

Polenergia Group

**DIRECTORS' REPORT ON THE OPERATIONS OF THE POLENERGIA GROUP
FOR THE SIX MONTHS ENDED JUNE 30TH 2018**

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Management Board*

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Warsaw, August 8th 2018

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1. Combined statement of profit or loss for the six months ended June 30th 2018

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

The Polenergia Group generated an adjusted (normalised) EBITDA of PLN 57.3m and net loss of PLN 12.0m, down by PLN 24.0m and PLN 16.8m, respectively, year on year.

Polenergia Group's performance (PLNm)	6M 2018	6M 2017	Change y/y	Change y/y [%]	Q2 2018	Q2 2017	Change y/y	Change y/y [%]
Revenue	1,573.8	1,342.5	231.2	17%	826.9	632.6	194.4	31%
Cost of sales	(1,546.3)	(1,298.0)	(248.3)	19%	(823.0)	(613.6)	(209.4)	34%
including operating expenses	(215.3)	(207.0)	(8.3)	4%	(105.0)	(100.9)	(4.0)	4%
Gross profit	27.4	44.7	(17.1)	-38%	3.9	19.0	(15.0)	-79%
Distribution costs and administrative expenses	(21.1)	(16.5)	(4.6)	28%	(11.9)	(8.3)	(3.7)	44%
Other income/expenses	(1.3)	5.7	(7.1)	-123%	(14.2)	4.4	(18.6)	-426%
A Operating profit (EBIT)	5.0	33.7	(28.7)	85%	(10.3)	15.0	(25.3)	168%
Depreciation and amortisation	48.1	48.9	(0.8)	-2%	24.1	24.4	(0.4)	-2%
Impairment losses	16.9	-	16.9		16.6	-	16.6	
EBITDA	58.0	82.6	(24.6)	-30%	18.4	39.5	(21.0)	-53%
Elimination of purchase price allocation effect	(0.7)	(1.4)	0.7	-50%	-	(0.7)	0.7	-100%
Adjusted EBITDA*	57.3	81.3	(24.0)	-29%	18.4	38.8	(20.4)	-53%
B Finance income	3.1	3.8	(0.7)	-18%	1.8	1.1	0.7	64%
C Finance costs	(35.9)	(31.1)	(4.8)	16%	(22.0)	(14.9)	(7.1)	47%
A+B+C Profit/(loss) before tax	(27.8)	6.4	(34.2)	-532%	(30.5)	1.2	(31.7)	-2615%
Income tax	(0.5)	(5.2)	4.7	-91%	2.1	(1.5)	3.7	-238%
Net profit/(loss) excl. effect of sale of offshore wind farms	(28.2)	1.2	(29.5)		(28.3)	(0.3)	(28.0)	
Net gain/(loss) on sale of offshore wind farms	3.0	-	3.0		3.0	-	3.0	
Net profit/(loss) incl. effect of sale of offshore wind farms	(37.3)	1.2	(38.5)		(37.4)	(0.3)	(37.0)	
Purchase price allocation	3.6	3.0	0.6		2.1	1.5	0.6	
Elimination of unrealised exchange differences effect	0.4	(0.8)	1.2		0.4	(0.0)	0.4	
Elimination of AMC loan valuation effect	7.4	1.4	6.0		6.7	0.7	6.0	
Elimination of impairment loss related to biomass	16.8	-	16.8		16.8	-	16.8	
business								
Elimination of impairment loss related to development	0.0	-	0.0		(0.2)	-	(0.2)	
business								
Elimination of net effect on sale of offshore wind farms	(3.0)	-	(3.0)		(3.0)	-	(3.0)	
Gain on sale of offshore wind farms	(12.0)	-	(12.0)		(12.0)	-	(12.0)	

Income tax	9.0	-	9.0	9.0	-	9.0
Adjusted net profit*	(12.0)	4.8	(16.8)	(14.6)	1.9	(16.4)
Adjusted EBITDA margin	3.6%	6.1%	-2.4%	2.2%	6.1%	-3.9%
Trading segment revenue	1,298.1	1,081.2	216.9	693.9	508.6	185.3
Trading segment costs of sale	(1,314.9)	(1,074.9)	(240.0)	(711.9)	(505.4)	(206.6)
Adjusted EBITDA (excluding trading segment)	78.9	79.5	(0.7)	38.8	37.8	1.0
Adjusted EBITDA margin (excluding trading segment)	28.6%	30.4%	-1.8%	29.1%	30.5%	-1.3%

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

The Polenergia Group's revenue for H1 2018 was up 17% year on year, chiefly on higher revenue generated by the trading segment.

Adjusted EBITDA for the period came in at PLN 57.3m, down PLN 24.0m year on year, due mainly to a loss on electricity trading recorded by the trading segment, partially offset by improved EBITDA of the wind power segment.

The Polenergia Group's revenue for Q2 2018 was up 31% year on year, chiefly on higher revenue generated by the trading segment.

Adjusted EBITDA for Q2 came in at PLN 18.4m, down PLN 20.4m year on year, due mainly to a loss on electricity trading recorded by the trading segment, partially offset by improved EBITDA of the wind power segment.

The wind power segment recorded a PLN 8.8m year-on-year increase in EBITDA (a PLN 6.1m increase in the second quarter alone). The segment's improved performance was driven by higher average prices of green certificates coupled with reduced costs of property tax and maintenance services, partially offset by lower generation volumes.

EBITDA of the conventional energy segment declined by PLN 3.9m year on year (down by PLN 2.1m in Q2 alone). The segment's poorer performance was attributable to rising prices of natural gas and CO₂ emission allowances, combined with lower revenue from cogeneration certificates, partially offset by higher income from gas cost compensation.

EBITDA of the trading segment in H1 2018 and Q2 2018 was lower year on year – by PLN 23.3m and PLN 21.3m, respectively. The worse performance is mainly a consequence of a loss on electricity trading due to a sharp increase in electricity prices seen in the second quarter.

EBITDA of the distribution segment in H1 2018 was PLN 0.9m down year on year, driven by a lower margin on electricity sales resulting from increased purchase costs. Another adverse contributor was a lower margin on distribution resulting from the postponed effective date of a new tariff (in force since May 12th 2018). In Q2 2018, EBITDA fell by PLN 0.2m relative to the corresponding period of the previous year, due mainly to a worse result on electricity sales on account of increased purchase costs, only partially offset by higher prices paid by the segment's customers.

EBITDA of the biomass segment in H1 2018 was down PLN 0.4m year on year, driven mainly by deteriorating conditions on the biomass market, resulting in lower sales volumes and higher feedstock prices. In Q2 2018, EBITDA rose by PLN 0.3m year on year thanks to a net gain on sale of one of the plants' assets.

Unallocated Group management costs increased by PLN 4.6m year on year due to additional costs related to sale of shares in companies running offshore wind farm projects and the impact of VAT settlements for 2017 and 2018.

