

***Polenergia Group***

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED JUNE 30TH 2018  
WITH THE AUDITOR'S OPINION**

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Management Board*

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*Michał Michalski – Member of the  
Management Board*

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*Robert Nowak – Member of the  
Management Board*

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*Agnieszka Grzeszczak – Head of Accounting*

Warsaw, August 8th 2018

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# 1. INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at Jun 30 2018

## ASSETS

|  | Note | Jun 30 2018      | Dec 31 2017      |
|--|------|------------------|------------------|
| <b>I. Non-current assets</b>                 |      | <b>1,933,309</b> | <b>2,049,507</b> |
| 1. Property, plant and equipment             | 13   | 1,566,479        | 1,790,851        |
| 2. Intangible assets                         | 14   | 24,624           | 30,146           |
| 3. Goodwill related to subordinated entities | 15   | 109,613          | 184,613          |
| 4. Financial assets                          | 16   | 59,420           | 14,609           |
| 5. Equity-accounted financial assets         | 17   | 141,138          | -                |
| 6. Long-term receivables                     | 18   | 4,331            | 4,489            |
| 7. Deferred tax assets                       | 25   | 27,661           | 24,756           |
| 8. Prepayments and accrued income            |      | 43               | 43               |
| <b>II. Current assets</b>                    |      | <b>979,198</b>   | <b>614,757</b>   |
| 1. Inventories                               | 19   | 24,770           | 26,214           |
| 2. Trade receivables                         | 20   | 95,250           | 123,091          |
| 3. Current tax asset                         | 20   | 3,231            | 1,319            |
| 4. Other short-term receivables              | 20   | 76,258           | 39,995           |
| 5. Prepayments and accrued income            | 21   | 10,280           | 6,939            |
| 6. Current financial assets                  | 22   | 421,068          | 119,301          |
| 7. Cash and cash equivalents                 | 23   | 348,341          | 297,898          |
| <b>Total assets</b>                          |      | <b>2,912,507</b> | <b>2,664,264</b> |

**EQUITY AND LIABILITIES**

|  | Note  | Jun 30 2018      | Dec 31 2017      |
|--|-------|------------------|------------------|
| <b>I. Equity</b>                                   |       | <b>1,144,643</b> | <b>1,181,988</b> |
| <b>Equity attributable to owners of the parent</b> |       | <b>1,143,726</b> | <b>1,181,062</b> |
| 1. Share capital                                   | 24.1  | 90,887           | 90,887           |
| 2. Share premium                                   |       | 601,911          | 680,777          |
| 3. Capital reserve from valuation of options       |       | 13,207           | 13,207           |
| 4. Other capital reserves                          | 24.3  | 402,159          | 401,970          |
| 5. Retained earnings/(deficit)                     | 24.4  | 72,235           | 81,312           |
| 6. Net profit/(loss)                               |       | (37,259)         | (87,726)         |
| 7. Translation reserve                             |       | 586              | 635              |
| <b>Non-controlling interests</b>                   | 24.5  | <b>917</b>       | <b>926</b>       |
| <b>II. Non-current liabilities</b>                 |       | <b>1,046,558</b> | <b>894,846</b>   |
| 1. Bank and other borrowings                       | 27    | 844,444          | 705,504          |
| 2. Deferred tax liability                          | 25    | 64,875           | 73,973           |
| 3. Provisions                                      | 26    | 22,159           | 22,907           |
| 4. Accruals and deferred income                    | 29    | 54,966           | 56,565           |
| 5. Other liabilities                               | 28    | 60,114           | 35,897           |
| <b>III. Current liabilities</b>                    |       | <b>721,306</b>   | <b>587,430</b>   |
| 1. Bank and other borrowings                       | 27.28 | 129,484          | 298,013          |
| 2. Trade payables                                  | 28    | 124,134          | 129,613          |
| 3. Current tax liability                           | 28    | 1,051            | 290              |
| 4. Other liabilities                               | 28    | 450,345          | 139,972          |
| 5. Provisions                                      | 26    | 3,265            | 3,656            |
| 6. Accruals and deferred income                    | 29    | 13,027           | 15,886           |
| <b>Total equity and liabilities</b>                |       | <b>2,912,507</b> | <b>2,664,264</b> |

## 2. INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the period ended June 30th 2018

|   |      | unaudited          |                | unaudited          |                |
|---|------|--------------------|----------------|--------------------|----------------|
|   |      | For 6 months ended |                | For 3 months ended |                |
|   | Note | Jun 30<br>2018     | Jun 30<br>2017 | Jun 30<br>2018     | Jun 30<br>2017 |
| Revenue   | 31   | 1,573,756          | 1,342,513      | 826,943            | 632,571        |
| Cost of sales   | 32   | (1,546,335)        | (1,298,020)    | (823,036)          | (613,618)      |
| <b>Gross profit</b>   |      | <b>27,421</b>      | <b>44,493</b>  | <b>3,907</b>       | <b>18,953</b>  |
| Other income  | 33   | 4,665              | 6,643          | 3,368              | 4,911          |
| Distribution costs  | 32   | (285)              | (392)          | (125)              | (154)          |
| Administrative expenses   | 32   | (20,827)           | (16,132)       | (11,820)           | (8,130)        |
| Other expenses  | 34   | (17,964)           | (905)          | (17,604)           | (545)          |
| Finance income  | 35   | 3,119              | 3,783          | 1,830              | 1,832          |
| Finance costs   | 36   | (35,896)           | (31,056)       | (22,024)           | (15,655)       |
| Gain on loss of control of subsidiaries   | 17   | 11,983             | -              | 11,983             | -              |
| <b>Profit/(loss) before tax</b>   |      | <b>(27,784)</b>    | <b>6,434</b>   | <b>(30,485)</b>    | <b>1,212</b>   |
| Income tax  | 25   | (9,484)            | (5,187)        | (6,888)            | (1,548)        |
| <b>Net profit/(loss)</b>  |      | <b>(37,268)</b>    | <b>1,247</b>   | <b>(37,373)</b>    | <b>(336)</b>   |
| <b>Net profit/(loss) attributable to:</b>   |      | <b>(37,268)</b>    | <b>1,247</b>   | <b>(37,373)</b>    | <b>(336)</b>   |
| Owners of the parent  |      | (37,259)           | 1,246          | (37,359)           | (338)          |
| Non-controlling interests   |      | (9)                | 1              | (14)               | 2              |
| <b>Earnings/(loss) per share:</b>   |      |                    |                |                    |                |
| – diluted earnings for period attributable to owners of the parent                  |      | -0.82              | 0.03           | -0.82              | -0.01          |
| – diluted earnings from continuing operations, attributable to owners of the parent |      | -0.82              | 0.03           | -0.82              | -0.01          |

