Polenergia Group

CONSOLIDATED QUARTERLY REPORT

FOR THE FIRST QUARTER OF 2018

Jacek Głowacki – President of the Management Board	*Michał Michalski – Member of the Management Board*

Warsaw, May 16th 2018

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A. INTRODUCTION TO THE CONSOLIDATED QUARTERLY REPORT

1. Consolidated statement of profit or loss for the first quarter ended March 31st 2018

Presented below is the combined statement of profit or loss for the first quarter of 2018.

In Q1 2018, the Polenergia Group generated an adjusted (normalised) EBITDA of PLN 38.9m and net profit of PLN 2.5m, down by PLN 3.6m (-8%) and PLN 0.4m (-14%), respectively, on the corresponding period of the previous year.

	Polenergia Group's performance (PLNm)	3M 2018	3M 2017	Change y/y	Change y/y [%]
	Revenue	**746.8**	**709.9**	**36.9**	**5%**
	Cost of sales	(723.3)	(684.4)	(38.9)	6%
	including operating expenses	(110.3)	(106.0)	(4.3)	4%
	Gross profit	**23.5**	**25.5**	**(2.0)**	**-8%**
	Distribution costs and administrative expenses	(9.2)	(8.2)	(0.9)	11%
	Other income/(expenses)	0.9	1.4	(0.4)	-32%
A	**Operating profit (EBIT)**	**15.3**	**18.7**	**(3.4)**	**-18%**
	Depreciation and amortisation	24.0	24.5	(0.5)	-2%
	EBITDA	**39.6**	**43.2**	**(3.6)**	**-8%**
	Elimination of purchase price allocation effect	(0.7)	(0.7)	_	0%
	Adjusted EBITDA*	**38.9**	**42.5**	**(3.6)**	**-8%**
B	Finance income	1.3	2.7	(1.4)	-52%
C	Finance costs	(13.9)	(16.1)	2.2	-14%
A+B+C	**Profit/(loss) before tax**	**2.7**	**5.2**	**(2.5)**	**-48%**
	Income tax	(2.6)	(3.6)	1.0	-29%
	Net profit/(loss)	**0.1**	**1.6**	**(1.5)**	**-93%**
	Elimination of purchase price allocation effect	1.5	1.5	_	
	Elimination of unrealised exchange differences effect	0.0	(0.8)	0.8	
	Elimination of AMC loan valuation effect	0.7	0.7	(0.0)	
	Impairment losses	0.2	_	0.2	
	Adjusted net profit*	**2.5**	**2.9**	**(0.4)**	**-14%**
	Adjusted EBITDA margin	**5.2%**	**6.0%**		
	Trading segment revenue	604.1	572.6	31.5	
	Trading segment costs of sale	(603.0)	(569.6)	(33.4)	
	Adjusted EBITDA (excluding trading segment)	**40.1**	**41.8**	**(1.6)**	**-4%**
	Adjusted EBITDA margin (excluding trading segment)	**28.1%**	**30.4%**		

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

Revenue for the first quarter of 2018 was up 5% year on year, chiefly on higher revenue generated by the trading segment.

Adjusted EBITDA for the period came in at PLN 38.9m, down PLN 3.6m year on year, due mainly to a lower margin on electricity trading earned by the trading segment, partially offset by a higher margin of the wind power segment.

The wind power segment saw its EBITDA rise by PLN 2.7m, primarily as a result of higher selling prices of green certificates and reduced operating expenses, partially offset by a lower generation volume.

The conventional energy segment’s EBITDA declined by PLN 1.7m, driven by higher prices of gas and CO_2 emission allowances, as well as a lower forecast gas compensation amount.

The trading segment’s EBITDA fell PLN 2.0m year on year, reflecting negative valuation of contracts in the trading portfolio, the effect of which was partially offset by a higher result on the wind farms’ portfolio.

The distribution segment’s EBITDA dropped PLN 0.6m year on year, mostly as a result of reduced connection fees and a lower distribution margin due to a postponed effective date of the updated tariff.

Compared with a year earlier, the biomass segment posted lower EBITDA (down PLN 0.6m), reflecting a decline in sales volumes and prices of pellets, coupled with higher costs of materials from which pellets are made.

The development and implementation segment’s EBITDA went down PLN 0.4m, as costs relating to projects at an early stage of development were not capitalised.

At the level of unallocated Group management costs, EBITDA was down PLN 0.9m, which was mainly attributable to allocation of the Group’s operating expenses (a lower share of allocated expenses) and additional costs relating to public charges payable.

As a consequence of these developments, adjusted EBITDA margin (excluding the trading segment) stood at 28.1%, having declined 2pp year on year.

Net finance income/costs and income tax stayed largely flat year on year.

Other key information regarding the Group’s situation

Debt of the Group’s portfolio companies is monitored on an ongoing basis. Wind farm debt reprofiling in under way. Significant progress has been made in debt restructuring. The reprofiling of Dipol’s debt was completed in December 2017, and work on reprofiling the debt of Amon, Talia, Gawłowice, Skurpie, and Rajgród is well under way.

The restructuring of biomass projects has begun. Divestment of Biomasa Południe’s assets is in progress.

Work has also been undertaken to prepare onshore wind farm projects (185 MW), a biomass-fired power plant project (31 MW) and photovoltaic power station projects (40 MW) for participation in the auction-based system over the next two years.

In the distribution segment, an investment programme implemented in 2016 is progressing as planned. Polenergia Dystrybucja is currently developing a new investment plan for 2019–2022.

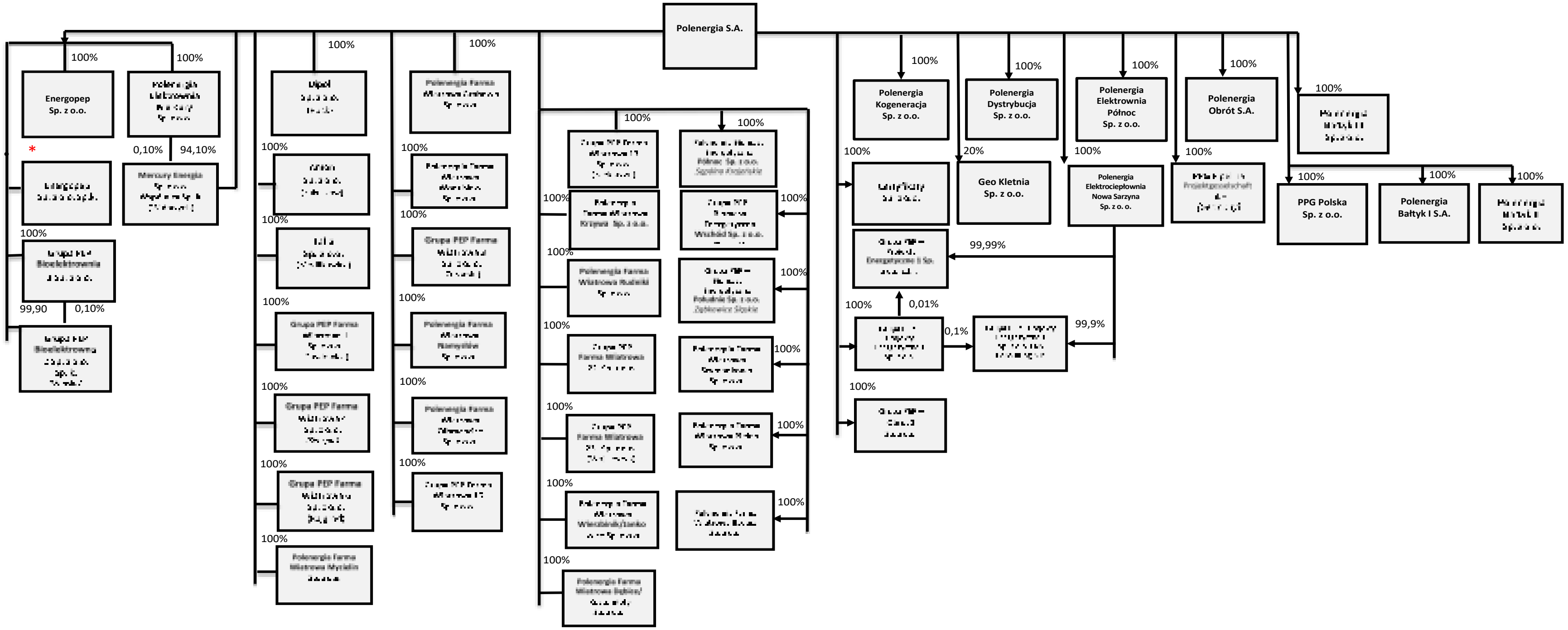
The Group is preparing the construction of two offshore wind farms (Polenergia Bałtyk II and Polenergia Bałtyk III) in the Baltic Sea, with a total capacity of up to 1,200 MWe. The time of launching the construction will depend on the effective date of the relevant regulatory regime. In addition, the Group is looking into the possibility of resuming preparatory work on the Polenergia Bałtyk I project.

As announced in Current Report No. 13/2018 of May 2nd 2018, with reference to the Group’s earlier reports, on May 22nd 2018 the Group expects to sign a final agreement for sale of 50% of shares in companies running projects to develop and construct offshore wind farms (Polenergia Bałtyk II and Polenergia Bałtyk III).

