracja Sp. z o.o.	392	-	154
Polenergia Bałtyk I S.A.	214	-	461
MFW Bałtyk II Sp. z o.o. (Polenergia Bałtyk II Sp. z o.o.)	566	-	566
MI-W Bałtyk III Sp. z o.o. (Polenergia Bałtyk III Sp. z o.o.)	579	-	568
Polenergia Dystrybucja Sp. z o.o.	884	140	336
Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o.	336	-	136
Polenergia Obrót S.A.	512	325	237
Kulczyk Holding S. a r. l.(Polenergia Holding S. a r. l.)	384	-	121
Polenergia International S. a r. l.	181	-	181
Pozostale	634	88	429
Total	8 555	640	6 511

Loans granted to associates have been described in Note 2.6.

2.13 Events following the reporting date

By the date of preparation of these financial statements, i.e. by 13 August 2019, no events occurred which would not have been disclosed in the accounting books of the reporting period.