**Interim condensed consolidated statement of other comprehensive income**

|   | unaudited          |                | unaudited          |                |
|---|--------------------|----------------|--------------------|----------------|
|   | For 6 months ended |                | For 3 months ended |                |
|   | Jun 30<br>2018     | Jun 30<br>2017 | Jun 30<br>2018     | Jun 30<br>2017 |
| <b>Net profit for period</b>  | <b>(37,268)</b>    | <b>1,247</b>   | <b>(37,373)</b>    | <b>(336)</b>   |
| <b>Other comprehensive income that may be reclassified to profit or loss once specific conditions are met</b> |                    |                |                    |                |
| - Cash-flow hedges  | 189                | 726            | 224                | (62)           |
| - Translation differences   | (49)               | (42)           | (21)               | (12)           |
| <b>Net other comprehensive income</b>   | <b>140</b>         | <b>684</b>     | <b>203</b>         | <b>(74)</b>    |
| <b>COMPREHENSIVE INCOME FOR THE PERIOD</b>  | <b>(37,128)</b>    | <b>1,931</b>   | <b>(37,170)</b>    | <b>(410)</b>   |
| Comprehensive income for period:  | (37,128)           | 1,931          | (37,170)           | (410)          |
| Owners of the parent  | (37,119)           | 1,930          | (37,156)           | (412)          |
| Non-controlling interests   | (9)                | 1              | (14)               | 2              |



### 3. Interim condensed consolidated statement of changes in equity

For the period ended June 30th 2018

|   | Share capital | Share premium  | Capital reserve from valuation of options | Other capital reserves | Retained earnings | Net loss        | Translation reserve | Equity attributable to owners of the parent | Non-controlling interests | Total equity     |
|---|---------------|----------------|---|------------------------|-------------------|-----------------|---------------------|---|---------------------------|------------------|
| <b>As at Jan 1 2018</b>   | <b>90,887</b> | <b>680,777</b> | <b>13,207</b>                             | <b>401,970</b>         | <b>(6,414)</b>    | <b>-</b>        | <b>635</b>          | <b>1,181,062</b>                            | <b>926</b>                | <b>1,181,988</b> |
| <b>Change in accounting policies in accordance with IFRS 9</b>              | -             | -              | -   | -                      | (217)             | -               | -                   | (217)                                       | -                         | (217)            |
| <b>Comprehensive income for period</b>                                      |               |                |   |                        |                   |                 |                     |   |                           |                  |
| - Net profit/(loss) for period  | -             | -              | -   | -                      | -                 | (37,259)        | -                   | (37,259)                                    | (9)                       | (37,268)         |
| - Other comprehensive income for period                                     | -             | -              | -   | 189                    | -                 | -               | (49)                | 140   | -                         | 140              |
| <b>Transactions with owners of the parent recognised directly in equity</b> |               |                |   |                        |                   |                 |                     |   |                           |                  |
| - Allocation of profit  | -             | (78,866)       | -   | -                      | 78,866            | -               | -                   | -   | -                         | -                |
| <b>As at Jun 30 2018</b>  | <b>90,887</b> | <b>601,911</b> | <b>13,207</b>                             | <b>402,159</b>         | <b>72,235</b>     | <b>(37,259)</b> | <b>586</b>          | <b>1,143,726</b>                            | <b>917</b>                | <b>1,144,643</b> |

PLN 189 thousand of other comprehensive income is related to the valuation of cash-flow hedges, discussed in detail in Note 40.

PLN 78,866 thousand is related to the allocation of the parent's net profit for 2017, discussed in detail in Note 24.4.

PLN 217 thousand related to the change in accounting policies is a result 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, and is 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.

**For the period ended June 30th 2017**

|   | Share capital | Share premium  | Capital reserve from valuation of options | Other capital reserves | Retained earnings | Net profit   | Translation reserve | Equity attributable to owners of the parent | Non-controlling interests | Total equity     |
|---|---------------|----------------|---|------------------------|-------------------|--------------|---------------------|---|---------------------------|------------------|
| <b>As at Jan 1 2017</b>   | <b>90,887</b> | <b>765,810</b> | <b>13,207</b>                             | <b>399,659</b>         | <b>(3,721)</b>    | <b>-</b>     | <b>682</b>          | <b>1,266,524</b>                            | <b>902</b>                | <b>1,267,426</b> |
| <b>Comprehensive income for period</b>                                      |               |                |   |                        |                   |              |                     |   |                           |                  |
| - Net profit/(loss) for period  | -             | -              | -   | -                      | -                 | 1,246        | -                   | 1,246                                       | 1                         | 1,247            |
| - Other comprehensive income for period                                     | -             | -              | -   | 726                    | -                 | -            | (42)                | 684   | -                         | 684              |
| <b>Transactions with owners of the parent recognised directly in equity</b> |               |                |   |                        |                   |              |                     |   |                           |                  |
| - Allocation of profit  | -             | (85,033)       | -   |                        | 85,033            | -            | -                   | -   | -                         | -                |
| <b>As at Jun 30 2017</b>  | <b>90,887</b> | <b>680,777</b> | <b>13,207</b>                             | <b>400,385</b>         | <b>81,312</b>     | <b>1,246</b> | <b>640</b>          | <b>1,268,454</b>                            | <b>903</b>                | <b>1,269,357</b> |

PLN 726 thousand of other comprehensive income is related to the valuation of cash-flow hedges, discussed in detail in Note 40.

PLN 85,033 thousand is related to the allocation of the parent's net profit for 2016, discussed in detail in Note 24.4.

#### 4. Interim condensed consolidated statement of cash flows

For the period ended June 30th 2018

|  | Note | For 6 months ended |             |
|--|------|--------------------|-------------|
|  |      | Jun 30 2018        | Jun 30 2017 |
| <b>A. Cash flows from operating activities</b>                     |      |                    |             |
| I. Profit/(loss) before tax  |      | (27,784)           | 6,434       |
| II. Total adjustments  |      | 55,382             | 31,450      |
| 1. Depreciation and amortisation                                   | 32   | 48,094             | 48,927      |
| 2. Foreign exchange (gains)/losses                                 |      | 1,146              | (1,512)     |
| 3. Interest and profit distributions (dividends)                   |      | 32,979             | 28,753      |
| 4. Gain/(loss) on investing activities                             |      | 4,859              | 3,002       |
| 5. Income tax  |      | (14,392)           | 2,397       |
| 6. Change in provisions  |      | (1,139)            | 1,146       |
| 7. Change in inventories   |      | 1,444              | 14,218      |
| 8. Change in receivables   |      | (341,191)          | 72,339      |
| 9. Change in current liabilities (net of borrowings)               |      | 330,490            | (127,367)   |
| 10. Change in accruals and deferrals                               |      | (6,920)            | (8,394)     |
| 11. Other adjustments  |      | 12                 | 233         |
| III. Net cash from operating activities (I+/-II)                   |      | 27,598             | 37,884      |
| <b>B. Cash flows from investing activities</b>                     |      |                    |             |
| I. Cash receipts   |      | 103,914            | 157         |
| 1. Disposal of intangible assets and property, plant and equipment |      | 3,326              | 1           |
| 2. Proceeds from financial assets, including:                      |      | 102,142            | 156         |
| a) disposal of financial assets                                    |      | 101,447            | -           |
| b) repayment of long-term loans advanced                           |      | -                  | 156         |
| c) other cash provided by financial assets                         |      | 695                | -           |
| 3. Cash from disposal of a subsidiary                              |      | (1,554)            | -           |
| II. Cash payments  |      | 16,027             | 10,572      |
| 1. Acquisition of property, plant and equipment                    |      | 10,154             | 10,550      |
| 2. Payments for financial assets, including:                       |      | 5,873              | 22          |
| a) acquisition of financial assets                                 |      | 5,873              | 22          |
| III. Net cash from investing activities (I-II)                     |      | 87,887             | (10,415)    |
| <b>C. Cash flows from financing activities</b>                     |      |                    |             |
| I. Cash receipts   |      | 44,301             | 15,947      |
| 1. Proceeds from borrowings  |      | 44,301             | 15,947      |
| II. Cash payments  |      | 109,148            | 105,221     |
| 1. Repayment of borrowings   |      | 84,129             | 76,707      |
| 2. Payment of finance lease liabilities                            |      | 300                | 449         |
| 3. Interest paid   |      | 24,117             | 26,988      |
| 4. Other cash payments related to financing activities             |      | 602                | 1,077       |
| III. Net cash from financing activities (I-II)                     |      | (64,847)           | (89,274)    |
| D. Total net cash flows (A.III +/- B.III +/- C.III)                |      | 50,638             | (61,805)    |
| E. Net increase/decrease in cash, including:                       |      | 50,443             | (61,695)    |
| - effect of exchange rate fluctuations on cash held                |      | (195)              | 110         |
| F. Cash at beginning of period                                     |      | 297,898            | 380,862     |