3M 2018 (PLNm)	Wind Power	Conventional Energy	Trading	Distribution	Biomass	Development	Unallocated Group management costs	Purchase price allocation	TOTAL
Revenue	37.1	76.4	604.1	22.9	5.3	0.0	0.3	0.7	746.8
Operating expenses	(28.6)	(62.7)	(603.0)	(19.0)	(5.8)	(0.5)	(1.1)	(2.5)	(723.3)
incl. depreciation and amortisation	(14.2)	(5.4)	(0.0)	(1.1)	(0.5)	-	(0.2)	(2.5)	(24.0)
Gross profit	**8.5**	**13.7**	**1.2**	**3.9**	**(0.5)**	**(0.5)**	**(0.8)**	**(1.9)**	23.5
Gross margin	*22.8%*	*18.0%*	*0.2%*	*16.9%*	*-8.9%*	*n/a*	*-270.2%*	*-271.8%*	*3.1%*
Administrative expenses	(0.6)	(1.7)	(2.6)	(1.4)	(0.4)	(0.2)	(2.3)	-	(9.0)
Net other income/expenses	1.1	(0.4)	0.2	0.1	0.0	(0.2)	(0.0)	-	0.8
Operating profit	**9.0**	**11.7**	**(1.2)**	**2.6**	**(0.8)**	**(0.9)**	**(3.1)**	**(1.9)**	**15.3**
EBITDA	**23.2**	**17.1**	**(1.2)**	**3.7**	**(0.3)**	**(0.7)**	**(2.9)**	**0.7**	**39.6**
EBITDA margin	*62.5%*	*22.4%*	*-0.2%*	*16.1%*	*-5.7%*	*n/a*	*-932.4%*	*100.0%*	*5.3%*
Elimination of purchase price allocation effect								(0.7)	(0.7)
Adjusted EBITDA	**23.2**	**17.1**	**(1.2)**	**3.7**	**(0.3)**	**(0.7)**	**(2.9)**	**-**	**38.9**
Adjusted EBITDA margin	*62.5%*	*22.4%*	*-0.2%*	*16.1%*	*-5.7%*	*n/a*	*-932.4%*	*0.0%*	*5.2%*
Net finance income	(12.7)	(0.3)	(1.2)	(0.5)	(0.1)	(0.0)	2.2	-	(12.6)
Profit/(loss) before tax	**(3.7)**	**11.3**	**(2.4)**	**2.1**	**(0.9)**	**(0.9)**	**(0.9)**	**(1.9)**	**2.7**
Income tax									(2.6)
Net profit/(loss) for period									**0.1**
Elimination of purchase price allocation effect									1.5
Elimination of unrealised exchange differences effect									0.0
Elimination of AMC loan valuation effect									0.7
Impairment losses									0.2
Adjusted net profit									**2.5**

3M 2017 (PLNm)	Wind Power	Conventional Energy	Trading	Distribution	Biomass	Development	Unallocated Group management costs	Purchase price allocation	TOTAL
Revenue	34.8	69.8	572.6	22.3	9.1	0.0	0.7	0.7	709.9
Operating expenses	(28.6)	(54.5)	(569.6)	(17.8)	(9.6)	(0.1)	(1.6)	(2.5)	(684.4)
incl. depreciation and amortisation	(14.3)	(5.4)	(0.0)	(1.1)	(1.0)	-	(0.2)	(2.5)	(24.5)
Gross profit	**6.2**	**15.3**	**3.0**	**4.5**	**(0.6)**	**(0.1)**	**(1.0)**	**(1.9)**	25.5
Gross margin	*17.9%*	*21.9%*	*0.5%*	*20.0%*	*-6.2%*	*n/a*	*-140.8%*	*-271.8%*	*3.6%*
Administrative expenses	(1.0)	(1.5)	(2.4)	(1.4)	(0.3)	(0.1)	(1.4)	-	(8.0)
Net other income/expenses	1.0	(0.4)	0.1	0.1	0.2	(0.1)	0.2	-	1.1
Operating profit	**6.2**	**13.5**	**0.7**	**3.2**	**(0.6)**	**(0.3)**	**(2.2)**	**(1.9)**	18.7
EBITDA	**20.5**	**18.8**	**0.8**	**4.3**	**0.3**	**(0.3)**	**(1.9)**	**0.7**	**43.2**
EBITDA margin	*58.8%*	*27.0%*	*0.1%*	*19.4%*	*3.7%*	*n/a*	*-287.4%*	*100.0%*	*6.1%*
Elimination of purchase price allocation effect								(0.7)	(0.7)
Adjusted EBITDA	**20.5**	**18.8**	**0.8**	**4.3**	**0.3**	**(0.3)**	**(1.9)**	**-**	**42.5**
Adjusted EBITDA margin	*58.8%*	*27.0%*	*0.1%*	*19.4%*	*3.7%*	*n/a*	*-287.4%*	*0.0%*	*6.0%*
Net finance income	(12.2)	(0.6)	(0.9)	(0.4)	(0.1)	(0.0)	0.8	-	(13.5)
Profit/(loss) before tax	**(6.0)**	**12.9**	**(0.1)**	**2.8**	**(0.8)**	**(0.3)**	**(1.4)**	**(1.9)**	**5.2**
Income tax									(3.6)
Net profit/(loss) for period									**1.6**
Elimination of purchase price allocation effect									1.5
Elimination of unrealised exchange differences effect									(0.8)
Elimination of AMC loan valuation effect									0.7
Adjusted net profit									**2.9**

2. The Group's organisational structure



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

B. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31ST 2018

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at Mar 31 2018

Assets

	Note	Mar 31 2018	Dec 31 2017
I. Non-current assets		**1,829,095**	**2,049,507**
1. Property, plant and equipment		1,625,637	1,790,851
2. Intangible assets		27,407	30,146
3. Goodwill related to subordinated entities		109,613	184,613
4. Financial assets		37,179	14,609
5. Long-term receivables		4,410	4,489
6. Deferred tax asset		24,806	24,756
7. Prepayments and accrued income		43	43
II. Current assets		**917,544**	**614,757**
1. Inventories		30,330	26,214
2. Trade receivables	7	98,054	123,091
3. Current tax asset		3,050	1,319
4. Other short-term receivables		39,446	39,995
5. Prepayments and accrued income		14,427	6,939
6. Current financial assets	4.10	231,860	119,301
7. Cash and cash equivalents		271,531	297,898
8. Non-current assets held for sale	4.1	228,846	-
Total assets		**2,746,639**	**2,664,264**

Equity and liabilities

	Note	Mar 31 2018	Dec 31 2017
I. Equity		**1,181,813**	**1,181,988**
Equity attributable to owners of the parent		**1,180,882**	**1,181,353**
1. Share capital		90,887	90,887
2. Share premium		680,777	680,777
3. Capital reserve from valuation of options		13,207	13,207
4. Other capital reserves		401,935	401,970
5. Retained earnings/(deficit)		(6,631)	81,312
6. Net profit/(loss)		100	(87,726)
7. Translation differences		607	926
Non-controlling interests		**931**	**635**
II. Non-current liabilities		**866,697**	**894,846**
1. Bank and other borrowings		682,658	705,504
2. Deferred tax liability		67,951	73,973
3. Provisions	7	22,226	22,907
4. Accruals and deferred income		55,764	56,565
5. Other liabilities		38,098	35,897
III. Current liabilities		**698,129**	**587,430**
1. Bank and other borrowings	4.11	269,387	298,013
2. Trade payables	4.11	141,224	129,613
3. Income tax payable	4.11	9	290
4. Other liabilities	4.11	260,566	139,972
5. Provisions	7	3,360	3,656
6. Accruals and deferred income		14,301	15,886
7. Liabilities directly associated with non-current assets classified as held for sale	4.1	9,282	-
Total equity and liabilities		**2,746,639**	**2,664,264**

(PLN '000)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the three months ended March 31st 2018

	Note	For 3 months ended Mar 31 2018	Mar 31 2017
Revenue	4.2	746,813	709,942
Cost of sales	4.3	(723,299)	(684,402)
Gross profit		**23,514**	**25,540**
Other income	4.4	1,297	1,732
Distribution costs	4.3	(160)	(238)
Administrative expenses	4.3	(9,007)	(8,002)
Other expenses	4.5	(360)	(360)
Finance income	4.6	1,289	2,666
Finance costs	4.7	(13,872)	(16,116)
Profit/(loss) before tax		**2,701**	**5,222**
Income tax	7	(2,596)	(3,639)
Net profit/(loss)		**105**	**1,583**
Net profit/(loss) attributable to:		**105**	**1,583**
Owners of the parent		100	1,584
Non-controlling interests		5	(1)
Earnings/(loss) per share:			
Weighted average number of ordinary shares		45,443,547	45,443,547
- basic/diluted earnings (loss) for period attributable to owners of the parent		0.00	0.03

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three months ended March 31st 2018

	For 3 months ended Mar 31 2018	Mar 31 2017
Net profit for	**105**	**1,583**
Other comprehensive income that may be reclassified to profit or loss once specific conditions are met		
- Cash-flow hedges	(35)	788
- Translation differences	(28)	(30)
Net other comprehensive income	**(63)**	**758**
COMPREHENSIVE INCOME FOR THE PERIOD	**42**	**2,341**
Comprehensive income for period:	42	2,341
Owners of the parent	37	2,342
Non-controlling interests	5	(1)

(PLN '000)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the three months ended March 31st 2018

	Note	For 3 months ended Mar 31 2018	Mar 31 2017
A. Cash flows from operating activities			
I. Profit/(loss) before tax		**2,701**	**5,222**
II. Total adjustments		**47,510**	**10,965**
1. Depreciation and amortisation	4.3	24,044	24,507
2. Foreign exchange/(gains) losses		223	(1,571)
3. Interest and profit distributions (dividends)		13,082	14,169
4. Gain/(loss) on investing activities		650	1,975
5. Income tax		(2,443)	(1,141)
6. Change in provisions		(977)	(610)
7. Change in inventories	4.8	(4,116)	6,335
8. Change in receivables	4.8	(110,292)	75,629
9. Change in current liabilities (net of borrowings)	4.8	137,106	(97,899)
10. Change in accruals and deferrals	4.8	(9,775)	(10,660)
11. Other adjustments		8	231
III. Net cash from operating activities (I+/-II)		**50,211**	**16,187**
B. Cash flows from investing activities			
I. Cash receipts		**2**	**14**
1. Disposal of intangible assets and property, plant and equipment		2	1
2. Proceeds from financial assets, including:		-	13
a) repayment of long-term loans advanced		-	13
II. Cash payments		**6,605**	**4,556**
1. Acquisition of property, plant and equipment		6,572	4,533
2. Payments for financial assets, including:		33	23
a) acquisition of financial assets		33	23
III. Net cash from investing activities (I-II)		**(6,603)**	**(4,542)**
C. Cash flows from financing activities			
I. Cash receipts		**-**	**9,747**
1. Proceeds from borrowings		-	9,747
II. Cash payments		**65,273**	**55,254**
1. Repayment of borrowings		52,652	41,284
2. Payment of finance lease liabilities		124	172
3. Interest paid		12,159	13,215
4. Other cash payments related to financing activities		338	583
III. Net cash from financing activities (I-II)		**(65,273)**	**(45,507)**
D. Total net cash flows (A.III +/- B.III +/- C.III)		**(21,665)**	**(33,862)**
E. Net increase/decrease in cash, including:		**(26,367)**	**(33,729)**
- effect of exchange rate fluctuations on cash held		(50)	133
- cash classified as assets available for sale	4.1	(4,652)	
F. Cash at beginning of period		**297,898**	**380,862**
G. Cash at end of period, including:		**271,531**	**347,133**
- restricted cash	4.8	31,430	101,357