As a consequence of these developments, the adjusted EBITDA margin (excluding the trading segment) stood at 28.6%, having declined 1.8pp year on year. In Q2 2018, the adjusted EBITDA margin stood at 29.1%, having declined 1.3pp year on year.

In the first half and second quarter of 2018, net finance income/(costs) deteriorated year on year by PLN 5.5m and PLN 6.4m, respectively, which was mainly attributable to a charge made following remeasurement of Amon's and Talia's credit facilities at amortised cost (a debt reprofiling effect), partially offset by lower interest expense.

A year-on-year change in income tax resulted from non-recognition of a deferred tax asset, attributable mainly to impairment losses in the biomass segment.

Also, net profit was affected by an impairment loss on the biomass segment's assets; as announced on July 2nd 2017 (see Current Report No. 19/2018), in view of certain changes in the regulatory and economic environment in which biomass projects are operated, a decision was made to recognise an impairment loss, chiefly on property, plant and equipment. The impairment loss was a non-cash charge.

Other material information on the Group's condition

Debt of the Group's portfolio companies is monitored on an ongoing basis. Work on reprofiling the debt attributable to the Amon, Talia, Gawłowice, Skurpie and Rajgród projects was completed. New credit facility agreements were executed.

The Biomasa Południe assets were successfully divested. Further, an impairment loss was recognised in the biomass segment, mainly on non-current assets (see Current Report No. 19/2018).

Work is under way 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 years.

In the distribution segment, an investment programme implemented in 2016 is progressing as planned. Polenergia Dystrybucja is working on 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 MW. The time of launching their 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.

On May 22nd 2018, an agreement was concluded to transfer 50% of shares in companies running offshore wind farm development and construction projects to Statoil Holding Netherlands B.V., which was announced in Current Report No. 14/2018. For a detailed description of the transaction, see Note 17 to the consolidated financial statements of the Polenergia Group.

Breakdown of the Group's results for Q2 and H1 2018 by business segment is presented on the following pages.

6M 2018 (PLNm)	Wind power	Conventional Energy	Trading	Distribution	Biomass	Development	Unallocated Group management costs	Purchase price allocation	TOTAL
Revenue	71.0	148.6	1,298.1	43.5	10.6	0.0	1.4	0.7	1,573.8
Operating expenses	(51.0)	(124.4)	(1,314.9)	(36.2)	(11.5)	(0.2)	(3.0)	(5.1)	(1,546.3)
incl. depreciation and amortisation	(28.4)	(10.8)	(0.0)	(2.3)	(1.1)	-	(0.4)	(5.1)	(48.1)
Gross profit	20.0	24.2	(16.8)	7.3	(0.9)	(0.2)	(1.6)	(4.4)	27.4
Gross margin	28.1%	16.3%	-1.3%	16.7%	n/a	n/a	n/a	n/a	1.7%
Administrative expenses	(1.4)	(3.3)	(5.0)	(2.7)	(0.7)	(0.2)	(7.6)	-	(20.8)
Net other income/expenses	2.3	(0.6)	0.2	0.3	(15.8)	0.0	-	-	(13.6)
incl. impairment losses	(0.0)	-	-	-	-	12.0	-	-	(16.9)
Operating profit	20.9	20.2	(21.6)	4.8	(17.5)	(0.3)	(9.2)	(4.4)	(7.0)
EBITDA	49.3%	31.1	(21.6)	7.1	0.5	(0.3)	(8.8)	0.7	58.0
EBITDA margin	69.5%	20.9%	-1.7%	16.4%	4.3%	n/a	n/a	n/a	3.7%
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	-	-
Adjusted EBITDA	49.3	31.1	(21.6%)	7.1	0.5	(0.3)	(8.8)	(0.7)	(0.7)
Adjusted EBITDA margin	69.5%	20.9%	-1.7%	16.4%	4.3%	n/a	n/a	n/a	57.3
Net finance income	(33.2)	(0.6)	(2.5)	(0.9)	(0.1)	0.0	4.4	-	(32.8)
Profit/(loss) before tax	(12.3)	19.6	(24.1)	3.9	(17.6)	(0.3)	(4.8)	(4.4)	(39.8)
Income tax									(0.5)
Net gain/(loss) on sale of offshore wind farms									3.0
Net profit/(loss) for period									(37.3)
Purchase price allocation									3.6
Elimination of unrealised exchange differences effect									0.4
Elimination of AMC loan valuation effect									7.4
Elimination of impairment loss related to biomass business									16.8
Elimination of impairment loss related to development business									0.0
Elimination of net effect on sale of offshore wind farms									(3.0)

Adjusted net profit
(12.0)

6M 2017 (PLNm)	Wind power	Conventional Energy	Trading	Distribution	Biomass	Development	Unallocated Group management costs	Purchase price allocation	TOTAL
Revenue	65.2	134.0	1,081.2	43.2	15.9	0.0	1.6	1.4	1,342.5
Operating expenses	(55.8)	(106.8)	(1,074.9)	(34.4)	(17.1)	(0.1)	(3.7)	(5.1)	(1,298.0)
incl. depreciation and amortisation	(28.6)	(10.8)	(0.0)	(2.2)	(1.9)	-	(0.5)	(5.1)	(48.9)
Gross profit	9.5	27.1	6.3	8.7	(1.2)	(0.1)	(2.1)	(3.7)	44.5
Gross margin	14.5%	20.3%	0.6%	20.3%	-7.9%	n/a	n/a	n/a	3.3%
Administrative expenses	(1.9)	(3.0)	(4.7)	(3.1)	(0.6)	(0.2)	(2.7)	-	(16.1)
Net other income/expenses	4.4	0.0	0.1	0.1	0.8	(0.2)	0.1	-	5.3
incl. impairment losses	-	-	-	-	0	-	-	-	-
Operating profit	12.0	24.2	1.7	5.8	(1.1)	(0.5)	(4.7)	(3.7)	33.7
EBITDA	40.5	34.9	1.7	8.0	0.8	(0.5)	(4.2)	1.4	82.6
EBITDA margin	62.1%	26.1%	0.2%	18.5%	5.2%	n/a	n/a	n/a	6.2%
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	(1.4)	(1.4)
Adjusted EBITDA	40.5	34.9	1.7	8.0	0.8	(0.5)	(4.2)	-	81.3
Adjusted EBITDA margin	62.1%	26.1%	0.2%	18.5%	5.2%	n/a	n/a	n/a	6.1%
Net finance income	(25.6)	(1.2)	(1.4)	(0.9)	(0.2)	0.0	1.9	-	(27.3)
Profit/(loss) before tax	(13.6)	23.0	0.3	4.9	(1.3)	(0.5)	(2.7)	(3.7)	6.4
Income tax									(5.2)
Net profit/(loss) for period									1.2
Elimination of purchase price allocation effect									3.0
Elimination of unrealised exchange differences effect									(0.8)
Elimination of AMC loan valuation effect									1.4
Elimination of impairment loss related to biomass business									-