|   |           |                |                |
|---|-----------|----------------|----------------|
| <b>G. Cash at end of period, including:</b> | <b>23</b> | <b>348,341</b> | <b>319,167</b> |
| - restricted cash                           | 37        | 64,836         | 82,192         |

| <b>External financing sources – bank borrowings (statement of cash flows)</b> | <b>For 6 months ended</b> |                    |
|---|---------------------------|--------------------|
|   | <b>Jun 30 2018</b>        | <b>Jun 30 2017</b> |
| item C.I.1 Proceeds from borrowings   | 44,301                    | 15,947             |
| item C.II.1 Repayment of borrowings   | (84,129)                  | (76,707)           |
| <b>Change in external financing sources, including:</b>                       | <b>(39,828)</b>           | <b>(60,760)</b>    |
| net increase in investment facilities   | (74,281)                  | (80,724)           |
| net increase/decrease in overdraft facility                                   | 34,453                    | 19,964             |

## 5. General information

The Polenergia S.A. Group (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, 12th 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, entered in the relevant register on

November 20th 2013, is at ul. Krucza 24/26 in Warsaw.

Polenergia shares are listed on the Warsaw Stock Exchange.

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

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

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

### 5.1. Duration

The Company and all Group companies have been established for an indefinite period.

### 5.2. Periods covered by these consolidated financial statements

These interim condensed consolidated financial statements cover the six months ended June 30th 2018 and contain comparative data for the six months ended June 30th 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 six and the three months ended June 30th 2018, as well as comparative data for the six and the three months ended June 30th 2017.

As at June 30th 2018, 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.

On August 8th 2018, Mr Robert Nowak and Mr Jacek Suchenek were appointed Members of the Management Board.

As at June 30th 2018, the composition of the parent's Supervisory Board was as follows:

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

On July 6th 2018, Mr Tomasz Mikołajczak, Mr Łukasz Rędziniak, Mr Dominik Libicki, Mr Mariusz Nowak and Mr Dawid Jakubowicz resigned as Members of the Company's Supervisory Board, with effect as of July 12th 2018.

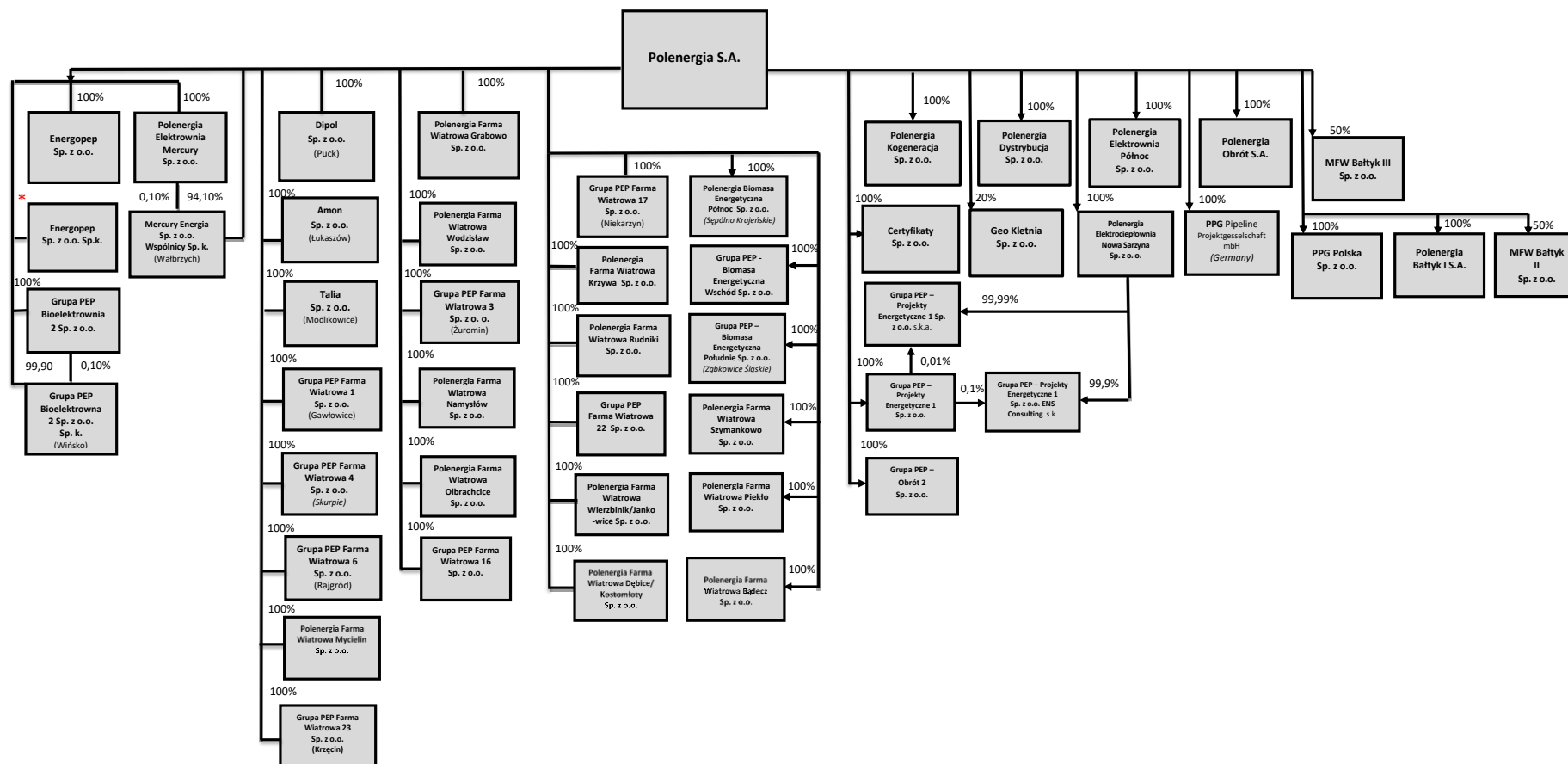
On July 13th 2018, the Extraordinary General Meeting appointed the following five Members of the Company's Supervisory Board: Ms Dominika Kulczyk, Ms Marta Schmude-Olczak, Mr Hans Schweickardt, Mr Kajetan D'Obyrn and Mr Michał Kawa.

On July 19th 2018, Ms Dagmara Gorzelana resigned as Member of the Company's Supervisory Board.