(PLN '000)

External financing sources – bank borrowings (statement of cash flows)	For 3 months ended	
	Mar 31 2018	Mar 31 2017
item C.I.1 Proceeds from borrowings	-	9,747
item C.II.1 Repayment of borrowings	(52,652)	(41,284)
Change in external financing sources, including:	**(52,652)**	**(31,537)**
net increase in investment facilities	(46,913)	(29,364)
net increase/decrease in overdraft facility	(5,739)	(2,173)

(PLN '000)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three months ended March 31st 2018

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net profit	Translation differences	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1 2018	**90,887**	**680,777**	**13,207**	**401,970**	**(6,414)**	**-**	**635**	**1,181,062**	**926**	**1,181,988**
Change in accounting policies	-	-	-	-	(217)	-	-	(217)	-	(217)
Comprehensive income for period										
- Net profit/(loss) for period	-	-	-	-	-	100	-	100	5	105
- Other comprehensive income for period	-	-	-	(35)	-	-	(28)	(63)	-	(63)
As at Mar 31 2018	**90,887**	**680,777**	**13,207**	**401,935**	**(6,631)**	**100**	**607**	**1,180,882**	**931**	**1,181,813**

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net profit	Translation differences	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1 2017	**90,887**	**765,810**	**13,207**	**399,659**	**(3,721)**	**-**	**682**	**1,266,524**	**902**	**1,267,426**
Comprehensive income for period										
- Net profit (loss) for period	-	-	-	-	-	1,584	-	1,584	(1)	1,583
- Other comprehensive income for period	-	-	-	788	-	-	(30)	758	-	758
Transactions with owners of the parent recognised directly in equity										
- Allocation of profit	-	(85,033)	-		85,033	-	-	-	-	-
As at Mar 31 2017	**90,887**	**680,777**	**13,207**	**400,447**	**81,312**	**1,584**	**652**	**1,268,866**	**901**	**1,269,767**

(PLN '000)

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 2018 and contain comparative data for the three months ended March 31st 2017 and as at December 31st 2017. The statement of profit or loss and the notes to the statement of profit or loss cover the three months ended March 31st 2018, as well as comparative data for the three months ended March 31st 2017.

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 reporting period, i.e. March 31st 2018.

1.3 Approval of the financial statements

These interim condensed consolidated financial statements were authorised for issue by the parent's Management Board on May 16th 2018.

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 2018, a comparative period from January 1st to March 31st 2017, as well as data as at December 31st 2017, presented in the statement of financial position. These interim condensed financial statements for the three months ended March 31st 2018 have not been reviewed by an independent auditor, whereas the comparative data for the financial year ended December 31st 2017 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, measured at fair value,

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 keep their accounts in accordance with the accounting policies defined in the Polish Accounting Act of September 29th 1994, as amended (the "Act"), and secondary legislation issued thereunder (the "Polish Accounting Standards"). In these interim condensed consolidated financial statements certain adjustments have been made to bring the financial statements of these companies into conformity with the IFRSs, which are not disclosed in their books of account.

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 2017.

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 2017.

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the annual periods ended December 31st 2018 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.

The Group has applied IFRS 9 and IFRS 15 using the modified retrospective approach with effect from January 1st 2018. As permitted by the standard, the Group chose not to restate the comparative data. Data as at December 31st 2017 and for the first quarter of 2017 was prepared based on IAS 39 and IAS 18.

IFRS 9 is intended to replace IAS 39. The standard is effective for annual periods beginning on or after January 1st 2018.

The standard introduces the following categories for financial assets: measured at amortised cost and measured at fair value through profit or loss or at fair value through other comprehensive income. Assets are classified on initial recognition depending on an entity's financial instrument management model and the characteristics of contractual cash flows from such instruments.

IFRS 9 introduces a new impairment recognition model based on expected credit losses.

The majority of requirements under IAS 39 concerning classification and measurement of financial liabilities were incorporated into IFRS 9 unchanged. The key change is the new requirement that entities present in other comprehensive income changes in their own credit risk related to financial liabilities designated to be measured at fair value through profit or loss and the requirement that the effects of renegotiation of credit agreements that do not result in derecognition of the liabilities be recognised immediately in profit or loss.

Changes were also made to the hedge accounting model to factor in risk management.

1. Receivables – applying an expected loss impairment model

Under the impairment model applicable before December 31st 2017, an entity was required to assess whether objective evidence of impairment existed and (where such evidence was found) to estimate impairment based on expected cash flows. A description of the previously applied accounting policies and information on credit risk, past due receivables and impairment of trade receivables are provided in Notes 9.18, 20 and 39 to the 2017 Consolidated Financial Statements.

IFRS 9 requires that expected losses be estimated regardless of whether there is evidence of impairment. The standard provides for a three-stage approach to accounting for impairment of financial assets: (1) Stage 1 – where credit risk has not increased significantly since initial recognition and where entities are required to recognise 12 month ECL; (2) Stage 2 – where credit risk has increased significantly since initial recognition and where entities are required to recognise lifetime ECL; (3) Stage 3 – where a financial asset is credit impaired. The standard permits the use of a simplified approach to short-term receivables whereby they are classified as Stage 2.

Homogenous/smaller-balance trade receivables that have been classified as unimpaired based on a portfolio analysis (Stages 1 and 2) – impairment will be determined using a provision matrix based on historical data adjusted for forward-looking estimates.

Trade receivables with individually significant entities (customers purchasing large volumes of products in a given category, cooperation under long-term contracts) – impairment will be estimated on the basis of an analysis of receivables from each individual customer.

2. Credit facility renegotiation

Bank borrowings – the effects of renegotiating a credit facility agreement, previously recognised by adjusting the effective interest rate on the liabilities to account for the difference between the carrying amount of the liabilities and the discounted value of modified future payments over the expected financing period, are recognised immediately in profit or loss in accordance with IFRS 9. It was determined that amortised cost had to be adjusted using the effective interest rate determined as at the date of the credit facility agreement due to the modification made to the agreement. The effect of the above modification on the Group's consolidated financial statements as at January 1st 2018 was PLN 217 thousand.

No other items that would require alignment with IFRS 9 were identified.

IFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after January 1st 2018.

The provisions of IFRS 15 apply to all contracts giving rise to revenue. The fundamental rule provided for in the new standard is that revenue is to be recognised upon transfer of goods or services to a customer at a transaction price. Any goods or services that are sold in bundles and are distinct within the bundle should be recognised separately, and any discounts and rebates on the transaction price should be allocated to specific bundle items. Where a contract contains elements of variable consideration, under the new standard such variable consideration is recognised as revenue only if it is highly probable that the revenue will not be reversed in the future as a result of revaluation. Furthermore, in accordance with IFRS 15, the cost of obtaining and securing a contract with a customer should be capitalised and amortised over the period in which the contract's benefits are consumed.

Revenue from grid connection fees

In the first quarter of 2018, the Group recognised revenue from grid connection fees when it was earned (upon completion of connection), in accordance with the accounting policies applied in previous years. There is no settled market practice as to how grid connection fees should be recognised under IFRS 15, although an approach whereby the fees would be recognised over time (over the useful lives of assets) is being considered. According to the Group's estimates, a change to accounting policies reflecting this approach would have reduced retained earnings by PLN 6.8m and increased deferred income by a corresponding amount of PLN 6.8m in the consolidated financial statements prepared as at March 31st 2018.

2. Adjusted EBITDA and adjusted net profit

EBITDA, adjusted EBITDA and adjusted net profit attributable to owners of the parent are not defined in the IFRSs and may be computed differently by other entities.

The Group presents its EBITDA, adjusted EBITDA and adjusted net profit attributable to owners of the parent in order to show its performance without the effect of factors that are unrelated to the Group's core operations and that lead to no cash flows in the reporting period.

The Group defines EBITDA as profit before tax less finance income plus finance costs, plus depreciation and amortisation, plus impairment losses on non-financial non-current assets, which are not directly attributable to its operations. The definition is principally to ensure comparability of the metric which is the key performance measure used in the industry in which the Company and its Group operate. If circumstances arise enabling the Group to reverse an impairment loss on non-financial non-current assets not directly attributable to its operations, this will be reflected in the calculation of EBITDA.

EBITDA and adjusted EBITDA

	For 3 months ended	
	Mar 31 2018	Mar 31 2017
Profit/(loss) before tax	2,701	5,222
Finance income	(1,289)	(2,666)
Finance costs	13,872	16,116
Depreciation and amortisation	24,044	24,507
Impairment loss on development projects	247	-
EBITDA	**39,575**	**43,179**
Purchase price allocation:		
Valuation of long-term contracts	(681)	(681)
Adjusted EBITDA	**38,894**	**42,498**

Adjusted net profit attributable to owners of the parent

	For 3 months ended	
	Mar 31 2018	Mar 31 2017
NET PROFIT/(LOSS) attributable to owners of the parent	**100**	**1,584**
Unrealised foreign exchange (gains)/losses	13	(814)
(Income)/costs from valuation of long-term bank borrowings	654	663
Impairment loss on development projects	247	-
Purchase price allocation:		
Depreciation and amortisation	2,532	2,532
Valuation of long-term contracts	(681)	(681)
Tax	(351)	(351)
Adjusted NET PROFIT/(LOSS) attributable to owners of the parent	**2,514**	**2,933**

3. Operating segments

For management purposes, the Group performed an analysis to identify operating segments, as a result of which it identified the following operating segments, corresponding to the reportable segments:

- wind power segment comprising the generation of electricity,
- conventional energy segment comprising the generation of electricity and heat,
- electricity and certificates of origin trading segment,
- distribution segment comprising the distribution and sale of electricity to commercial, industrial and household customers,
- biomass segment responsible for the production of pellets from energy crops,
- development and implementation segment comprising the development and construction of wind farms and a conventional power plant,

The Management Board monitors the respective segments' operating performance to make decisions on the allocation of resources, and evaluate the results of the allocation and the segments' operating performance. The Group defines EBITDA as profit before tax less finance income plus finance costs, plus depreciation and amortisation, plus impairment losses on non-financial non-current assets, which are not directly attributable to its operations. If circumstances arise enabling the Group to reverse an impairment loss on non-financial non-current assets not directly attributable to its operations, this will be reflected in the calculation of EBITDA. Income tax is monitored at the Group level and is not allocated to the operating segments. Unallocated assets comprise the Company's cash.