Elimination of impairment loss related to development business									-
Elimination of net effect on sale of offshore wind farms									-
Adjusted net profit									4.8
Change y/y in adjusted EBITDA	8.8	(3.9)	(23.3)	(0.9)	(0.4)	0.3	(4.6)	-	(24.0)
Q2 2018 (PLNm)	Wind power	Conventional Energy	Trading	Distribution	Biomass	Development	Unallocated Group management costs	Purchase price allocation	TOTAL
Revenue	33.9	72.2	693.9	20.6	5.3	0.0	1.1	-	826.9
Operating expenses	(22.4)	(61.7)	(711.9)	(17.2)	(5.8)	0.4	(1.9)	(2.5)	(823.0)
incl. depreciation and amortisation	(14.2)	(5.4)	(0.0)	(1.1)	(0.5)	-	(0.2)	(2.5)	(24.1)
Gross profit	11.5	10.4	(18.0)	3.4	(0.5)	0.4	(0.8)	(2.5)	3.9
Gross margin	33.9%	14.5	-2.6%	16.5%	n/a	n/a	n/a	n/a	0.5%
Administrative expenses	(0.8)	(1.7)	(2.4)	(1.3)	(0.4)	(0.0)	(5.3)	-	(11.8)
Net other income/expenses	1.2	(0.2)	0.0	0.2	(15.8)	0.3	0.0	-	(14.4)
Operating profit	11.9	8.6	(20.4)	2.3	(16.6)	0.6	(6.1)	(2.5)	(22.3)
EBITDA	26.1	14.0	(20.4)	3.4	0.8	0.4	(5.9)	-	18.4
EBITDA margin	77.1%	19.3%	-2.9%	16.7%	14.2%	n/a	n/a	n/a	2.2%
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	-	-
Adjusted EBITDA	26.1	14.0	(20.4)	3.4	0.8	0.4	(5.9)	-	18.4
Adjusted EBITDA margin	77.1%	19.3%	-2.9%	16.7%	14.2%	n/a	n/a	n/a	2.2%
Net finance income	(20.5)	(0.3)	(1.2)	(0.5)	(0.1)	0.1	2.3	-	(20.2)
Profit/(loss) before tax	(8.6)	8.3	(21.6)	1.8	(16.7)	0.7	(3.8)	(2.5)	(42.5)
Income tax									2.1
Net gain/(loss) on sale of offshore wind farms									3.0
Net profit/(loss) for period									(37.4)
Purchase price allocation									2.1
Elimination of unrealised exchange differences effect									0.4
Elimination of AMC loan valuation effect									6.7

Elimination of impairment loss related to biomass business	16.8
Elimination of impairment loss related to development business	(0.2)
Elimination of net effect on sale of offshore wind farms	(3.0)
Adjusted net profit	(14.6)

Q2 2017 (PLNm)	Wind power	Conventional Energy	Trading	Distribution	Biomass	Development	Unallocated Group management costs	Purchase price allocation	TOTAL
Revenue	30.4	64.2	508.6	20.9	6.8	0.0	1.0	0.7	632.6
Operating expenses	(27.1)	(52.3)	(505.4)	(16.6)	(7.5)	(0.0)	(2.1)	(2.5)	(613.6)
incl. depreciation and amortisation	(14.3)	(5.4)	(0.0)	(1.1)	(0.9)	-	(0.2)	(2.5)	(24.4)
Gross profit	3.2	11.8	3.3	4.3	(0.7)	(0.0)	(1.1)	(1.9)	19.0
Gross margin	10.7%	18.5%	0.6%	20.5%	n/a	n/a	n/a	n/a	3.0%
Administrative expenses	(0.8)	(1.5)	(2.4)	(1.7)	(0.3)	(0.1)	(1.3)	-	(8.1)
Net other income/expenses	3.4	0.4	0.1	(0.0)	0.5	(0.1)	(0.0)	-	4.2
incl. impairment losses	-	-	-	-	-	-	-	-	-
Operating profit	5.8	10.7	1.0	2.6	(0.5)	(0.2)	(2.5)	(1.9)	15.0
EBITDA	20.1	16.1	1.0	3.7	0.5	(0.2)	(2.3)	0.7	39.5
EBITDA margin	66.0%	25.1%	0.2%	17.5%	7.1%	n/a	-238.4%	n/a	6.2%
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	(0.7)	(0.7)
Adjusted EBITDA	20.1	16.1	1.0	3.7	0.5	(0.2)	(2.3)	-	38.8
Adjusted EBITDA margin	66.0%	25.1%	0.2%	17.5%	7.1%	n/a	-238.4%	n/a	6.1%
Net finance income	(13.4)	(0.6)	(0.5)	(0.4)	(0.1)	0.0	1.2	-	(13.8)
Profit/(loss) before tax	(7.6)	10.1	0.5	2.1	(0.5)	(0.2)	(1.3)	(1.9)	1.2
Income tax									(1.5)
Net profit/(loss) for period									(0.3)

Elimination of purchase price allocation effect									1.5
Elimination of unrealised exchange differences effect									(0.0)
Elimination of AMC loan valuation effect									0.7
Elimination of impairment loss related to biomass business									-
Elimination of impairment loss related to development business									-
Elimination of net effect on sale of offshore wind farms									
Adjusted net profit									1.9
Change y/y in adjusted EBITDA	6.1	(2.1)	(21.3)	(0.2)	0.3	0.6	(3.6)	-	(20.4)

2. The Group, consolidated entities, as well as changes in the Group's organisation and reasons for such changes

For a description of the Group, refer to Note 7 to the consolidated financial statements.

Except as described in section 3 below, no other material changes in the Group's organisation took place in the reporting period.

3. 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 the reporting period, there were no material changes in the Group's structure that would result from mergers, acquisitions or disposals of Group entities, long-term investments, demergers, restructuring or discontinuation of operations, save for the following events:

On May 22nd 2018, Polenergia S.A. and Statoil Holding Netherlands B.V. entered into a final agreement to transfer the ownership of 50% of shares held by Polenergia S.A. in each of the following companies: (i) MFW Bałtyk II Sp. z o.o. (formerly: Polenergia Bałtyk II Sp. z o.o.) and (ii) MFW Bałtyk III Sp. z o.o. (formerly: Polenergia Bałtyk III Sp. z o.o.), which are carrying out projects to construct offshore wind farms (the "Project") in the Baltic Sea. Shares in the SPVs are to be sold as part of the parties' cooperation involving joint implementation of the Project, as agreed on by the parties. For a detailed description of the transaction, see Note 17 to the consolidated financial statements of the Polenergia Group.