## **6. Going concern**

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 date, i.e. June 30th 2018.

## **7. The Group's organisational structure**



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

## **8. Authorisation of the financial statements**

These interim condensed consolidated financial statements were authorised for issue by the parent's Management Board on August 8th 2018.

## **9. Applied accounting policies**

These interim condensed consolidated financial statements as at June 30th 2018 have been prepared in compliance with International Accounting Standard 34.

The accounting policies applied in preparing these interim condensed consolidated financial statements are consistent with the policies applied in preparing the Group's full-year consolidated financial statements for the year ended December 31st 2017, except for the new interpretations effective for annual periods beginning on or after January 1st 2018.

### **New and amended standards and interpretations:**

The following new standards and amendments to existing standards effective as of January 1st 2018 were applied for the first time in these interim condensed consolidated financial statements:

#### **a) IFRS 9 *Financial Instruments***

IFRS 9 is intended to replace IAS 39. The standard introduces a single model that has only two classification categories for financial assets: measurement at fair value or at amortised cost. 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.

The Group applied IFRS 9 retrospectively, but elected not to restate data for the comparative periods. Accordingly, the comparative data provided is based on the accounting policies previously applied by the Group, as described in its full-year consolidated financial statements for the financial year ended December 31st 2017.

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

Analyses revealed that IFRS 9 had no major impact on the Group's consolidated financial statements, except for the effects of renegotiating the credit facility agreement. IFRS 9 will not be applied to hedge accounting. As the impact of IFRS 9 on its consolidated financial statements was insignificant, the Group does not present a separate note with detailed reconciliations of changes upon initial application of the standard. As the Group identified no changes in the classification of its financial assets and liabilities following adoption of IFRS 9, the classification under IAS 39 is still valid.

#### **b) IFRS 15 *Revenue from Contracts with Customers***

IFRS 15 *Revenue from Contracts with Customers* replaces IAS 18, IAS 11 and relevant interpretations. 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.

**c) Clarifications to IFRS 15 *Revenue from Contracts with Customers***

The clarifications to IFRS 15 *Revenue from Contracts with Customers* provide additional information and explanations concerning the main points of IFRS 15, such as identification of individual performance obligations in the contract, determination whether the entity is an agent or a principal under the contract, or accounting for revenue from licences. Besides additional clarifications, also exemptions and simplifications for first-time adopters were introduced.

**d) Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions***

Amendments to IFRS 2 provide guidance on measurement at fair value of a liability under cash-settled share-based payment transactions, reclassification from cash-settled share-based payment transactions to equity-settled share-based payment transactions, and recognition of an employee's tax liability under share-based transactions.

**e) Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts***

The amendments to IFRS 4 *Insurance Contracts* address concerns about issues arising from implementing IFRS 9 *Financial Instruments*. The released amendments to IFRS 4 complement the options already existing in the standards and seek to prevent temporary fluctuations in insurance companies' results caused by adoption of IFRS 9.

**f) Annual Improvements to IFRSs 2014–2016 Cycle**

The 'Annual Improvements to IFRSs 2014–2016 Cycle' contain amendments to three standards: IFRS 12 *Disclosure of Interest in Other Entities*, IFRS 1 *First-time Adoption of IFRS*, and IAS 28 *Investments in Associates and Joint Ventures*. The improvements contain clarifications and changes to the scope of the standards, recognition and measurement, as well as terminological and editorial changes.

The amendments to IFRS 12 are effective for annual periods beginning on January 1st 2017, while the other amendments are obligatory from January 1st 2018.

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**g) Amendments to IAS 40 *Transfers of Investment Property***

Amendments to IAS 40 clarify the requirements for transfers to and from investment properties.

**h) IFRIC 22 *Foreign Currency Transactions and Advance Consideration***

IFRIC 22 provides guidance applicable when an entity receives or pays consideration in advance in a foreign currency.

**Standards and interpretations in issue that are not yet effective and have not been early adopted by the Group**

In these interim condensed consolidated financial statements, the Group resolved not to early adopt the following issued standards, interpretations or amendments to existing standards prior to their effective dates:

**a) IFRS 16 *Leases***

IFRS 16: *Leases* is effective for annual periods beginning on or after January 1st 2019.

The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. Upon commencement of any lease, a lessee is required to recognise a right-of-use asset and a lease liability. Thus, IFRS 16 abolishes the operating and finance lease classification under IFRS 17 and provides a single lessee accounting model requiring lessees to recognise (a) assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value and (b) amortisation of the leased asset separately from interest on lease liability in the statement of profit or loss.

IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17. Lessors continue to classify leases as operating or finance, each of them subject to a different accounting treatment.

The Group will apply IFRS 16 as of January 1st 2019.

**b) Amendments to IFRS 9 *Prepayment Features with Negative Compensation***

The amendments to IFRS 9 are effective for annual periods beginning on or after January 1st 2019, with an early adoption option. The amended IFRS 9 allows entities to measure financial assets with negative compensation prepayment features at amortised cost or fair value through other comprehensive income if a specified condition is met – instead of at fair value through profit or loss.

The Group will apply the amendments as of January 1st 2019.

The Group does not expect the amendments to have a significant impact on its consolidated financial statements on initial adoption.

As at the date of preparation of these interim condensed consolidated financial statements, the amendments had not been endorsed by the European Union.

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**c) IFRS 17 *Insurance Contracts***

IFRS 17 *Insurance Contracts*, issued by the International Accounting Standards Board on May 18th 2017, is effective for annual periods beginning on or after January 1st 2021.

New IFRS 17 will replace existing IFRS 4, which allows for a variety of practice in accounting for insurance contracts. IFRS 17 will substantially change the accounting of all entities that deal with insurance contracts and investment agreements.

The Group will apply IFRS 17 following its endorsement by the European Union.

As at the date of preparation of these interim condensed consolidated financial statements, the amendments had not been endorsed by the European Union.

**d) Amendments to IAS 28 *Investments in Associates and Joint Ventures***

The amendments are effective for annual periods beginning on or after January 1st 2019. Amendments to IAS 28 *Investments in Associates and Joint Ventures* clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which it does not apply the equity method. The Board has also published an example illustrating the application of IFRS 9 and IAS 28 to long-term interests in an associate or joint venture.

The Group will apply the amendments as of January 1st 2019.

The Group does not expect the amendments to have a significant impact on its consolidated financial statements on initial adoption.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

**e) IFRIC 23: *Uncertainty over Income Tax Treatments***

IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The guidelines are effective for annual periods beginning on or after January 1st 2019.

The Group will apply the amendments as of January 1st 2019.

The Group does not expect the amendments to have a significant impact on its consolidated financial statements on initial adoption.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

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**f) Annual Improvements to IFRSs 2015–2017 Cycle**

In December 2017, the International Accounting Standards Board issued 'Annual Improvements to IFRSs 2015–2017 Cycle', containing amendments to four standards: IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

The amendments clarify the existing guidance on recognition and measurement.

The Group will apply the amendments as of January 1st 2019.

The Group does not expect the amendments to have a significant impact on its consolidated financial statements on initial adoption.

As at the date of these consolidated financial statements, the amendments had not been endorsed by the European Union.

**g) IAS 19 *Employee Benefits***

Amendments to IAS 19 are effective for annual periods beginning on or after January 1st 2019. They define requirements with regard to accounting for an amendment, curtailment or settlement of a defined benefit plan.