Prices used in transactions between the operating segments are determined on arm's length basis, as in the case of transactions with unrelated parties. All consolidation adjustments are allocated to the relevant segments.

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Izba Rozliczeniowa Giełd Towarowych S.A. (the Warsaw Commodity Clearing House) is the only customer whose transactions with the Group have reached or exceeded 10% of the Group's total revenue. 99.9% of the segments' assets are located in Poland.

For 3 months ended Mar 31 2018	Wind power	Conventional energy	Trading	Distribution	Biomass	Development and implementation	Unallocated Group management costs *)	Purchase price allocation	Total
Revenue from sales to external customers	37,090	76,389	604,145	22,908	5,289	2	309	681	746,813
Gross profit/(loss)	**8,462**	**13,713**	**1,178**	**3,862**	**(469)**	**(546)**	**(835)**	**(1,851)**	**23,514**
Administrative expenses	(593)	(1,680)	(2,558)	(1,390)	(379)	(154)	(2,253)	-	(9,007)
Interest income/(expense)	(11,131)	(299)	(1,042)	(427)	(37)	10	1,714	-	(11,212)
Finance income/(costs) from unrealised exchange gains/losses	(199)	49	134	-	-	-	-	-	(16)
Other finance income/(costs)	(1,332)	(85)	(319)	(36)	(22)	(17)	456	-	(1,355)
Other income/(expenses)	1,110	(353)	159	85	6	(228)	(2)	-	777
Profit/(loss) before tax	**(3,683)**	**11,345**	**(2,448)**	**2,094**	**(901)**	**(935)**	**(920)**	**(1,851)**	**2,701**
Income tax	-	-	-	-	-	-	(2,947)	351	(2,596)
Net profit/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**105**
EBITDA **)	23,185	17,091	(1,201)	3,680	(299)	(681)	(2,881)	681	39,575
Segment assets	1,321,603	288,124	399,019	133,165	52,855	206,358	-	-	2,401,124
Unallocated assets	-	-	-	-	-	-	328,603	16,912	345,515
Total assets	**1,321,603**	**288,124**	**399,019**	**133,165**	**52,855**	**206,358**	**328,603**	**16,912**	**2,746,639**
Segment liabilities	976,744	106,326	362,805	69,997	8,526	1,364	-	-	1,525,762
Unallocated liabilities	-	-	-	-	-	-	1,927	37,137	39,064
Total liabilities	**976,744**	**106,326**	**362,805**	**69,997**	**8,526**	**1,364**	**1,927**	**37,137**	**1,564,826**
Depreciation and amortisation	14,206	5,411	20	1,123	543	-	209	2,532	24,044

*) Head office costs unallocated to other segments.

**) EBITDA is defined in Note 2.

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For 3 months ended Mar 31 2017	Wind power	Conventional energy	Trading	Distribution	Biomass	Development and implementation	Unallocated Group management costs *)	Purchase price allocation	Total
Revenue from sales to external customers	34,845	69,818	572,603	22,259	9,058	2	676	681	709,942
Gross profit/(loss)	**6,224**	**15,295**	**3,037**	**4,462**	**(562)**	**(113)**	**(952)**	**(1,851)**	**25,540**
Administrative expenses	(1,019)	(1,480)	(2,378)	(1,378)	(292)	(74)	(1,381)	-	(8,002)
Interest income/(expense)	(12,163)	(388)	(92)	(398)	(66)	16	263	-	(12,828)
Finance income/(costs) from unrealised exchange gains/losses	1,359	(81)	(265)	-	(1)	(7)	-	-	1,005
Other finance income/(costs)	(1,348)	(134)	(531)	(34)	(60)	(14)	494	-	(1,627)
Other income/(expenses)	971	(354)	83	143	230	(101)	162		1,134
Profit/(loss) before tax	**(5,976)**	**12,858**	**(146)**	**2,795**	**(751)**	**(293)**	**(1,414)**	**(1,851)**	**5,222**
Income tax	-	-	-	-	-	-	(3,990)	351	(3,639)
Net profit/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,583**
EBITDA **)	20,483	18,834	750	4,327	335	(288)	(1,943)	681	43,179
Segment assets	1,414,418	392,351	183,437	124,839	68,545	193,296	-	-	2,376,886
Unallocated assets	-	-	-	-	-	-	437,699	27,036	464,735
Total assets	**1,414,418**	**392,351**	**183,437**	**124,839**	**68,545**	**193,296**	**437,699**	**27,036**	**2,841,621**
Segment liabilities	1,053,077	217,666	148,520	62,199	12,618	36,122	20	-	1,530,222
Unallocated liabilities	-	-	-	-	-	-	367	41,265	41,632
Total liabilities	**1,053,077**	**217,666**	**148,520**	**62,199**	**12,618**	**36,122**	**387**	**41,265**	**1,571,854**
Depreciation and amortisation	14,307	5,373	8	1,100	959	-	228	2,532	**24,507**

*) Head office costs unallocated to other segments.

**) EBITDA is defined in Note 2.

(PLN ’000)

4. Other notes

4.1 Non-current assets held for sale

On March 5th 2018, having obtained on the same date all relevant corporate approvals, Polenergia S.A. (the "Company") executed a conditional preliminary agreement (the "Preliminary Agreement") on sale of 50% of shares (the "Shares") in each of the following subsidiaries of the Company: Polenergia Bałtyk II Sp. z o.o. and Polenergia Bałtyk III Sp. z o.o. (jointly the "SPVs"), which are carrying out projects to construct offshore wind farms in the Baltic Sea (the "Project"). The Preliminary Agreement was made with Statoil Holding Netherlands B.V. ("Statoil Holding Netherlands"), a member of the Statoil Group ("Statoil").
Shares in the SPVs are to be sold as part of the parties' cooperation involving joint implementation of the Project (the "Transaction'), as agreed on by the parties.

The Preliminary Agreement provides for the conclusion of a final agreement transferring the ownership of Shares held by the Company to Statoil Holding Netherlands. Conclusion of the final transfer agreement depends on satisfaction of the following conditions precedent:

1. obtaining by each party of unconditional clearance of the Transaction from the President of the Office of Competition and Consumer Protection – such clearance was received by the parties on May 27th 2018.

2. obtaining by Polenergia and the SPVs of the final registration of share capital increase resolutions by amending each SPV's articles of association, which had been passed before the conclusion of the Preliminary Agreement – the registration was obtained by the Company and the SPVs on April 21st 2018.

The total base sale price of Shares in the SPVs was set at PLN 94,275 thousand, determined based on actual capital expenditure incurred on the Project, taking into account a standard adjustment mechanism based on each SPV's financial position at the time of transferring the ownership of Shares, as described in the Preliminary Agreement, increased by EUR 5,000 thousand, payable in instalments by September 30th 2019. The parties also agreed on additional conditional payments, depending on completion of particular Project milestones or achievement of specific targets.

As both these conditions precedent were satisfied, the Company and Statoil Holding Netherlands agreed that the final agreement would be signed on May 22nd 2018.

Therefore, as at March 31st 2018, all assets and liabilities of the SPVs were presented as held for sale. After the Transaction is completed, 50% of the SPV shares will be recognised at fair value in the consolidated financial statements under non-current financial assets, and the SPVs will be consolidated using the equity method.

	Mar 31 2018	Mar 31 2017
Assets		
Goodwill	75,000	-
Property, plant and equipment	148,287	-
Receivables	907	-
Cash	4,652	-
Non-current assets held for sale	**228,846**	**-**
Liabilities		
Deferred tax liability	8,257	-
Current liabilities	1,025	-
Liabilities directly associated with non-current assets held for sale	**9,282**	**-**

(PLN '000)

4.2 Revenue

	For 3 months ended Mar 31 2018	Mar 31 2017
- revenue from sale and distribution of electricity	628,658	585,644
- revenue from certificates of origin	10,611	6,811
- revenue from sale of heat	6,964	6,526
- revenue from consulting and advisory services	267	615
- income from lease and operator services	253	474
- revenue from sale of merchandise	146	1,485
- revenue from sale of pellets	5,111	7,568
- rental income	46	63
- income from compensation for stranded costs and cost of gas	26,691	24,376
- net revenue from sale and distribution of gas	67,466	75,759
- other	600	277
Total revenue	**746,813**	**709,942**

4.3 Operating expenses, by nature of expense

	For 3 months ended Mar 31 2018	Mar 31 2017
- depreciation and amortisation expense	24,044	24,507
- raw materials and consumables used	56,868	50,949
- services	11,602	14,050
- taxes and charges	7,731	6,677
- salaries and wages	7,936	7,840
- social security and other benefits	1,364	1,225
- other operating expenses	756	798
Total expenses by nature	**110,301**	**106,046**
- cost of merchandise and materials sold (+)	622,165	586,596
- distribution costs (-)	(160)	(238)
- administrative expenses (-)	(9,007)	(8,002)
Total cost of sales	**723,299**	**684,402**

(PLN '000)

4.4 Other income

	For 3 months ended Mar 31 2018	For 3 months ended Mar 31 2017
- reversal of impairment losses and write-downs, including:	-	8
- impairment losses on receivables	-	8
- provisions reversed, including:	300	-
- provision for site restoration	300	-
- other, including:	997	1,724
- compensation and additional charges	142	359
- settlement of grants	800	819
- gain on disposal of non-financial non-current assets	2	52
- other	53	494
Total other income	**1,297**	**1,732**

4.5 Other expenses

	For 3 months ended Mar 31 2018	For 3 months ended Mar 31 2017
- impairment losses and write-downs, including:	281	117
- impairment losses on receivables	34	22
- impairment losses on property, plant and equipment	247	95
- other, including:	79	243
- penalties, fines, compensation	1	2
- other development costs	33	37
- loss on disposal of non-financial non-current assets	-	55
- other	45	149
Total other expenses	**360**	**360**

4.6 Finance income

	For 3 months ended Mar 31 2018	For 3 months ended Mar 31 2017
- income from interest on deposits and loans	1,097	1,183
- interest on finance leases	32	35
- foreign exchange losses, including:	156	1,433
- unrealised	183	1,382
- realised	(27)	51
- valuation of financial liabilities	-	14
- other	4	1
Total finance income	**1,289**	**2,666**

(PLN '000)

4.7 Finance costs

	For 3 months ended Mar 31 2018	For 3 months ended Mar 31 2017
- interest expense	12,341	14,046
- foreign exchange losses, including:	214	720
- unrealised	199	377
- realised	15	343
- fees and commissions	498	486
- valuation of financial liabilities *)	807	833
- other	12	31
Total finance costs	**13,872**	**16,116**

*) Related to bank borrowings measured at amortised cost.