May 2018 saw the acquisition of assets of the Krzęcin Wind Farm, with an installed capacity of 6 MW. Since May 24th 2018, the project has been operating within the Group, its performance being reflected in the wind power segment's results.

Additionally, following the sale of its assets, Grupa PEP - Biomasa Energetyczna Południe Sp. z o.o. of Warsaw discontinued its operations consisting in the production of pellets from biomass.

4. Discussion of key financial and economic data contained in the half-year financial statements, in particular factors and events, including non-recurring ones, with a material effect on the Company'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 financial and economic data [PLNm]	6M 2018	6M 2017	Change
Revenue	1,573.8	1,342.5	231.2
EBITDA	58.0	82.6	(24.6)
Adjusted EBITDA	57.3	81.3	(24.0)
Net profit/(loss)	(37.3)	1.2	(38.5)
Adjusted net profit after elimination of purchase price allocation effect, unrealised exchange differences, impairment losses, measurement of bank borrowings and gain on loss of control of subsidiaries.	(12.0)	4.8	(16.8)

The year-on-year changes in H1 2018 performance were driven by the following factors:

a) EBITDA (down by PLN 24.6m):

- Stronger performance of the wind power segment (up by PLN 8.8m) led by higher prices of green certificates coupled with reduced costs of property tax and maintenance services, partially offset by lower generation volumes;
- Weaker performance of the conventional energy segment (down by PLN 3.9m) due primarily to the rising prices of natural gas and CO₂ emission allowances, combined with lower revenue from cogeneration certificates, partially offset by higher income from gas cost compensation;
- Poorer performance of the trading segment (down by PLN 22.3m) due to a loss on the external electricity trading portfolio caused by a sharp increase in electricity prices in the second quarter;
- Weaker performance of the distribution segment (down by PLN 0.9m) due to a lower margin on electricity sales resulting from increased purchase costs. Another adverse contributor was a lower margin on distribution resulting from the postponed effective date of a new tariff;
- Weaker performance of the biomass segment (down by PLN 0.4m) due to negative trends in the biomass market, resulting in lower sales volumes and higher feedstock prices;
- Lower expenses in the development segment (down by PLN 0.3m) allocated to profit or loss;
- Increase in unallocated Group management costs by PLN 4.6m due, among other things, to additional costs related to the sale of shares in companies running offshore wind farm projects and the impact of VAT settlements for 2017 and 2018.

b) Adjusted EBITDA (down by PLN 24.0m):

- The EBITDA effect described above (down by PLN 24.6m);
- Elimination of purchase price allocation effect (PLN -0.7m).

c) Net profit (down by PLN 38.5m):

- Impact of EBITDA (down by PLN 24.6m);
- Lower depreciation and amortisation (by PLN 0.8m), due primarily to the absence of depreciation and amortisation of the Biomasa Południe project, after a relevant charge was recognised in 2017;
- Effect of impairment losses (up by PLN 16.9m on H1 2017) following mainly from recognition of impairment losses on the biomass projects;
- Higher finance costs (up PLN 4.8m) on account of higher costs related to measurement of financial liabilities as a result of a charge on account of historical costs related to measurement of credit facilities using the effective interest rate method at Amon and Talia (PLN 7.1m), higher foreign exchange costs (by PLN 0.5m), higher fee and commission expense (by PLN 0.2m), and higher other finance costs (by PLN 0.3m), partially offset by lower interest expense (down by PLN 3.2m);
- Lower finance income (down by PLN 0.7m) due to foreign exchange losses (PLN 0.8m), partially offset by interest income (PLN 0.2m);
- Effect of sale of offshore wind farms (PLN 3.0m, of which PLN 12m represents gain on the sale, and PLN 9m relates to income tax recognised at Polenergia S.A.);

- Lower income tax (PLN 4.7m) attributable mainly to lower profit before tax.
- d) Adjusted net profit after elimination of the purchase price allocation effect, unrealised foreign exchange differences, impairment losses, measurement of bank borrowings and discount valuation (down by PLN 16.8m):**
- Effect of net profit (down by PLN 38.5m);
 - Elimination of the purchase price allocation effect (up by PLN 0.6m);
 - Elimination of the effect of unrealised exchange differences (up by PLN 1.2m);
 - Elimination of the effect of measurement of bank borrowings (up by PLN 6.0m);
 - Reversal of the effect of impairment losses (up by PLN 16.9m);
 - Elimination of the effect of sale of offshore wind farms (down by PLN 3.0m, of which PLN 12m represents gain on the sale, and PLN 9m relates to income tax recognised at Polenergia S.A.).

5. Description of the Company's significant achievements or failures in H1 2018**WIND POWER**

The wind power segment saw its EBITDA rise by PLN 8.8m, as a result of higher selling prices of green certificates and reduced operating expenses (including one-off items), partially offset by lower generation volumes.

Below is presented detailed information on individual wind farms:

Puck Wind Farm

Weaker operating performance in H1 2018 compared with H1 2017. Electricity output in H1 2018 was lower year on year, which drove EBITDA down.

Łukaszów and Modlikowice Wind Farms

Electricity output in H1 2018 was lower than in H1 2017. Despite lower generation volumes, the rise in the prices of green certificates contributed to increases in both revenue and EBITDA.

In June 2018, reprofiling of debt contracted to finance the two wind farms was completed. For more information, see Note 27 to the consolidated financial statements of the Polenergia Group.

Gawłowice, Rajgród, and Skurpie Wind Farms

Operating performance of the Gawłowice, Rajgród and Skurpie Wind Farms in H1 2018 declined year on year due to lower generation volumes. This effect was partially offset by a correction of the property tax return for H1 2018, booked in June 2018.

In July 2018, reprofiling of debt contracted to finance the three wind farms was completed. For more information, see Note 27 to the consolidated financial statements of the Polenergia Group.

Mycielin Wind Farm

The Mycielín Wind Farm's operating profit/(loss) for H1 2018 improved on H1 2017, driven by higher wind intensity and a rise in the selling prices of certificates and electricity. Also, in April 2018 an agreement was signed with Vestas, concerning settlement related to a project turbine failure. As a result, an adjustment of approximately PLN 2.8m was made to the historical cost of maintenance. The performance of the Mycielín Wind Farm was also affected by a correction of the property tax return, amounting to approximately PLN 2.1m, booked in June.

Krzęcin Wind Farm

The Krzęcin Wind Farm (6 MW) was acquired by the Group in May 2018. Since then, the farm's operating result has been positive, contributing to stronger performance of the entire segment.

CONVENTIONAL ENERGY

The conventional energy segment's EBITDA declined by PLN 3.9m, due to the rising prices of gas and CO₂ emission allowances, as well as lower revenue from cogeneration certificates, partially offset by higher income from gas cost compensation at the Nowa Sarzyna CHP Plant.

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 factors described above.