The Group will apply the amendments as of January 1st 2019.

The Group does not expect the amendments to have a significant impact on its consolidated financial statements on initial adoption.

As at the date of preparation of these consolidated financial statements, the amendments had not been endorsed by the European Union.

**h) Amendments to References to the Conceptual Framework in IFRS Standards**

Amendments to References to the Conceptual Framework in IFRS Standards will be effective from January 1st 2020.

**i) IFRS 14 *Regulatory Deferral Accounts***

The standard permits an entity which is a first-time adopter of the IFRSs (on or after January 1st 2016) to continue to account for rate-regulated activities in accordance with its previous accounting policies. To ensure better comparability with entities which already use the IFRSs and do not account for such activities, in accordance with the issued IFRS 14, amounts from rate-regulated activities should be presented as a separate item in the statement of financial position, statement of profit or loss, and statement of comprehensive income.

By the European Union's decision, IFRS 14 will not be endorsed.

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**j) Amendments to IFRS 10 and IAS 28: sale or contribution of assets between an investor and its associate or joint venture**

The amendments address the current inconsistency between IFRS 10 and IAS 28. The accounting approach depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a business.

Full gain or loss is recognised by the investor if the non-monetary assets constitute a business. If the assets do not meet the definition of a business, the investor recognises a partial gain or loss, excluding the part corresponding to other investors' interests.

The amendments were issued on September 11th 2014, with no effective date set by the International Accounting Standards Board.

As at the date of preparation of these consolidated financial statements, endorsement of the amendments had been postponed by the European Union.

**9.1. Basis of preparation of these interim condensed consolidated financial statements**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 and cover the six months from January 1st to June 30th 2018 and the comparative period from January 1st to June 30th 2017, while also including data for the second quarters of 2018 and 2017, as well as data as at December 31st 2017 with respect to the statement of financial position. In accordance with the applicable laws, these interim condensed consolidated financial statements for the six months ended June 30th 2018 have been reviewed by an independent auditor, while the comparative data for the financial year ended December 31st 2017 have been audited by an independent auditor.

These consolidated financial statements have been prepared on the historical cost basis, except with respect to the following material items of 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 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.

**9.2. Significant judgements**

Certain information presented in these consolidated financial statements is based on the Group's estimates and professional judgement. The amounts determined in that manner will often differ from actual results. The judgements and estimates with the largest impact on the valuation and recognition of assets and liabilities include:

- Classification and valuation of leases – the Group as the lessor – the Group classifies its lease contracts as finance leases or operating leases based on the assessment of the extent to which substantially all the risks and rewards incidental to ownership of the leased asset have been transferred from the lessor to the lessee. Such assessment is in each case based on the economic substance of a given transaction.

In the six months ended June 30th 2018, the Group made no changes in its method of making judgements affecting the information presented in the consolidated financial statements. The amounts arrived at using professional judgement are presented in Note 20.

### 9.3. Significant estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period which carry a significant risk of a material adjustment being required to the carrying amounts of assets and liabilities in the next financial year are discussed below:

- Impairment losses on non-financial non-current assets (Note 15);
- Classification of certificates of origin and emission reduction units;
- Depreciation/amortisation rates – depreciation/amortisation rates are set based on the anticipated useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates;
- Impairment losses on receivables (Note 20);
- Provisions for disputes and accrued holiday entitlements (Note 26);
- Financial assets and liabilities under forward contracts (Note 22);
- Compensation for stranded costs and compensation for the cost of consumption of collected natural gas and cost of uncollected natural gas (“cost of gas”) – the Company's future operations will be significantly influenced by the Agreement Terminating the Long-Term Electricity Supply Contract (“LTC”) with PGE Polska Grupa Energetyczna S.A. (previously Polskie Sieci Elektroenergetyczne S.A.), signed by the Management Board of Elektrociepłownia Nowa Sarzyna Sp. z o.o. on December 28th 2007 pursuant to the Act on Rules of Compensating for Costs Incurred by Energy Producers Due to Early Termination of Long-term Capacity and Electricity Purchase Contracts (“LTC Termination Act”), passed by the lower chamber of the Polish Parliament on June 29th 2007. Under the Termination Agreement, the Company's LTC was terminated on March 31st 2008 in exchange for compensation intended to cover stranded costs, and compensation for the cost of consumption of collected natural gas and the cost of gas. Under the LTC Termination Act, the maximum compensation payable to the Company is PLN 777.5m – to cover stranded costs, and PLN 340.7m – to cover the cost of gas. The Company calculates the amount of stranded costs and compensation for the cost of gas based on the formulas specified in Art. 30, 31, 45 and 46 of the LTC Termination Act. Due to the length of the period covered by the calculations, the estimated amounts may change (as described in more detail in Note 43). The amounts disclosed as at the end of the reporting period have been estimated based on the Company's best knowledge and data available on that date;
- Deferred tax – the Group recognises a deferred tax asset if it is assumed that taxable income will be generated in the future against which the asset can be utilised. If taxable income deteriorates in the future, this assumption may prove invalid (Note 25);
- Impairment of assets – this required an estimation of the value in use of the cash-generating unit to which these non-current assets belong. Estimating the value in use requires making an estimate of the expected future cash flows from the cash-generating unit and determining a suitable discount rate in order to calculate the present value of those cash flows. No indication of the need to test assets for impairment was identified as at June 30th 2018.
- Revenue from grid connection fees – grid connection services represent a distinct performance obligation with revenue recognised at the time when the invoice for installing a connection is issued. This approach best reflects the economic substance of the transaction. Should the market practice change so that such revenue is recognised over time, i.e. over the useful life of relevant assets, this will be reflected in the Group's approach to revenue recognition.

In the six months ended June 30th 2018, the Group made no changes to its method of making estimates affecting the information presented in the interim condensed consolidated financial statements, and the estimated amounts were presented in notes referred to above.

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**9.4. Measurement currency and reporting currency of the interim condensed consolidated financial statements**

The functional currency of the parent and other companies covered by these interim condensed consolidated financial statements and the reporting currency of these consolidated financial statements is the Polish złoty (PLN) or the euro (EUR) (in the case of PPG Pipeline Projektgesellschaft GmbH).

**9.5. Basis of consolidation**

These interim condensed consolidated financial statements incorporate the financial statements of Polenergia S.A. and the financial statements of its subsidiaries for the six months ended June 30th 2018. Subject to adjustments made to ensure compliance with IFRSs, the financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent, using uniform accounting policies, and with accounting policies consistently applied to economic events and transactions of a similar nature. Adjustments are made in order to eliminate any discrepancies in the accounting policies applied by the companies.

Subsidiaries are fully consolidated starting from the date when the parent obtains control and cease to be consolidated when that control is lost. The parent controls a subsidiary when it is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The Group ceases to consolidate a subsidiary once it ceases to control the subsidiary.

Acquisition of control of an entity representing a business within the meaning of IFRS 3 is accounted for with the acquisition method. As at the date of inclusion of a subsidiary in the consolidated financial statements, its identifiable assets and liabilities are recognised at fair value. The difference between the fair value of such assets and liabilities and the purchase price, also determined at fair value, non-controlling interests and the fair value of previously held interests, is recognised as goodwill under a separate item of the consolidated statement of financial position.

Any balances and transactions of significant value between Group companies, including unrealised gains from intra-Group transactions, are fully eliminated. Unrealised losses are eliminated unless they are indicative of impairment.