4.8 Cash flows

Restricted cash	For 3 months ended Mar 31 2018	For 3 months ended Mar 31 2017
- cash for credit facility repayments	25,713	33,387
- cash for the settlement of compensation for stranded costs	-	64,409
- cash for long- and medium-term overhauls	5,632	3,461
- other restricted cash	85	100
Total	**31,430**	**101,357**

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

Inventories:	For 3 months ended Mar 31 2018	For 3 months ended Mar 31 2017
- change in inventories in the statement of financial position	(4,116)	5,690
- recognition of inventories under non-current assets	-	645
Change in inventories in the statement of cash flows	**(4,116)**	**6,335**

Receivables:	For 3 months ended Mar 31 2018	For 3 months ended Mar 31 2017
- change in short-term and long-term receivables, net, in the statement of financial position	25,665	39,544
- change in receivables classified as held for sale	(907)	-
- change in financial receivables	(135,050)	36,085
Change in receivables in the statement of cash flows	**(110,292)**	**75,629**

Liabilities:	For 3 months ended Mar 31 2018	For 3 months ended Mar 31 2017
- change in liabilities, net of borrowings, in the statement of financial position	134,406	(96,322)
- change in finance lease liabilities	122	156
- change in liabilities classified as held for sale	1,025	-
- change in investment commitments	1,842	(2,723)
- change in financial liabilities	(289)	990
Change in liabilities in the statement of cash flows	**137,106**	**(97,899)**

(PLN '000)

Accruals and deferrals:	For 3 months ended	
	Mar 31 2018	Mar 31 2017
- change in accruals and deferrals in the statement of financial position	(9,874)	(10,199)
- commissions on bank borrowings	99	(461)
Change in accruals and deferrals in the statement of cash flows	**(9,775)**	**(10,660)**

4.9 Goodwill

Goodwill related to subordinated entities, recognised as a result of the contribution of the Neutron Group assets to the Group, is attributable to the difference between the purchase price and the fair value of net assets acquired.
Goodwill following from that transaction amounted to PLN 184m. As at March 31st 2018, it fell by PLN 75m owing to the Group's plans to sell 50% of shares in Polenergia Bałtyk I and Polenergia Bałtyk II, whose assets are disclosed as held for sale in accordance with the applicable accounting standards (as described in Note 4.1).
Therefore, goodwill amounts to PLN 109m and is attributable to the following segments and cash-generating units:
(i) PLN 40m – conventional energy segment − comprising Polenergia Elektrociepłownia Nowa Sarzyna;
(ii) PLN 25m – distribution segment – comprising Polenergia Dystrybucja and Polenergia Kogeneracja;
(iii) PLN 44m − trading segment − comprising Polenergia Obrót.

4.10 Current financial assets

	Mar 31 2018	Dec 31 2017
- valuation of futures and forward contracts	231,860	119,301
Total current financial assets	**231,860**	**119,301**

4.11 Current liabilities

	Mar 31 2018	Dec 31 2017
- bank and other borrowings	269,387	298,013
- trade payables	141,224	129,613
- to related entities	277	576
- to other entities	140,947	129,037
- income tax payable	9	290
- other liabilities	260,566	139,972
- to the state budget	8,945	7,746
- prepaid deliveries	1,490	226
- other financial liabilities	312	339
- valuation of futures and forward contracts	226,725	111,293
- salaries and wages payable	1,028	1,414
- special accounts	14	43
- under settlement of long-term contracts	18,751	16,436
- other	3,301	2,475
Total current liabilities	**671,186**	**567,888**

(PLN '000)

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

The Polenergia Group operates in the following market segments:

- Wind power,
- Conventional energy,
- Trading,
- Distribution,
- Biomass,
- Development of building projects and project implementation.

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

The Polenergia Group's key customers use the heat and electricity supplied by the Group mainly 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, the 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 experts. 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.

6. Interest-bearing borrowings

On January 15th 2018, Grupa PEP Farma Wiatrowa 1 Sp. z o.o., Grupa PEP Farma Wiatrowa 4 Sp. z o.o., and Grupa PEP Farma Wiatrowa 6 Sp. z o.o. partly prepaid a credit facility provided by the consortium of BOŚ and EBRD in connection with distribution made to Polenergia S.A. in December 2017 in accordance with the credit facility agreement. As a result, the credit facility repayment schedule was modified so as to shorten the facility term by the number of full instalments equal to the prepaid amount.

On March 30th 2018, Grupa PEP Biomasa Energetyczna Wschód Sp. z o.o. applied for a waiver of the lender's rights under a credit facility agreement in connection with the Company's planning to report DSCR as at March 31st 2018 below the minimum level stipulated in the credit facility agreement. As at the date of issue of these financial statements, the waiver had not been granted to the Group. The Group is reviewing the project's situation, including changes in its legal environment. In accordance with the applicable accounting standards, the credit facility contracted to finance the project was recognised entirely in the Group's statement of financial position under current liabilities.

On March 19th 2018, Amon Sp. z o.o. and Talia Sp. z o.o. applied for a waiver of the lender's right to demand top-up of the Debt Servicing Reserve, which had been partly used by the companies to make principal and interest payments due on September 30th 2017 and December 31st 2017. The waiver was granted to the companies by the financing banks. In accordance with the prudence concept, the credit facility contracted to finance the projects was recognised entirely in the Group's statement of financial position under current liabilities. The Group assumes that negotiations being held with the financing banks will lead to reprofiling of the project debt and that the credit facility agreements will be amended within the coming months.

7. Changes in accounting estimates

a) Effective tax rate

	For 3 months ended	
	Mar 31 2018	Mar 31 2017
Tax expense recognised in profit or loss, including:	**2,596**	**3,639**
Current income tax	435	283
Deferred tax	2,161	3,356
Profit before tax	**2,701**	**5,222**
Tax expense at the effective rate of 19%	513	992
Adjustments to current income tax from previous years	18	(4)
Non-tax-deductible costs:	**2,077**	**2,705**
- permanent differences	44	61
- tax assets on account of tax losses in Special Economic Zone	102	247
- tax asset on account of other tax losses	1,931	2,397
Non-taxable income:	**(12)**	**(54)**
- other	(12)	(54)
Tax recognised in profit or loss	**2,596**	**3,639**

b) Change in provisions

Change in short- and long-term provisions

	Mar 31 2018	Dec 31 2017
Provisions at beginning of period	**26,563**	**28,572**
- provisions recognised	4	782
- provisions reversed	(981)	(2,791)
Provisions at end of period	**25,586**	**26,563**

c) Trade and other receivables

In the period ended March 31st 2018, impairment losses on uncollectible trade receivables went down to PLN 2,259 thousand.

	Mar 31 2018	Dec 31 2017
At beginning of period	**2,340**	**2,281**
- increase	35	259
- use	(116)	(150)
- reversal	-	(50)
At end of period	**2,259**	**2,340**

Below is an analysis of trade receivables that were past due as at March 31st 2018, but in respect of which no impairment losses were recognised.

(PLN '000)

	Total	Not past due	Past due but collectible: Less than 30 days	30–60 days	60–90 days	90–120 days	Over 120 days
Mar 31 2018	98,054	91,334	5,785	495	35	65	340
Dec 31 2017	123,091	120,139	2,427	131	51	56	287

Impairment is estimated using the expected loss model, as described in Note 1.4.

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 breakdown into current and non-current portion.

8. 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 2018.

9. 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 2018.

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

The total amount of contract sureties provided by Kulczyk Investments to Polenergia Obrót S.A. fell to EUR 3,000 thousand and PLN 5,000 thousand as at March 31st 2018.

On January 2nd 2018, the PLN 49,000 performance bond issued to Grupa PEP Farma Wiatrowa 1 Sp. z o.o. on behalf of SGS Polska Sp. z o.o. expired.

On January 2nd 2018, the PLN 30,000 performance bond issued to Grupa PEP Farma Wiatrowa 6 Sp. z o.o. on behalf of SGS Polska Sp. z o.o. expired.

On January 31st 2018, the PLN 1,150,000 performance and warranty bond issued to Grupa PEP Farma Wiatrowa 6 Sp. z o.o. on behalf of Electrum Sp. z o.o. expired.

On February 9th 2018, the PLN 8,400 performance and warranty bond issued to Grupa PEP Farma Wiatrowa 4 Sp. z o.o. on behalf of SGS Polska Sp. z o.o. expired.

On March 26th 2018, the PLN 8,400 performance and warranty bond issued to Grupa PEP Farma Wiatrowa 1 Sp. z o.o. on behalf of SGS Polska Sp. z o.o. expired.

On March 31st 2018, the PLN 458,300 bank guarantee issued to Grupa PEP Farma Wiatrowa 1 Sp. z o.o. on behalf of a consortium comprising ELECTRUM Sp. z o.o. and Zakład Wykonawstwa Sieci Elektrycznych MEGA-POL S.A. expired.

On March 31st 2018, the PLN 473,400 bank guarantee issued to Grupa PEP Farma Wiatrowa 1 Sp. z o.o. on behalf of ELECTRUM Sp. z o.o. expired.

On March 31st 2018, the PLN 498,300 performance bond issued to Grupa PEP Farma Wiatrowa 1 Sp. z o.o. on behalf of ELECTRUM Sp. z o.o. expired.

On February 28th 2018, the PLN 4,000,000 commercial guarantee issued to Polenergia Obrót S.A. on behalf of DUON Marketing and Trading S.A. expired.