Mercury Power Plant

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

TRADING

EBITDA of the trading segment in H1 2018 fell by PLN 23.3m year on year. The decline was mainly a consequence of the loss on electricity trading in the wake of a sharp increase in electricity prices recorded in Q2 2018. In order to reduce its risk exposure, the Group took steps to close the positions which were generating losses, limit the scale of trading until the electricity market stabilises, and expand the scope of monitoring and reporting the trading results and risk measures.

The trading segment's performance depends on market prices, particularly the prices of electricity, certificates of origin, gas and CO₂ emission allowances.

DISTRIBUTION

EBITDA of the distribution segment was PLN 0.9m lower than in H1 2017, which was mainly due to a lower margin on electricity sales, resulting from increased purchase costs. Another adverse contributor was a lower margin on distribution resulting from the postponed effective date of a new 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.

Following certain developments in the regulatory environment, namely an amendment to the RES Act, as well as in the overall business and economic environment in which the biomass segment operates, on July 2nd 2018 an impairment loss was recognised mainly on non-current assets of Biomasa Energetyczna Wschód. The impairment loss was recognised in the financial statements for H1 2018.

Biomasa Energetyczna Południe

The project's operation was discontinued. A process to divest the Biomasa Południe assets has been completed.

Biomasa Energetyczna Wschód

The production volume of pellets remained similar to the same period a year earlier, while the average selling prices of pellets went up. However, higher feedstock prices led to a year-on-year drop in the plant's operating margin. Because of the termination of an existing pellets supply contract, the plant's position and viable business solutions to adopt are being analysed.

Following certain developments in the regulatory environment, namely an amendment to the RES Act, as well as in the overall business and economic environment in which the biomass segment operates, on July 2nd 2018 an impairment loss was recognised mainly on non-current assets of Biomasa Energetyczna Wschód. The impairment loss was recognised in the financial statements for H1 2018.

DEVELOPMENT

Onshore wind farms

The Company has a portfolio of projects with an aggregate capacity of 185 MW which are in the final development phase, and for which building permits have been secured. The projects will participate in the auction process expected to take place in Q4 2018.

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 and 2019.

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 MW. The time of launching their 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.

On May 22nd 2018, an agreement was concluded to transfer 50% of shares in companies running offshore wind farm development and construction projects to Statoil Holding Netherlands B.V., as announced in Current Report No. 14/2018.

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. In the second quarter of 2018, a decision on its admission to the auction process (prequalification) from the Energy Regulatory Office and a relevant integrated (IPPC) permit were secured.

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

6. 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 half-year report

The Company does not publish any performance forecasts.

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

Compared with those described in the Directors' Report on the operations of the Polenergia Group in the year ended December 31st 2017, the Group's risk exposures have largely remained unchanged, with the following reservations:

Risk factors related to the Polenergia Group's business environment

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

The operations of the Group companies are subject to numerous Polish, EU and international regulations. Laws, regulations, decisions, positions, opinions, interpretations, guidelines, etc., applicable to the Group's business, are subject to frequent changes (e.g. the Energy Law, with secondary legislation, has been substantially amended several dozen times since its enactment in 1997). A number of the regulations applicable to the Group's business are relatively recent enactments, and therefore there is no established practice of their application (which may lead to their being improperly interpreted and applied).

Factors relevant to the Group's operations also include decisions issued by competent authorities, in particular the President of the Energy Regulatory Office, which are characterised by a high level of arbitrariness and thus are often subject to legal disputes. The Group is exposed to the risk of failure to align its business with changing laws and regulations, with all the resulting consequences, and of enactment of new regulations that would curtail the support system for the technologies developed in Poland.

Risk of volatility in electricity market prices

The Group's financial performance is dependent on the market prices of electricity. The Group keeps monitoring the electricity market, making decisions to secure a customer base for electricity generated by the wind power segment on an ongoing basis.

The Group also trades in electricity on the wholesale market, its performance on that business depending on trends in electricity market prices and the structure of open positions on the market. The significant, unexpected volatility of electricity prices seen in the first half of 2018 led to a loss on electricity trading. In order to reduce its risk exposure, the Group took steps to close the positions which were generating losses, limit the scale of trading until the electricity market stabilises, and expand the scope of monitoring and reporting the trading results and risk measures.

Risk of volatility in the Group's electricity selling prices

Mandatory purchases of electricity by so-called obliged suppliers (utilities supplying energy to end users) have important implications for RES installations commissioned before July 1st 2016. The obligation arises on condition that a renewable energy producer offers all electricity produced and fed into the grid over a period of at least 90 consecutive calendar days. As of January 1st 2018, medium-sized and large RES installations (with an installed capacity of 500 kW or more) have lost the right to sell electricity to an obliged supplier at a regulated price under the mandatory purchase obligation. The change has had a major impact on RES producers, as since January 1st 2018 they have been fully exposed to fluctuations in electricity market prices. The removal of the mandatory purchase obligation will have serious implications for medium-sized and large renewable energy producers, including the vast majority of domestic wind power producers.

The legislative changes may, in certain areas, contribute to a lower than expected return on investment in renewable energy sources.

Risk of volatility in market prices of green certificates

The Group's financial performance is dependent on the market prices of green certificates. The Group keeps monitoring the green certificate market, making decisions to secure a customer base for green certificates generated by the wind power segment on an ongoing basis.

On September 25th 2017, the Act of July 20th 2017 amending the RES Act entered into force (Dz.U. of 2017, item 1593), whereby the method for calculating the unit emission charge was linked to averaged annual market prices of property rights incorporated in certificates of origin, as published by the Polish Power Exchange pursuant to Art. 47.3.2 of the amended Act. Under Art. 56.1 of the amended RES Act, the unit emission charge for green certificates is equal to 125% of the annual weighted average price of property rights incorporated in certificates of origin other than certificates issued in respect of energy generated from agricultural biogas on or after July 1st 2016, but may not exceed PLN 300.03 per 1 MWh.

In addition, on August 30th 2017, the Minister of Energy's regulation of August 11th 2017 on changing the quantitative share of total electricity under redeemed certificates of origin certifying electricity generation from renewable energy sources in 2018–2019 came into force. Pursuant to the regulation, in 2018 the requirement to redeem certificates of origin for energy generated from agricultural biogas is 0.5% of electricity sales to end users and 17.50% for certificates of origin for energy generated from other renewable energy sources. In 2019, the requirement will be set at 0.5% and 18.5% respectively.

Despite these developments, excess supply of green certificates continues on the market, with a potential adverse impact on their market prices. In July 2018, the price of property rights carried by certificates of origin was PLN 90/MWh, up from PLN 75.2/MWh as at June 30th 2018.

If the prices of green certificates decline, the Group will be at risk of underperforming and failing to satisfy financial covenants under credit facility agreements concluded to finance its wind farm projects. A considerable long-term decline in the prices of green certificates could periodically impair the Group's ability to meet its obligations under certain credit facility agreements or necessitate drawing on guarantees provided by Polenergia S.A. for certain projects.