**9.6. Investments in associates**

Shares in associates are accounted for with the equity method. Associates are those entities over which the parent has significant influence, either directly or indirectly through its subsidiaries, but which are neither its subsidiaries nor joint ventures. The financial statements of associates serve as the basis for equity method valuation of the interests held by the parent. The financial year of associates and of the parent is the same.

Investments in associates are recognised in the statement of financial position at cost, increased by subsequent changes in the parent's share in net assets of the entities, less impairment losses, if any. The parent's share in profits or losses of associates is reflected in the statement of profit or loss. An adjustment to the carrying amount may also be necessary in the case of a change in the proportion of the interest held in an associate following changes in the associate's other comprehensive income. Investments in associates are tested for impairment whenever there is indication of impairment or indication that any previously recognised impairment is no longer required.

If a change is recognised directly in the equity of an associate, the parent recognises its share in each change and, if applicable, discloses it in the statement of changes in equity.



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**9.7. Goodwill**

Goodwill arising on acquisition is initially recognised at cost, equal to the excess of:

- the consideration transferred,
- the amount of any non-controlling interest in the acquiree, and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree,

over net identifiable assets acquired and liabilities assumed as at the acquisition date.

Following the initial recognition, goodwill is carried at cost less cumulative impairment losses. Goodwill is tested for impairment annually, or more frequently if there is any indication of impairment. Goodwill is not amortised.

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the business combination. Each unit or set of units to which goodwill has been allocated:

- corresponds to the lowest level at which goodwill is monitored for internal management purposes, and
- is not greater than a single operating segment, determined in accordance with IFRS 8 *Operating Segments*.

Impairment of goodwill is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill has been allocated. If the recoverable amount of the cash-generating unit is lower than its carrying amount, the Group recognises an impairment loss. If goodwill comprises a part of a cash-generating unit and the Group sells a part of the cash-generating unit's business, the goodwill pertaining to the sold business is included in the carrying amount of the sold business for the purpose of calculating gains or losses on disposal of the part of business. In such a case goodwill disposed of is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

**9.8. Intangible assets**

Intangible assets which are separately acquired or produced (if they meet the criteria for being recognised as development expenditure) are initially recognised at cost. Cost of intangible assets acquired in a business combination is equivalent to their fair value as at the date of the combination. Following initial recognition, intangible assets are measured at cost less accumulated amortisation and impairment losses, if any. With the exception of capitalised development expenditure, expenditure on intangible assets produced by the Group is not capitalised and is charged to expenses in the period in which it was incurred.

The Group determines whether intangible assets have definite or indefinite useful lives. Intangible assets with definite useful lives are amortised over their useful lives and tested for impairment whenever there is any indication of impairment. The amortisation period and the amortisation method for an intangible asset with a definite useful life are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are disclosed by changing the amortisation period or amortisation method, as appropriate, and are accounted for as changes in accounting estimates. Amortisation charges on intangible assets with definite useful lives are recognised in profit or loss in the category that corresponds to the function of a given intangible asset.

Intangible assets with indefinite useful lives and those that are not used are tested for impairment annually at the level of the separate asset or the relevant cash generating unit.

Expected useful lives of intangible assets are as follows:

|                         |           |
|-------------------------|-----------|
| Patents, licences       | 1 year    |
| Software                | 2–5 years |
| Other intangible assets | 5 years   |



Expenditure on research activities is charged to the statement of profit or loss as incurred. Costs of development work performed with respect to a given project are carried forward if they are expected to be recovered in the future. After initial recognition of expenditure on development work, the historical cost model is applied, which requires that assets be disclosed at cost less accumulated amortisation and impairment. Any expenditure carried forward is amortised over the expected period of generating revenue from sale of a given project.

The carrying amount of development costs is reviewed for impairment annually if the asset is not yet in use, or more frequently if an indication of impairment has been identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

Gains or losses from derecognition of an intangible asset are measured as the difference between net proceeds from the sale of the asset and its carrying amount, and are recognised in the statement of profit or loss upon derecognition of the asset.

### **9.9. Property, plant and equipment**

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any.

The initial value of an item of property, plant and equipment is represented by its cost, which includes all costs directly related to its acquisition and bringing it to working condition for its intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognised when incurred if relevant recognition criteria are fulfilled. Costs incurred after an item of property, plant and equipment has been placed in service, such as costs of maintenance or repair, are charged to profit or loss when incurred.

Upon acquisition, property, plant and equipment are divided into components of material value which can be assigned different economic useful lives. The cost of overhauls is also deemed a component.

Property, plant and equipment, other than land, are depreciated using the straight-line method over their estimated useful lives.

|                                     |              |
|-------------------------------------|--------------|
| Buildings and structures            | 25 years     |
| Plant and equipment                 | 2.5–25 years |
| Vehicles                            | 2.5–5 years  |
| Other property, plant and equipment | 5–7 years    |

Residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed annually and, if necessary, adjusted with effect as of the beginning of the next financial year.

Each item of property, plant and equipment is accounted for separately and depreciated over its useful life.

An item of property, plant and equipment can be derecognised on disposal or when no future economic benefits are expected from its further use. Any gains or losses on derecognition of an asset from the statement of financial position (calculated as the difference between net proceeds from its sale, if any, and the carrying amount of the asset) are disclosed in profit or loss for the period of derecognition.

### **9.10. Property, plant and equipment under construction**

Items of property, plant and equipment under construction are measured at the amount of aggregate costs directly attributable to their acquisition or production, less impairment losses, if any. They also include materials used in their construction. Property, plant and equipment under

construction is not depreciated until completed and placed in service. Wind farm development expenditure is also recognised as property, plant and equipment under construction.

### **9.11. Borrowing costs**

The costs of bank and other borrowings which may be directly attributed to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of such asset. Borrowing costs comprise interest and foreign exchange gains or losses up to an amount equal to the adjustment to interest expense.

### **9.12. Impairment losses on non-financial non-current assets**

An assessment is made at the end of each reporting period to determine whether there is indication that any of the non-financial non-current assets may be impaired. If the Group finds such indication, or if the Group is required to perform annual impairment tests, it estimates the recoverable amount of a given asset or the cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for individual assets, unless a given asset does not generate separate cash flows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable amount, the value of the asset is impaired and an impairment loss is recognised, reducing the asset's carrying amount to the established recoverable amount. In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and risks specific to the asset. Impairment losses of continuing operations are recognised in the expense categories consistent with the function of the impaired asset.

The Group assesses at the end of each reporting period whether there is any indication that previously recognised impairment of an asset no longer exists or should be reduced. If such indication exists, the Group estimates the asset's recoverable amount. A recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. In such a case, the carrying amount of the asset is increased up to its recoverable amount. The increased value may not exceed the carrying amount of the asset that would have been determined (after accumulated amortisation/depreciation) if no impairment losses had been recognised on that asset in previous years. Reversal of an impairment loss is immediately recognised as income in profit or loss. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to a given asset is adjusted so that its revised carrying amount, less residual value, can be regularly written off over the remaining useful life of the asset.

### **9.13. Financial assets**

As of January 1st 2018, the Group classifies its financial assets into one of the following categories:

- Financial assets at amortised cost;
- Financial assets at fair value through profit or loss;
- Financial assets at fair value through other comprehensive income.