(PLN ’000)

11. Proceedings pending before common courts of law, arbitration courts or governmental authorities, brought by or against the Company or its subsidiaries

The Company's subsidiaries Amon Sp. z o.o. (on May 22nd 2015) and Talia Sp. z o.o. (on May 21st 2015) brought separate court actions to declare invalid the termination notices issued by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. under:

1) the agreement on sale of property rights incorporated in certificates of origin for electricity generated in a renewable energy source − the Łukaszów Wind Farm of December 23rd 2009, and the agreement on sale of electricity generated in a renewable energy source − the Łukaszów Wind Farm of December 23rd 2009, in respect of Amon;

2) the agreement on sale of property rights incorporated in certificates of origin for electricity generated in a renewable energy source − the Modlikowice Wind Farm of December 23rd 2009, and the agreement on sale of electricity generated in a renewable energy source − the Modlikowice Wind Farm of December 23rd 2009, in respect of Talia;

Subsequently, Amon Sp. z o.o. and Talia Sp. z o.o. changed their actions in such a way that, in addition to the initial action, they brought a new one, requesting payment of compensation for non-performance or improper performance of the abovementioned agreements, and then extended this request to cover subsequent periods of Polska Energia – Pierwszy Kompania Handlowa Sp. z o.o.'s non-performance of the agreements. Thus Amon Sp. z o.o. and Talia Sp. z o.o are currently claiming payment of PLN 40,478 thousand and PLN 26,769 thousand, respectively.

Eolos Polska Sp. z o.o. filed for joint and several payment by the Company's subsidiaries, Certyfikaty Sp. z o.o. (on October 3rd 2016) and Polenergia Obrót S.A. (on February 1st 2017), of liquidated damages and amounts due totalling PLN 27,895 thousand under alleged non-performance of contracts which expired on January 5th 2016. It should be noted that in the statement of claim the plaintiff indicated that its claim could be higher due to the fact that the claimed liquidated damages would increase in subsequent years.

In their statement of defence, Certyfikaty sp. z o.o. and Polenergia Obrót S.A. argued that the claim lacked any merit, and Polenergia Obrót S.A. challenged the grounds cited by Eolos for the alleged joint and several liability of Polenergia Obrót S.A. and Certyfikaty sp. z o.o. The Company fully supports their position.

12. Significant related-party transactions

As at March 31st 2018, the Group did not have any associates involved in material related-party transactions.
In the three months ended March 31st 2018, the following material related-party transactions took place (all of them on an arm's length basis):

Mar 31 2018	Revenue	Costs	Receivables	Liabilities
Kulczyk Investments	-	-	-	21
KI ONE Spółka Akcyjna	-	95	-	-
Krucza Inwestycje KREH 1 Sp. z o.o. S.K.	-	642	-	2
Chmielna Inwestycje KREH2 Sp. z o.o. S.K.A.	-	-	-	-
Euro Invest Sp. z o.o.	-	-	-	-
Kulczyk Holding Sarl	196	-	90	-
Polenergia Usługi Sp. z o.o.	30	-	-	-
Ciech Sarzyna S.A.	6,626	513	2,161	178
Autostrada Eksploatacja S.A.	627	-	200	-
Ramsden Sp. z o.o.	-	-	-	-
Polenergia International Sarl	70	-	70	-
Beyond.pl Sp. z o.o.	338	43	149	3
Total	**7,887**	**1,293**	**2,670**	**204**

(PLN '000)

13. 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 is significant

As at March 31st 2018, the Group did not issue any external guarantees.

14. Other information the issuer considered material to the assessment of its human resources, assets, financial condition 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 Company'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.

15. 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 materially affect its performance (consolidated and separate) in the coming quarters:

- macroeconomic situation in Poland,
- final legislative framework applicable to the Company's business,
- prices of electricity and green and yellow certificates,
- wind conditions in the areas where the Puck, Łukaszów, Modlikowice, Rajgród, Gawłowice, Skurpie and Mycielin Wind Farms are located,
- changes in the prices of natural gas and biomass and their availability,
- financial condition of the Company's customers,
- ability to obtain financing for the planned projects,
- EUR/PLN exchange rate and WIBOR/EURIBOR interest rates.

16. 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 which 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 enters into transactions involving derivative instruments, primarily forward contracts to hedge its currency and market price risks. The purpose of these transactions is to manage the currency risk and the risk of market prices (in particular in electricity trading) which arise in the course of the Group's operations and in connection with the sources of funding it uses.

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.

16.1 Interest rate risk

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

It is the Group's policy to manage its interest expense by using debt financing based on floating rates. To hedge interest payments under its borrowings, the Group uses financial derivatives.

The table below presents sensitivity of the Company's full-year profit before tax (in connection with floating-rate liabilities) to reasonably possible movements in interest rates, all other factors being equal.

The effect on the Group's equity is not presented.

period ended Mar 31 2018	Change	Effect on profit/loss before tax over 3 consecutive months (PLN '000)
1M WIBOR	1%	(1,957)
1M EURIBOR	1%	(54)
1M WIBOR	-1%	1,957
1M EURIBOR	-1%	54

period ended Mar 31 2017	Change	Effect on profit/loss before tax over 3 consecutive months (PLN '000)
1M WIBOR	1%	(2,191)
1M EURIBOR	1%	(70)
1M WIBOR	-1%	2,191
1M EURIBOR	-1%	70

16.2 Currency risk

The Group's currency risk involves primarily the risk of changes in the euro exchange rate with respect to its short currency position under bank deposits, investment commitments, and investment credit facilities.
As at March 31st 2018, the position was valued at EUR 5.3m. It is not hedged against changes in currency exchange rates.

Except in the case of the above unhedged currency position, when negotiating the terms of hedging derivatives, the Group seeks to match them with the terms of the hedged item, thus ensuring the maximum effectiveness of hedging.

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, all other factors being equal.

	Exchange rate increase/decrease	Effect on profit/loss
Mar 31 2017 - EUR	+ PLN 0.01/EUR	(53)
	- PLN 0.01/EUR	53
Mar 31 2016 - EUR	+ PLN 0.01/EUR	(67)
	- PLN 0.01/EUR	67

In the period ended March 31st 2018, the Group realised finance costs of PLN 16 thousand from unrealised exchange differences.

In the period from March 31st 2018 to June 30th 2018, 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 2018 will mainly depend on the difference between the PLN/EUR exchange rates on June 30th 2018 and March 30th 2018, with the appreciation/depreciation of the Polish złoty against the euro having a positive/negative effect on the net profit of ca. PLN 53 thousand for each PLN 0.01 of the difference relative to the exchange rate as at March 31st 2018.

16.3 Credit risk

The Group executes transactions only with reputable companies enjoying sound credit standing. Each customer who wishes to trade on credit terms is subject to credit verification procedures. Moreover, thanks to ongoing monitoring of receivable balances, the Group's exposure to the risk of unrecoverable receivables is insignificant.

With respect to the Group's other financial assets, such as cash and cash equivalents, financial assets available for sale and certain derivative instruments, credit risk is related to the counterparty's inability to pay, and the maximum exposure to this risk is equal to the carrying amount of such instruments.

As the Group's investment projects rely to a large extent on external financing, there is significant debt concentration at the Group. The contracted credit facilities provide for a number of financial covenants which have to be met by individual projects.

Given the current market environment, possible consequences of the Act on Wind Farm Projects and situation prevailing on the market of green certificates, there is a risk that the Group may default on the covenants with respect to certain project.

The Group monitors the debt levels and compliance with covenants at individual companies, remaining in contact with the financing institutions.

Cash at banks is held with well-rated banks. There is no concentration of credit risk, because the Group deals with several reputable banks.

Trade receivables are owed mainly by customers having good credit ratings with whom the Group maintains continued business relations.

16.4 Liquidity risk

The table below presents the Group's financial liabilities by maturity as at March 31st 2018 and December 31st 2017, based on undiscounted contractual payments.

Mar 31 2018	up to 3 months	from 3 to 12 months	from 1 year to 5 years	over 5 years	Total
Interest-bearing borrowings	37,026	426,807	388,462	482,916	**1,335,211**
Other liabilities	260,290	277	37,325	-	**297,892**
Trade payables	141,224	-	-	-	**141,224**

Dec 31 2018	up to 3 months	from 3 to 12 months	from 1 year to 5 years	over 5 years	Total
Interest-bearing borrowings	64,384	432,656	405,121	505,731	**1,407,892**
Other liabilities	139,587	386	14,120	-	**154,093**
Trade payables	129,613	-	-	-	**129,613**

(PLN '000)

Dipol

A guarantee agreement concluded between Polish Energy Partners S.A. (the legal predecessor of Polenergia S.A.) and Raiffeisen Bank Polska S.A. (the “Bank”) as security for all payment obligations towards the Bank arising under a credit facility agreement for up to PLN 6.3m. If an event of default occurs, the Guarantor must pay the outstanding amount owed to the Bank on the Bank’s written demand for payment prepared in accordance with the form attached to the guarantee agreement. Before making demand for payment, the Bank must call on the Company to pay the amount due within a specified time limit. The Company’s Management Board is of the opinion that the Guarantor’s (Polenergia S.A.’s) obligations under the guarantee expired, and that the Bank may not pursue claims against the Guarantor under the agreement. However, taking into account the Bank’s dissenting opinion on the matter, we find it prudent to consider Polenergia S.A. potentially liable under the guarantee, with the liability limited to PLN 6.3m.

Amon/Talia

Guarantee agreements signed by Polenergia S.A. with all financing banks as security for the banks’ claims against Amon sp. z o.o. or Talia sp. z o.o. (as the case may be) in respect of the principal and interest on the Bridge Facility, with a limit of approximately PLN 6.7m. The guarantee amount has been set in each agreement separately (depending on a bank’s commitment under the Bridge Facility) and capped at 110% of a bank’s share of the Total Bridge Facility Commitments). Should an Event of Default occur, the Guarantor must pay the guaranteed amount on receipt of a demand for payment from the bank. Before making demand for payment, the bank must call on Amon or Talia (as the case may be) to pay the amount due by a specified time limit. The Company’s Management Board is uncertain about the enforceability of the surety. However, as no explicit decision had been issued in that matter, it found it prudent to consider the Company potentially liable.