Risk related to RES auctions

Under the new RES (auction-based) support scheme, to receive support for energy generation from RES a producer is required to win an auction, which also determines the extent of such support. Thus a risk exists that the Group's wind farm projects ready for construction will receive insufficient support or no support at all. On the other hand, support granted under the auction-based scheme will protect the producer against market risk for 15 years. Following the entry into force of the newly amended RES Act, it will be possible to hold new auctions, the organisation of which was suspended in 2017.

It should also be noted that, pursuant to EU regulations, the target share of renewable energy in the energy mix should be no less than 19.13%, while currently it is close to 13%. In the Group's opinion, this requires further investment in RES, and thus also holding RES auctions in 2018 and beyond.

Risk of proposed regulatory changes under which a support system for conventional generation sources would be created – 'capacity market'

In Poland, investment in conventional generation capacities is hampered, mainly on account of high capital expenditure associated with coal-fired units, low margins on electricity generation (in particular, natural gas- and hard coal-based generation), and increasingly lower capacity utilisation in large commercial generation units. Measures implemented by PSE in recent years (supplemental non-spinning reserve) and several investment decisions made by energy companies controlled by the Polish State Treasury have forestalled the risk of insufficient reserve capacities for several years. However, there is a need to implement long-term measures to mitigate the risk of disruptions on the capacity market after 2020 by stimulating investment in the construction of new generation capacities and retaining the existing sources in operation. On December 8th 2017, the lower chamber of the Polish Parliament passed the Capacity Market Act, which was signed into law by the President of Poland on December 28th 2017. The first capacity auctions have been scheduled for November and December 2018. Depending on specific solutions and auction parameters to be adopted, the attractiveness of new projects, such as the Wińsko Power Plant, as well as the economic viability of existing facilities, such as the Nowa Sarzyna CHP Plant and Mercury Power Plant, may change significantly. Furthermore, it cannot be ruled out that the capacity market will

exert an adverse impact on electricity market prices, which can potentially affect projects whose economic viability rests on revenue from sale of electricity (wind farms).

Risk related to the amount of wind farm property tax for 2017

Given the very unclear wording of the Act on Wind Farm Projects of May 20th 2016, uncertainty arose as to the calculation of wind farm property tax. Although, according to expert reports held by the Group, the provisions of the Act should not affect the amount of property tax paid by the Group companies, most Group companies received adverse private letter rulings confirming that the property tax base had increased as of the beginning of 2017. The Group received only one positive reply to these requests. As part of concurrent efforts, two projects received positive private letter rulings allowing the use of a wind farm's current market value as the tax base.

According to the negative private letter rulings, as of 2017 the property tax on wind farms should be calculated based on new rules. In the Group's opinion, legal grounds for the negative rulings are incorrect, based on which it filed an appeal against them to the Provincial Administrative Court and, subsequently, to the Supreme Administrative Court. Currently, the cases are pending before the Supreme Administrative Court. If the Court rules against the Group, it will have to incur higher costs on account of the wind farm property tax for 2017 in the amount of PLN 6.3m. However, if the Group prevails, it will receive a PLN 9.3m refund for tax overpayment.

The Minister of Energy has taken steps to abolish the discriminatory tax treatment of wind farms. The Act of June 7th 2018 amending the RES Act and certain other acts (Dz.U. of 2018, item 1276) has clarified which parts of a wind farm should be considered structures and therefore be subject to property tax. As amended, the law clearly provides that only the structural elements of wind turbines are to be considered structures. What is more, the amendment has been made effective as of January 1st 2018.

As a result, the Group companies have requested relevant authorities to declare a tax overpayment for 2018.

Risk related to the unstable tax regime

The fact that many tax regulations lack an unambiguous interpretation is particularly problematic if such regulations change. The new thin capitalisation rules may serve an example: it is unclear how the limit for the eligibility of interest as deductible expenses should be determined. The new method of split payment for invoices implemented in 2018 may also have an adverse effect on the Group's position, as it may cause liquidity constraints to the Group companies.

Risk related to Polenergia's business

Risk that investment plans are not executed or are delayed

One of the key elements of the Polenergia Group's development strategy are investment projects related to generation of energy from renewable sources, gas and electricity distribution, and conventional power generation.

Delayed delivery of investment projects or their abandonment could involve a risk of failing to achieve the assumed business objectives within the expected time frame, which in turn might lead to the Polenergia Group's achievement of worse financial results than those it would have posted if such projects had been completed as planned.

Intending to meet its investment plans, the Group takes steps to minimise this risk (such as precise planning and analysing factors which may affect the achievement of objectives, ongoing monitoring of results and immediate response to any signals showing that the achievement of objectives could be at risk). Particular diligence is applied by the Management Board in preparing each project, by working on each and every technological detail and ensuring adequate financing.

The Company's portfolio includes wind farm projects under development, with an aggregate capacity of 185 MW, prepared to participate in auctions under the amended RES Act.

The chances of winning an auction will depend on the number of participating projects and prices offered by the other bidders.

Moreover, as far as procedural matters are concerned, the projects are characterised by long validity periods of the relevant permits, which would enable them to repeatedly participate in later auctions or allow the Group to execute them under a different business model if favoured by then prevailing market conditions.

However, the amended Act on Wind Farm Projects stipulates that wind power plants may only be built under a building permit already obtained within five years of the Act's entry into force (i.e. until 2021). If a project is not successfully completed within that period, there is a risk that the building permit will expire.

Risk related to credit facility agreements

As the Group's investment projects rely to a large extent on debt financing, there is significant debt concentration at the Group. The Group's credit facility agreements provide for a number of financial covenants and requirements to be met by the respective projects, and a failure to comply with such covenants or requirements may constitute an acceleration trigger and/or cause an increase in financing costs.

The Group monitors the debt ratios and compliance with covenants at each company, remaining in contact with the financing institutions, as a result of which debt contracted to finance certain wind farm projects has been reprofiled, as discussed below.