#### ***Debt instruments – Financial assets at amortised cost***

Debt instruments held to collect contractual cash flows that are solely payments of principal and interest (SPPI) are carried at amortised cost. Interest income is calculated using the effective interest rate method and recognised under interest income in the statement of profit or loss. Impairment losses are recognised in accordance with the accounting policy set out in Note 9.14 and presented under impairment losses on financial assets.

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***Debt instruments – Financial assets at fair value through other comprehensive income***

Debt instruments from which cash flows are solely payments of principal and interest and which are held for the purpose of collecting contractual cash flows and selling these assets are measured at fair value through other comprehensive income. Changes in the carrying amount are recognised through other comprehensive income, except for impairment gains and losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. If a financial asset is derecognised, the total gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised as other gains/(losses). Interest income on such financial assets is calculated using the effective interest rate method and recognised under interest income. Impairment losses are recognised in accordance with the accounting policy set out in Note 9.14 and presented under impairment losses on non-current assets.

***Debt instruments – Financial assets at fair value through profit or loss***

Assets which do not meet the criteria for being measured at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss. Such instruments include in particular:

- Trade receivables subject to regular factoring to manage liquidity, where the terms and conditions of the factoring agreement result in derecognition of such receivables,
- Loans that do not meet the SPPI criteria (i.e. cash flows resulting from those loans are not solely payments of principal and interest) as the frequency of interest rate changes does not correspond to the interest accrual convention.

Gain or loss on fair value measurement of debt investments is recognised in profit or loss and presented under gains/(losses) on changes in the fair value of financial instruments in the period in which it occurred, save for interest income, which is calculated using the effective interest rate method, recognised under interest income.

***Equity instruments – Financial assets at fair value through other comprehensive income***

Upon initial recognition, the Group measures all investments in equity instruments at fair value. The Group has elected to present gains and losses on changes in the fair value of equity instruments in other comprehensive income. If such election is made, gains and losses on changes in the fair value are not reclassified to profit or loss at a later date, when the investment is derecognised. Dividends from such investments are recognised in profit or loss once the Group's right to receive payment is established. Impairment losses (and reversals of impairment losses) on equity investments measured at fair value through other comprehensive income are not presented separately from other changes in fair value.

Under IFRS 9, the comparative data for these condensed consolidated financial statements is consistent with IAS 39, as described below:

Financial assets are classified into the following categories:

- Financial assets held to maturity,
- Financial assets at fair value through profit or loss,
- Loans and receivables,
- Financial assets available for sale.

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity, other than:

- Financial assets designated at fair value through profit or loss upon initial recognition,
- Financial assets designated as available for sale,

- Financial assets that qualify as loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest rate method. Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the reporting period.

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

- a) it is classified as held for trading. Financial assets are classified as held for trading if they:
  - have been acquired principally for the purpose of being sold in the near future,
  - are part of a portfolio of identified financial instruments that are managed together and for which there is probability of profit-taking in the near future,
  - are derivative instruments (except for those which are part of hedge accounting or financial guarantee contracts),
- b) it has been assigned to this category on initial recognition, in accordance with IAS 39.

An entire contract can be designated as financial asset at fair value through profit or loss if it contains one or more embedded derivative instruments. This does not apply to situations where an embedded derivative does not materially affect the cash flows of the contract or its separation is expressly prohibited. Financial assets may be designated as financial assets at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, (ii) the assets are part of a group of financial assets that are managed and measured based on fair value, according to a documented risk management strategy, or (iii) the financial assets contain embedded derivative instruments which should be presented separately.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets if their maturity does not exceed 12 months after the end of the reporting period. Loans and receivables with maturities exceeding 12 months from the end of the reporting period are classified as non-current assets.

Financial assets available for sale are non-derivative financial assets which have been classified as available for sale, or which do not belong to any of the previous three categories. Financial assets available for sale are recognised at fair value (without deducting the sale transaction costs), determined by reference to their market value as at the reporting date. If quoted market prices from an active market are not available and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost less impairment losses, if any. The positive or negative difference between the fair value of available-for-sale financial assets (if they have a market price derived from an active market or their fair value can be otherwise established in a reliable manner) and their cost is recognised net of deferred tax in other comprehensive income. Impairment losses on available-for-sale financial assets are recognised in other expenses.

Any purchase or sale of financial assets is recognised at the transaction date. On initial recognition, financial assets are recognised at fair value plus – in the case of financial assets other than those at fair value through profit or loss – transaction costs directly attributable to the purchase.

A financial asset is derecognised from the statement of financial position upon expiry or transfer of contractual rights to cash flows from the asset following a transaction whereby the Group transferred substantially all risks and rewards incidental to ownership of that financial asset, which usually takes place upon sale of the instrument or where all cash flows attributable to the instrument are transferred to a third party.

#### **9.14. Impairment of financial assets**

The Group estimates expected credit losses on debt instruments measured at amortised cost and at fair value through other comprehensive income, whether or not there has been any evidence of impairment.

The Group applies a three-stage impairment model with respect to financial assets, except for trade receivables:

- Stage 1 – covers instruments for which credit risk has not increased significantly since initial recognition. Expected credit losses are determined based on the probability of default within 12 months (i.e. the total expected credit loss is multiplied by the probability that the loss will occur over the next 12 months – 12 month ECL),
- Stage 2 – covers instruments for which there has been a significant increase in credit risk since initial recognition, but for which there is no objective evidence of impairment. Expected credit losses are determined based on the probability of default on a given asset occurring over its contractual life (lifetime ECL),
- Stage 3 – covers instruments for which there is objective evidence of impairment.

To the extent necessary – according to the above model – to assess whether there has been a significant increase in credit risk, the following factors are taken into account by the Group:

- A loan is 30 days or more past due,
- There have been legislative, technological or macroeconomic changes with a significant adverse effect on the debtor,
- A significant adverse event has been reported concerning a loan or other loans contracted by the same debtor from another lender, such as termination of a loan agreement, breach of its terms and conditions, or its renegotiation due to financial difficulties, etc.,
- The debtor has lost a significant customer or supplier or has experienced other adverse developments on its market.

### 9.15. Hedge accounting

The Group hedges cash flows against interest rate movements related to future loan repayments (by exchanging the floating interest rate under a loan agreement for a fixed interest rate) and against exchange rate movements related to foreign-currency loan repayments. Derivatives designated as hedging instruments are interest rate swaps and currency forwards.

For more information on hedge accounting, see Note 40.

In the period ended June 30th 2018, in accordance with its adopted 'Hedge Accounting Guidelines', the Group measured hedge effectiveness both ex-post (retrospectively) and ex-ante (prospectively), using the dollar offset method.

For accounting purposes, effectiveness is measured using the 'hypothetical derivative' method. The method compares the change in fair value of an Interest Rate Swap (IRS) designated as a hedging instrument and the change in fair value of a hypothetical IRS on a cumulative basis from the inception of the hedging relationship. The hypothetical IRS has terms identical to those of the hedged item, and its fair value at the inception of the hedging relationship is nil.

Hedge ineffectiveness is calculated by comparing the cumulative change in fair value of the IRS designated as a hedging instrument and the cumulative change in fair value of the 'ideal' hypothetical IRS, in each case starting from the inception of the hedging relationship.