GSR / Mycielin

The Equity Support and Subscription Agreement, where Polenergia S.A. as the Sponsor is a guarantor for the following companies: Grupa PEP Farma Wiatrowa 1 Sp. z o.o. (the Gawłowice project), Grupa PEP Farma Wiatrowa 4 Sp. z o.o. (the Skurpie project), Grupa PEP Farma Wiatrowa 6 sp. z o.o. (the Rajgród project), Polenergia Farma Wiatrowa Mycielin Sp. z o.o. (the Mycielin project) under: 1) an unconditional guarantee: obligation to top up the debt service reserve account in the event of default and failure to maintain the required DSRA balance, and 2) a conditional guarantee: if a condition specified in the agreement is met (the DSCR falls below the permitted level, a Non-Payment Default occurs), the Beneficiary (in most cases the company) may demand payment by the Sponsor. The obligation to pay covers all outstanding amounts under the credit facility agreement and the amount of the next principal and interest payment. Therefore, in practice, the Conditional Guarantee is limited to the amount of two principal and interest payments.

Moreover, if the prices of green certificates remain at the current level for a long time, it may be necessary for Polenergia S.A. to financially support the trading segment, which has concluded long-term agreements for purchase of green certificates from wind farms.

17. 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 Group may introduce changes regarding dividend distribution, return capital to the shareholders, or issue new shares. In the period ended March 31st 2018 and in the year ended December 31st 2017, 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 2018	Dec 31 2017
Interest-bearing borrowings	952,045	1,003,517
Less cash and cash equivalents	(271,531)	(297,898)
Net debt	**680,514**	**705,619**
Equity	1,181,813	1,181,988
Total equity	**1,181,813**	**1,181,988**
Equity and net debt	**1,862,327**	**1,887,607**
Leverage ratio	37%	37%

18. 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

On April 21st 2018, the Management Board of Polenergia S.A. was notified that on April 20th 2018 the second set of amendments made to the articles of association of the SPVs to increase their share capital, as entered in the Business Register of the National Court Register by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, had come into effect. On the coming into effect of the said amendments, one of the conditions precedent for the sale of 50% of shares in the SPVs by the Company to Statoil Holding Netherlands B.V. (see Current Report No. 4 of March 5th 2018) was satisfied in accordance with the preliminary conditional share sale agreement.

On April 27th 2018, the Company was notified that the President of the Office of Competition and Consumer Protection (UOKiK) had unconditionally cleared the establishment of a joint venture. On the granting of the unconditional clearance by the President of UOKiK to Polenergia and Statoil Holding Netherlands to establish the Project joint venture, the second condition precedent for the sale of 50% of shares in the SPVs by the Company to Statoil Holding Netherlands B.V., as disclosed in the Current Report, was satisfied.

As announced in Current Report No. 13/2018 of May 2nd 2018, with reference to the Group's earlier reports, on May 22nd 2018 the Group expects to sign a final agreement for the sale of 50% of shares in the companies running projects to develop and construct offshore wind farms (Polenergia Bałtyk II and Polenergia Bałtyk III).

On April 26th 2018, Certyfikaty sp. z o.o. and Polenergia Obrót S.A., subsidiaries of the Company (the "Subsidiaries"), were served with a letter from the mediator handling the mediation process between the Subsidiaries and Eolos Polska sp. z o.o. ("Eolos"). As the mediation proved futile, it was terminated, and the dispute (as described at length in Note 11) will be continued before the Regional Court of Warsaw.

On April 30th 2018, Amon Sp. z o.o. of Łebcz ("Amon") and Talia sp. z o.o. of Łebcz ("Talia"), subsidiaries of the Company, brought an action before the Regional Court of Katowice, 13th Commercial Division, against Tauron Polska Energia S.A. of Katowice ("Tauron") for premature termination of long-term contracts for sale of electricity and property rights between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. of Warsaw ("PKH"), a subsidiary of Tauron, and Amon and Talia (as described at length in Note 11).

Amon and Talia are claiming PLN 205m and PLN 138m in damages, respectively.

(PLN '000)

C. OTHER INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT

1. Discussion of key economic and financial data disclosed 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 Company's performance:

Key economic and financial data [PLNm]	Jan 1–Mar 31		Change
	2018	2017	
Revenue	746.8	709.9	36.9
EBITDA	39.6	43.2	(3.6)
Adjusted EBITDA	38.9	42.5	(3.6)
Net profit/(loss)	0.1	1.6	(1.5)
Adjusted net profit after elimination of purchase price allocation effect, unrealised exchange differences, impairment losses, loan valuation and discount valuation.	2.5	2.9	(0.4)

In comparison with the corresponding period of 2017, Q1 2018 performance was driven by the following factors:

a) EBITDA (down by PLN 3.6m):

- The wind power segment saw its EBITDA rise by PLN 2.7m, primarily as a result of higher selling prices of green certificates and reduced operating expenses, partially offset by a lower generation volume.
- The conventional energy segment's EBITDA declined by PLN 1.7m, driven by higher prices of gas and CO_2 emission allowances, as well as a lower forecast gas compensation amount.
- The trading segment's EBITDA fell PLN 2.0m year on year, reflecting negative valuation of contracts in the trading portfolio, the effect of which was partially offset by a higher result on the wind farms' portfolio.
- The distribution segment's EBITDA dropped PLN 0.6m year on year, mostly as a result of reduced connection fees and a lower distribution margin due to a postponed effective date of the updated tariff.
- The biomass segment's EBITDA decreased PLN 0.6m year on year, chiefly due to a decline in sales volumes and prices of pellets, coupled with higher costs of materials from which pellets are made.
- The development and implementation segment's EBITDA went down PLN 0.4m, as costs relating to projects at an early stage of development were not capitalised.
- At the level of unallocated Group management costs, EBITDA was down PLN 0.9m, which was mainly attributable to the manner of accounting for expenses of the shared services centre (a lower share of allocated expenses) and additional costs relating to public charges payable.

b) Adjusted EBITDA (down by PLN 3.6m):

- Impact of EBITDA described above (down PLN 3.6m);

c) Net profit /(loss) (down by PLN 1.5m) driven by:

- EBITDA (down PLN 3.6m);

(PLN '000)

- Lower depreciation and amortisation, except as related to purchase price allocation (by PLN 0.5m), primarily due to the absence of depreciation and amortisation of the Biomasa Południe project, after a relevant charge was recognised in 2017.
- Lower income tax (PLN 1.0m) mainly due to lower operating profit/(loss).
- Realised impairment losses on assets (PLN 0.2m) relate to a part of expenditures on projects under development.
- Lower finance income (down PLN 1.4m), due to a high level of exchange differences recognised in Q1 2017.
- A drop in finance costs (down PLN 2.2m), resulting from lower interest expense after a reduction of debt thanks to contractual servicing of bank loans and lower costs on account of exchange differences.

d) Adjusted net profit /(loss) (down by PLN 0.4m) driven by:

- Lower net profit (down PLN 1.5m),
- Adjustments for the effect of unrealised exchange differences of PLN 0.8m, and impairment losses on a part of expenses on projects under development of PLN 0.2m.

2. Brief description of significant achievements or failures in the reporting period, including identification of key events

WIND POWER

The wind power segment saw its EBITDA rise by PLN 2.7m, primarily as a result of higher selling prices of green certificates and reduced operating expenses, partially offset by a lower generation volume.

Below is presented detailed information on individual wind farms:

<u>Puck Wind Farm</u>

Electricity output in Q1 2018 was lower year on year, which drove revenue down. This was offset by lower operating expenses; in Q1 2017, increased operating expenses were due to an unplanned gearbox replacement.

<u>Łukaszów and Modlikowice Wind Farms</u>

Electricity output in Q1 2018 was close to that in Q1 2017. A recorded rise in the prices of green certificates contributed to increases in revenue and EBITDA.

<u>Gawłowice, Rajgród, and Skurpie Wind Farms</u>

Operating performance of the Gawłowice, Rajgród and Skurpie Wind Farms in the first quarter of 2018 was lower year on year, due to a lower generation volume and an increase in property tax payable on the Rajgród farm.

<u>Mycielin Wind Farm</u>

The Mycielin Wind Farm's operating profit/(loss) in Q1 2018 improved on Q1 2017, thanks mainly to higher wind intensity and a rise in selling prices. Also, in April 2018 an agreement was signed with Vestas, concerning settlement related to a project turbine failure. A one-off gain on this agreement of approximately PLN 2.9m will be recognised in operating profit/(loss) of Q2 2018.

CONVENTIONAL ENERGY

The conventional energy segment’s EBITDA declined by PLN 1.7m, driven by higher prices of gas and CO2 emission allowances, as well as a lower forecast gas compensation amount, affecting ENS’s performance.

NOWA SARZYNA CHP PLANT (ENS)

Since the beginning of 2018, the plant has operated without any disruptions. The company’s performance was affected by the compensation for stranded costs and gas compensation as described above.

Mercury Power Plant

Since the beginning of 2018, the plant has operated without any disruptions.

TRADING

The trading segment’s EBITDA fell PLN 2.0m year on year, reflecting negative valuation of contracts in the trading portfolio, the effect of which was partially offset by a higher result on the wind farms’ portfolio. The trading segment’s performance depends on market prices, particularly the prices of electricity, certificates of origin, gas and CO_2 emission allowances.

DISTRIBUTION

The distribution segment’s EBITDA dropped PLN 0.6m year on year, mostly as a result of reduced connection fees and a lower distribution margin due to a postponed effective date of the updated tariff.

BIOMASS

Compared with a year earlier, the biomass segment posted lower EBITDA, reflecting a decline in sales volumes and prices of pellets, coupled with higher costs of materials from which pellets are made.

Below is presented detailed information on individual companies.

Biomasa Energetyczna Północ

The production volume of pellets was lower than in the same period a year earlier. Additionally, a decline in the average selling prices combined with higher feedstock prices led to a year-on-year drop in the plant’s operating margin.

Biomasa Energetyczna Południe

The project’s operation has been discontinued. A process to divest Biomasa Południe assets is in progress.

Biomasa Energetyczna Wschód

The production volume of pellets was lower than in the same period a year earlier, while the average selling prices of pellets went up. Consequently, the plant’s operating margin improved year on year.

DEVELOPMENT

Onshore wind farms

At present, the Company's portfolio includes projects with an aggregate capacity of 185 MW which are in the final phase of development, for which building permits have been issued, and which have been prequalified to participate in the auction process.

As regards a part of the portfolio of projects in an early development phase (with a capacity of approximately 280 MW), a decision was made to decelerate the development work in connection with the Act on Wind Farm Projects. Provisions of the Act regulating the minimum distance between wind farms and residential buildings make it impossible to complete their development and obtain building permits. Accordingly, spending on their maintenance was cut to the necessary minimum in case of a favourable amendment to the Act. These projects were presented as impaired in full as at December 31st 2016 and December 31st 2017 and carried at a net value of nil. The Group informed the public about the impairment in its current reports.