On June 28th 2018, Amon Sp. z o.o. of Łebcz ("Amon") and Talia Sp. z o.o. of Łebcz ("Talia"), subsidiaries of the Company, agreed and signed with a syndicate of financing banks (Raiffeisen Bank Polska S.A., Bank Zachodni WBK S.A., DNB Bank Polska S.A., and Powszechna Kasa Oszczędności Bank Polski S.A.) agreements amending the investment facility agreements of June 1st 2010, which had been executed in connection with the investment project to construct the Łukaszów Wind Farm and the Modlikowice Wind Farm, with a total installed capacity of 58 MW. The purpose of the amendments was to stabilise the financial condition of Amon and Talia in the long term through partial prepayment of the facility using funds accumulated in the Debt Service Reserve Account ("DSRA"), reduction of the principal and interest payments provided for in the facility repayment schedule, as well as alignment of the security created with respect to the facility with current regulations and the borrowers' standing. Following the conclusion of the amending agreements, the amount outstanding under the facility, after the prepayment made from the DSRA as provided for in the documents, is approximately PLN 179m. According to its repayment schedule set out in the finance documents, the facility is repayable until December 2026. The facility bears interest at a rate equal to WIBOR plus the banks' margin. The amendments were necessary given the prevailing market situation, particularly the prices of green certificates and electricity. Amon and Talia were parties to long-term contracts for sale of electricity and green certificates to a subsidiary of the Tauron Polska Energia Group ("Tauron"). As the contracts had been terminated by the other party, both Amon and Talia brought actions against Tauron. As a result of the above agreement, the portion of the credit facilities extended to Amon and Talia maturing as from June 30th 2018 was presented under non-current liabilities in the interim condensed consolidated financial statements for the period ended June 30th 2018.

On July 12th 2018, Grupa PEP – Farma Wiatrowa 1 Sp. z o.o. of Warsaw, Grupa PEP – Farma Wiatrowa 4 Sp. z o.o. of Warsaw and Grupa PEP – Farma Wiatrowa 6 Sp. z o.o. of Warsaw, subsidiaries of the Company (jointly: "GSR"), concluded with a syndicate of financing banks (the European Bank for Reconstruction and Development and Bank Ochrony Środowiska S.A.) agreements amending the investment facility agreements concluded by GSR on October 4th 2013 to finance the investment project to construct the Gawłowice Wind Farm, the Skurpie Wind Farm and the Rajgród Wind Farm, with a total installed capacity of 117.3 MW. The companies are parties to long-term contracts for sale of electricity and green certificates to Polenergia Obrót S.A.

Due to certain market developments, particularly a decline in green certificate prices, low electricity prices and uncertain amounts of property tax, the companies commenced renegotiation of these facility agreements. Following the negotiations, it was agreed that the aggregate prices under the intra-group contracts for sale of electricity and green certificates would be reduced and the facility repayment schedule would be revised, which would bring about an improvement in the Company's condition.

The agreement concluded on July 12th 2018 between the European Bank for Reconstruction and Development, Bank Ochrony Środowiska S.A., the Company and GSR amended the facility

agreements and other relevant finance documents concerning the investment facility contracted by the companies. After the agreement took effect and PLN 23.7m was prepaid on account of the debt, as required by the agreement, the outstanding amount of the facility is PLN 434.5m. The finance documents now provide for an extension of the scheduled repayment period by three years, until December 2032. The facility bears interest at a rate equal to WIBOR plus the bank's margin.

Moreover, as the agreement allows for lower repayments under the GSR facility schedule, on July 12th 2018 the contracts between Polenergia Obrót S.A. and GSR concerning the sale of electricity generated from renewable sources, contracts for the sale of green certificates representing GSR's property rights from renewable electricity generation and contracts for the provision of commercial balancing services were amended. The prices of electricity supplied, green certificates and commercial balancing services were changed, as was the term of the contracts, which was extended by three years.

Since the amendment to the credit facility agreement was made after the reporting date, it should be noted that it does not affect the presentation of borrowings in the Polenergia Group's consolidated financial statements.

Due to the situation prevailing on the green certificates market and given the property tax, which was paid on the gross value of the project's property, plant and equipment representing the entire turbine assemblies, not just the structural elements, Polenergia Farma Wiatrowa Mycielin Sp. z o.o. of Warsaw, running the Mycielin Wind Farm project, failed to meet the financial covenants under the investment facility agreement. However, as the financing banks waived the covenants for the company running the project, its failure to meet them does not necessitate reclassification of the facility from non-current to current liabilities.

Given additional operating expenses connected with equipment repairs, Dipol Sp. z o.o. of Warsaw, which is running the Puck Wind Farm project, failed to meet the DSCR covenant provided for in the investment facility agreement. However, as the financing bank waived the covenants for the company running the project, its failure to meet them does not necessitate reclassification of the facility from non-current to current liabilities.

Due to the situation prevailing on the biomass market, Grupa PEP – Biomasa Energetyczna Wschód Sp. z o.o. of Warsaw, operating a pellet production plant in Zamość, did not meet the DSCR covenant under the investment facility agreement. In accordance with the applicable accounting standards, the credit facility contracted to finance the project was fully recognised under current liabilities in the Polenergia Group's statement of financial position.

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

Towards the end of April 2018, Amon Sp. z o.o. and Talia Sp. z o.o. brought an action against Tauron Polska Energia S.A. of Katowice for premature termination of long-term contracts for sale of electricity and property rights between Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o., a subsidiary of Tauron, and Amon and Talia.

Amon is claiming payment of PLN 47,556,025.51 in damages, together with interest and litigation costs, and determination of Tauron's liability for future losses, estimated at over PLN 158m, so that the total amount claimed in the action by Amon exceeds PLN 205m.

Talia is claiming payment of PLN 31,299,188.52 in damages, together with interest and litigation costs, and determination of Tauron's liability for future losses, estimated at just under PLN 107m, so that the total amount claimed in the action by Talia exceeds PLN 138m.

In the opinion of Amon and Talia, Tauron, as the sole shareholder of PKH and the entity behind the steps to terminate the long-term contracts, submit groundless termination notices and discontinue purchases by PKH of electricity and property rights under the contracts, as well as the entity which entrusted PKH and its liquidators with certain actions and knowingly benefited from the damage inflicted upon Amon and Talia, is responsible for the losses which Amon and Talia have incurred and are incurring as a result of the termination of the long-term contracts. In the opinion of Amon and Talia, their claims are therefore reasonable and deserve to be awarded in accordance with the actions brought by both companies.

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

Eolos Polska Sp. z o.o. filed for joint and several payment by the Company's subsidiaries, Certyfikaty Sp. z o.o. and Polenergia Obrót S.A., of contractual penalties and amounts due totalling PLN 27,895,009 under an alleged breach 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 contractual penalties would increase in subsequent years. The subsidiaries denied the claim in its entirety. Moreover, Polenergia Obrót S.A. maintains that the allegation of its joint responsibility for Certyfikaty Sp. z o.o.'s liabilities is groundless.

Risk related to cash flow hedging

Interest rate risk hedging

As at June 30th 2018, the Group held the following hedging instruments for cash flow hedge accounting purposes:

Maturity date of the hedging instrument	Value of the hedge (PLN '000)	Interest rate hedged	Instrument
Apr 29 2019	23,782.00	4.95%	IRS
Jun 15 2021	129,334.20	3.07%	IRS

The fair value of the hedges as at the reporting date was PLN 4,229 thousand, disclosed in liabilities.

The purpose of the hedging transactions is to mitigate the effect of interest rate movements on future interest payments under credit facility agreements.

Hedge accounting seeks to eliminate the risk of an accounting mismatch between the time when gains or losses on a hedging instrument and those on the hedged item are recognised. The result on a hedging transaction will be taken to profit or loss on exercise of the hedge.

As at June 30th 2018, the Group recognised PLN 189 thousand (2017: PLN 2,311 thousand) in other comprehensive income being a component of equity, on account of the effective portion of the hedging instrument's fair value as at the reporting date.

8. Number of Company shares or rights to Company shares held by the management and supervisory staff as at the date of issue of the half-year report, with information on any changes in the management and supervisory staff's holdings after the issue of the previous report

As at the date of issue of the half-year report, members of the Company's Management and Supervisory Boards did not hold any shares in the parent.

9. Shareholders holding, directly or indirectly through subsidiaries, 5% or more of total voting rights at the Company's General Meeting, including information on the number of shares held by those shareholders, their ownership interests, 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 Company shares after the issue of the previous quarterly report

For information on the Company's shareholding structure, see Note 24.2 to the consolidated financial statements of the Polenergia Group.

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

The Company's subsidiaries Amon Sp. z o.o. and Talia Sp. z o.o. brought two separate court actions to declare invalid the termination notices issued by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. under:

- 1) the Contract for 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 Contract for Sale of Electricity Generated in a Renewable Energy Source – the Łukaszów Wind Farm, of December 23rd 2009, in respect of Amon;
- 2) the Contract for 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 Contract for Sale of Electricity Generated in a Renewable Energy Source – the Modlikowice Wind Farm, of December 23rd 2009, in respect of Talia.

The above did not result in Amon and Talia being unable to sell the electricity and certificates of origin, because electricity can be sold to an obliged supplier at a price determined by the President of the Energy Regulatory Office, while green certificates can be sold through the power exchange or otherwise to other parties. However, market prices may be volatile. As it is not possible to foresee future market prices, the consequences of the change of customer for electricity and green certificates sold by Talia and Amon cannot be reliably predicted. The proceedings are pending.

Towards the end of April 2018, Amon Sp. z o.o. and Talia Sp. z o.o., subsidiaries of the Company, brought an action against Tauron Polska Energia S.A. for premature termination of long-term contracts for sale of electricity and property rights between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., a subsidiary of Tauron, and Amon and Talia.

Amon is claiming payment of PLN 47,556,025.51 in damages, together with interest and litigation costs, and determination of Tauron's liability for future losses, estimated at over PLN 158m, so that the total amount claimed in the action by Amon exceeds PLN 205m.

Talia is claiming payment of PLN 31,299,188.52 in damages, together with interest and litigation costs, and determination of Tauron's liability for future losses, estimated at just under PLN 107m, so that the total amount claimed in the action by Talia exceeds PLN 138m.

In the opinion of Amon and Talia, Tauron, as the sole shareholder of PKH and the entity behind the steps to terminate the long-term contracts, submit groundless termination notices and discontinue purchases by PKH of electricity and property rights under the contracts, as well as the entity which entrusted PKH and its liquidators with certain actions and knowingly benefited from the damage inflicted upon Amon and Talia, is responsible for the losses which Amon and Talia have incurred and are incurring as a result of the termination of the long-term contracts. In the opinion of Amon and Talia, their claims are therefore reasonable and deserve to be awarded in accordance with the actions brought by both companies.

Eolos Polska Sp. z o.o. filed for joint and several payment by the Company's subsidiaries, Certyfikaty Sp. z o.o. and Polenergia Obrót S.A., of contractual penalties and amounts due totalling PLN 27,895,009 under an alleged breach 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 contractual penalties would increase in subsequent years. The subsidiaries denied the claim in its entirety. Moreover, Polenergia Obrót S.A. maintains that the allegation of its joint responsibility for Certyfikaty Sp. z o.o.'s liabilities is groundless.

The Company's subsidiary Grupa PEP – Biomasa Energetyczna Północ Sp. z o.o. is seeking receivables of approximately PLN 420,000.00. The above amount is not reflected in the company's statement of financial position.

Due to the nature of its business which involves supplying electricity to end consumers, the Company's subsidiary Polenergia Dystrybucja Sp. z o.o. is enforcing claims against a number of customers in relation to sale and distribution of electricity, for a total amount of approximately PLN 360,000. The above amount is not reflected in the company's statement of financial position. Furthermore, Polenergia Dystrybucja Sp. z o.o. filed a claim against one of its electricity suppliers, demanding a refund of overpayments for electricity delivered. The amount of the claim is

approximately PLN 550 thousand. The defendant recognised the claim, but also filed a counterclaim pointing to an alleged set-off of its receivables for energy supplied in a different period. Polenergia Dystrybucja Sp. z o.o. regards the defendant's counterclaim as groundless and believes to have paid the supplier all amounts due from it for the energy supplied.

The Company's subsidiary Polenergia Obrót S.A. has secured an enforceable title against one customer for the amount of PLN 5,000,000, with respect to which enforcement proceedings are pending. The above amount is not reflected in the company's statement of financial position.

Moreover, the Company's subsidiary Polenergia Elektrownia Pólnoc Sp. z o.o. is in a dispute with the other party to a preliminary property sale agreement, seeking to oblige that party to execute the final agreement. Polenergia Elektrownia Pólnoc Sp. z o.o. also initiated proceedings against the same person for payment of a penalty for breach of contract. The amount in dispute was PLN 100,000. The proceedings ended with a judgment of the Court of Appeals in Gdańsk of February 7th 2018, dismissing the defendant's appeal. Under the judgment, a bailiff enforcement process is now ongoing.

- 11. Transaction or a series of transactions concluded by the Company or its subsidiaries with related parties, where such transaction or all such transactions jointly are material and were not concluded at arm's length (excluding transactions concluded with a related party by an issuer which is a fund), and the value of such transactions; the information about individual transactions can be grouped by type, except where information on individual transactions is necessary to understand their impact on the Company's assets, financial position and profit or loss**

For information on the Company's related-party transactions, see Note 42 to the consolidated financial statements of the Polenergia Group.

- 12. Loan sureties or guarantees issued by the Company or the Company's subsidiary to a single entity or its subsidiaries**

For information on loan sureties or guarantees issued by the Company or the Company's subsidiary to a single entity or its subsidiaries, see Note 27 to the consolidated financial statements of the Polenergia Group.

- 13. Other information the Company 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 Company's ability to fulfil its obligations**

In the Company's opinion, other than the information disclosed in its prospectus, as well as current and periodic reports, there is no information material to the assessment of the Company's ability to fulfil its obligations.

- 14. Factors which in the Company'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 wording of secondary legislation under the RES Act,
- prices of electricity as well as green and yellow certificates,
- wind conditions in the areas where the Puck, Łukaszów, Modlikowice, Gawłowice, Rajgród, Skurpie, Mycielin and Krzęcin 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 raise financing for the planned projects,
- interest rates,
- EUR/PLN exchange rate.