Since the environmental decision for the project implemented by the Company's subsidiary Polenergia-Farma Wiatrowa Bądecz Sp. z o.o. was repealed, the final building permit for the project may be challenged. The Company will take measures provided for by law to maintain the building permits.

Photovoltaic farms

A decision was made to replace some of the wind farm projects in an early development phase (with an aggregate capacity of 26 MW) with photovoltaic projects, based on the existing grid connection conditions and leases. Development work on these projects will be continued in 2018.

The total capacity of all photovoltaic projects being prepared by the Group for auctions is 40 MW.

Development of offshore wind farms

The Group is preparing the construction of two offshore wind farms (Polenergia Bałtyk II and Polenergia Bałtyk III) in the Baltic Sea, with a total capacity of up to 1,200 MWe. The time of launching the construction will depend on the effective date of the relevant regulatory regime. In addition, the Group is looking into the possibility of resuming preparatory work on the Polenergia Bałtyk I project.

As announced in Current Report No. 13/2018 of May 2nd 2018, with reference to the Group's earlier reports, on May 22nd 2018 the Group expects to sign a final agreement for sale of 50% of shares in companies running projects to develop and construct offshore wind farms (Polenergia Bałtyk II and Polenergia Bałtyk III).

Biomass-fired power plant

The Group is working on a project to construct and operate a 31 MW biomass-fired power plant connected to the power grid. In 2017, the final building permit, which also covers a line for the evacuation of power into Tauron's grid, was issued for the project. The Company intends to secure a decision on its admission to the auction process (prequalification) from the Energy Regulatory Office in the second quarter of 2018.

It is possible that the Company will look for an investor interested in purchasing the project prior to, or on its winning, the auction.

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 Company does not publish any performance forecasts for the coming years.

4. Factors and events, especially of 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	Number of shares	Number of voting rights	% interest
1	Kulczyk Investment S.A.*	22,811,757	22,811,757	50.20%
2	China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF**	7,266,122	7,266,122	15.99%
3	ING OFE	2,500,000	2,500,000	5.50%
4	Generali OFE	2,981,728	2,981,728	6.56%
5	Aviva OFE	3,560,000	3,560,000	7.83%
6	Other	6,323,940	6,323,940	13.92%
	Total	**45,443,547**	**45,443,547**	**100%**

* 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 2018, ended March 31st 2017, 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

The Polenergia Group, formerly Polish Energy Partners S.A. (the „Group") comprises Polenergia S.A. (formerly Polish Energy Partners S.A., with the company name change entered in the National Court Register on September 11th 2014) (the „Company", the „parent"), and its subsidiaries. The Company was established under a notary deed of July 17th 1997. The Company 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),

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- 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 the date of issue of the financial statements, the composition of the parent's Management Board was as follows:

Jacek Głowacki	President of the Management Board
Michał Michalski	Member of the Management Board

On April 9th 2018, the Supervisory Board appointed the then Vice President of the Management Board, Mr Jacek Głowacki, as President of the Management Board.
On April 9th 2018, Mr Bartłomiej Dujczyński resigned from his position as Member of the Management Board.

As at March 31st 2018, the composition of the parent's Supervisory Board was as follows:

Tomasz Mikołajczak	Chairman of the Supervisory Board
Łukasz Rędziniak	Member of the Supervisory Board
Dominik Libicki	Member of the Supervisory Board
Mariusz Nowak	Member of the Supervisory Board
Arkadiusz Jastrzębski	Member of the Supervisory Board
Brian Bode	Member of the Supervisory Board
Dagmara Gorzelana	Member of the Supervisory Board
Dawid Jakubowicz	Member of the Supervisory Board
Orest Nazaruk	Member of the Supervisory Board

D. QUARTERLY FINANCIAL INFORMATION OF POLENERGIA S.A.

INTERIM CONDENSED SEPARATE STATEMENT OF FINANCIAL POSITION
as at Mar 31 2018

Assets

	Mar 31 2018	Dec 31 2017
I. Non-current assets	**972,525**	**963,876**
Property, plant and equipment	1,189	1,237
Intangible assets	351	429
Financial assets	959,933	951,260
Non-current receivables	2,424	2,503
Deferred tax assets	8,628	8,447
II. Current assets	**203,309**	**215,001**
Inventories	10,362	10,362
Trade receivables	6,444	12,823
Other short-term receivables	664	595
Prepayments and accrued income	3,009	3,879
Current financial assets	20,194	19,246
Cash and cash equivalents	162,636	168,096
Total assets	**1,175,834**	**1,178,877**

Equity and liabilities

	Mar 31 2018	Dec 31 2017
I. Equity	**1,116,724**	**1,118,067**
Share capital	90,887	90,887
Share premium	680,405	680,405
Capital reserve from valuation of options	13,207	13,207
Other capital reserves	349,478	349,478
Merger reserve	89,782	89,782
Retained deficit	(105,692)	(26,826)
Net loss	(1,343)	(78,886)
II. Non-current liabilities	**50,786**	**50,483**
Bank and other borrowings	42,634	42,295
Provisions	21	21
Other liabilities	8,131	8,167
III. Current liabilities	**8,324**	**10,327**
Trade payables	200	1,883
Other liabilities	1,858	1,283
Provisions	784	784
Accruals and deferred income	5,482	6,377
Total equity and liabilities	**1,175,834**	**1,178,877**

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INTERIM CONDENSED SEPARATE STATEMENT OF PROFIT OR LOSS
for the three months ended March 31st 2018

	For 3 months ended Mar 31 2018	For 3 months ended Mar 31 2017
Revenue	3,632	4,243
Revenue	**3,632**	**4,243**
Cost of sales	(3,301)	(3,880)
Gross profit/(loss)	**331**	**363**
Other income	2	-
Administrative expenses	(3,217)	(2,540)
Other expenses	(6)	(34)
Finance income	2,884	20,803
including dividends	-	18,900
Finance costs	(1,518)	(956)
Profit/(loss) before tax	**(1,524)**	**17,636**
Income tax	181	531
Net profit/(loss)	**(1,343)**	**18,167**
Earnings/(loss) per share:		
- basic (for period)	-0.03	0.40

INTERIM CONDENSED SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the three months ended March 31st 2018

	For 3 months ended Mar 31 2018	For 3 months ended Mar 31 2017
Net profit/(loss) for period	**(1,343)**	**18,167**
Other comprehensive income	**-**	**-**
COMPREHENSIVE INCOME FOR PERIOD	**(1,343)**	**18,167**

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INTERIM CONDENSED SEPARATE STATEMENT OF CHANGES IN EQUITY
for the three months ended March 31st 2018

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Merger reserve	Retained deficit	Net loss	Total equity
As at Jan 1 2018	**90,887**	**680,405**	**13,207**	**349,478**	**89,782**	**(105,692)**	**-**	**1,118,067**
Comprehensive income for period								
Net loss for period	-	-	-	-	-	-	(1,343)	(1,343)
As at Mar 31 2018	**90,887**	**680,405**	**13,207**	**349,478**	**89,782**	**(105,692)**	**(1,343)**	**1,116,724**

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Merger reserve	Retained earnings/(deficit)	Net profit	Total equity
As at Jan 1 2016	**90,887**	**765,438**	**13,207**	**349,478**	**89,782**	**(111,859)**	**-**	**1,196,933**
Comprehensive income for period								
Net profit for period	-	-	-	-	-	-	18,167	18,167
Transactions with owners of the parent recognised directly in equity								-
Allocation of profit/(loss)	-	(85,033)	-	-	-	85,033	-	-
As at Mar 31 2017	**90,887**	**680,405**	**13,207**	**349,478**	**89,782**	**(26,826)**	**18,167**	**1,215,100**

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INTERIM CONDENSED SEPARATE STATEMENT OF CASH FLOWS
for the three months ended March 31st 2018

	For 3 months ended	
	Mar 31 2018	Mar 31 2017
A. Cash flows from operating activities		
I. Profit/(loss) before tax	**(1,524)**	**17,636**
II. Total adjustments	**5,380**	**(10,869)**
Depreciation and amortisation	208	227
Interest and profit distributions (dividends)	(1,264)	(18,859)
Loss on investing activities	1,157	202
Change in receivables	6,389	7,706
Change in current liabilities (net of borrowings)	(1,086)	121
Change in accruals and deferrals	(24)	(266)
III. Net cash from operating activities (I+/-II)	**3,856**	**6,767**
B. Cash flows from investing activities		
I. Cash receipts	**1,760**	**18,995**
1. Disposal of intangible assets and property, plant and equipment	-	1
2. Proceeds from financial assets, including:	1,760	18,994
- dividends and other profit distributions	-	18,900
- repayment of long-term loans advanced	1,000	13
- interest	65	81
- other cash provided by financial assets	695	-
II. Cash payments	**11,016**	**9,981**
1. Acquisition of intangible assets and property, plant and equipment	82	9
2. Payments for financial assets, including:	10,934	9,972
- acquisition of financial assets	10,934	9,972
III. Net cash from investing activities (I-II)	**(9,256)**	**9,014**
C. Cash flows from financing activities		
I. Cash receipts	**-**	**-**
II. Cash payments	**60**	**73**
1. Payment of finance lease liabilities	56	73
2. Interest	4	-
III. Net cash from financing activities (I-II)	**(60)**	**(73)**
D. Total net cash flows (A.III +/- B.III +/- C.III)	**(5,460)**	**15,708**
E. Net increase/decrease in cash, including:	**(5,460)**	**15,708**
- effect of exchange rate fluctuations on cash held	-	-
F. Cash at beginning of period	**168,096**	**167,264**
G. Cash at end of period (F+/- E), including:	**162,636**	**182,972**
- restricted cash	10	18

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OPERATING EXPENSES, BY NATURE OF EXPENSE

	For 3 months ended	
	Mar 31 2018	Mar 31 2017
Depreciation and amortisation	208	227
Raw materials and consumables used	68	56
Services	1,939	2,099
Taxes and charges	564	167
Salaries and wages	3,213	3,342
Social security and other benefits	495	506
Other expenses by nature	31	23
Total expenses by nature	**6,518**	**6,420**
Administrative expenses (-)	(3,217)	(2,540)
Total cost of sales	**3,301**	**3,880**

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