Subsequent to the inception of the hedging relationship, gains or losses arising on remeasurement of fair value of the hedging instrument are recorded based on determination what portion of the change in its carrying amount reflects the effective portion of the hedge. The determination is made as at each date of preparation of financial statements/reporting date on a cumulative basis from the inception of the hedging relationship until that date. The Company determines the effective and ineffective portion of the hedge taking into account changes in its clean fair value, which is its fair value less unrealised interest accruals.

The effective portion of the change in fair value of the hedging instrument is recognised in other comprehensive income, while the ineffective portion is recognised in profit or loss.

For information on the fair value of the derivatives disclosed in the statement of financial position, see Note 40.

### **9.16. Joint arrangements**

Investments in joint arrangements are classified as either joint operations or joint ventures depending on each investor's contractual rights and obligations. The Group assessed the nature of its joint arrangements, classifying them as joint ventures. Joint ventures are accounted for using the equity method.

With the equity method, interests in joint ventures are initially recognised at cost and subsequently adjusted to indicate the portion of post-acquisition profits or losses and changes in the statement of comprehensive income attributable to the Group. When the Group's share in losses of a joint venture equals or exceeds its share in the joint venture (comprising all long-term interests that, in substance, form part of the Group's net investments in joint ventures), the Group does not recognise any subsequent losses unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains arising from transactions between the Group and its joint ventures are eliminated pro rata to the Group's interest in the joint ventures. Unrealised losses are also eliminated unless a transaction provides evidence of impairment of an asset transferred. The accounting policies of the joint ventures were changed whenever it was necessary to align them with the accounting policies applied by the Group.

### **9.17. Leases**

#### ***The Group as a lessee***

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the leased asset to the Group, are recognised in the statement of financial position at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance charge is taken directly to profit or loss.

Property, plant and equipment used under finance leases are depreciated over the shorter of their estimated useful life and the lease term.

Leases under which the lessor retains substantially all risks and rewards resulting from ownership of the leased asset are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss over the lease term on a straight-line basis.

#### ***The Group as a lessor***

Assets leased out under a finance lease are presented as receivables in an amount equal to the net investment in the lease. Lease payments are apportioned between the finance income and the reduction of the lease receivable. The finance charge and finance income are taken directly to profit or loss.

### **9.18. Inventories**

Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing inventories of materials to their present location and condition are included in the cost of the inventories and measured at cost determined using the weighted average cost formula.

Net realisable value is the selling price realisable as at the reporting date, net of VAT and excise taxes, less any rebates, discounts and other similar items, and less estimated costs to complete a given item and costs to sell.



Being assets held for sale in the course of core operations, certificates of origin (see Section 9.28.2) and CO<sub>2</sub> emission reduction units are also recognised as inventories.

### 9.19. Short-term and long-term receivables

Trade receivables other than lease receivables (for details see Section 9.17) are measured at amounts due less impairment losses.

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 is determined using an allowance 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 is estimated on the basis of an analysis of receivables from each individual customer.

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

Receivables from the state budget are presented as other short-term receivables, except for corporate income tax receivable (current tax asset), disclosed as a separate item in the statement of financial position. If the effect of the time value of money is material, the receivable is measured by discounting expected future cash flows to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money. If the discount method is applied, any increase in the amount of the receivables reflecting the passage of time is recognised as finance income.

### 9.20. Foreign currency transactions

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the rate of exchange prevailing on the transaction date.

Cash, bank borrowings and other monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency as at the reporting date at the exchange rate prevailing on the transaction date (for entities having the Polish złoty as their functional currency, the mid rate quoted by the NBP is used). Foreign exchange differences on translation and settlement of positions are recognised in finance income or costs, as appropriate. Changes in the fair value of derivatives designated as hedging instruments for hedge accounting purposes are recognised in accordance with applicable hedge accounting policies (see Note 40).

The following exchange rates were used for fair value measurement:

|     | Jun 30 2018 | Dec 31 2017 | Jun 30 2017 |
|-----|-------------|-------------|-------------|
| USD | 3.7440      | 3.4813      | 3.7062      |
| EUR | 4.3616      | 4.1709      | 4.2265      |
| GBP | 4.9270      | 4.7001      | 4.8132      |

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**9.21. Cash and cash equivalents**

Cash and cash equivalents disclosed in the consolidated statement of cash flows comprise cash in hand, bank deposits maturing in up to three months, and treasury bills and bonds not classified as investing activities.

**9.22. Prepayments and accruals**

The Group recognises prepayments where costs relate to future reporting periods. Accrued expenses are recognised at probable amounts of current-period liabilities.

**9.23. Share capital**

Share capital is disclosed at the amount specified in the parent's Articles of Association and entered in the National Court Register. Any difference between the fair value of consideration received and the par value of shares is recognised as share premium. Amounts paid for share repurchases are charged to equity and disclosed in the statement of financial position as treasury shares.

**9.24. Provisions**

Provisions are recognised if Group companies have a legal or constructive obligation resulting from a past event and when it is certain or highly probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where expenditure required to settle the obligation is expected to be reimbursed by another party (e.g. under an insurance agreement), the reimbursement is recognised as a separate asset when, and only when, it is virtually certain that it will be actually received. Cost related to a given provision is recognised in profit or loss net of any recoveries. If the effect of the time value of money is material, the amount of a provision is determined by discounting the projected future cash flows to their present value, using a pre-tax discount rate reflecting the current market estimates of the time value of money, as well as any risk associated with a given obligation. If the discount method is applied, an increase in the provision as a result of the passage of time is recognised as finance costs.

**9.25. Provisions for retirement gratuity and jubilee benefits**

In accordance with company remuneration systems, Group employees are entitled to jubilee and retirement gratuity benefits. Jubilee benefits are paid after a specific period of service, while retirement gratuities are one-off benefits paid out when an employee retires. Amounts of such benefits depend on the length of service and the average remuneration of an employee. The Company recognises a provision for future retirement gratuity and jubilee benefit obligations in order to allocate costs to the periods to which they relate. According to IAS 19, jubilee benefits are classified as other long-term employee benefits, whereas retirement gratuity benefits – as defined post-employment benefit plans. The calculated value of the obligations is equal to the amount of discounted future payments, taking into account employee turnover, and relate to the period ending on the reporting date. Information on demographics and employee turnover is based on historical data.



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**9.26. Interest-bearing borrowings and other debt instruments**

All borrowings and other debt instruments are initially recognised at fair value net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing borrowings and other debt instruments are measured at amortised cost using the effective interest rate method.

Amortised cost includes the cost of obtaining the funding as well as any discounts or premiums obtained in connection with the liability.

Any gains or losses are taken to profit or loss when the liability is derecognised or accounted for using the effective interest rate method.

If contractual terms of a financial liability are modified in a way that does not result in derecognition of the existing liability, the gain or loss is immediately recognised in profit or loss at an amount equal to the difference between the present value of modified and original cash flows, discounted using the original effective interest rate.

**9.27. Trade and other payables**

Short-term trade payables are reported at nominal amounts payable. Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities initially designated as financial liabilities at fair value through profit or loss. Financial liabilities are classified as held for trading if they have been acquired for the purpose of being sold in the near future. Derivative financial instruments, including separated embedded derivatives, are also classified as held for trading, unless they are considered as effective hedges. Financial liabilities may be designated as financial liabilities at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, (ii) the liabilities are part of a group of financial liabilities that are managed and measured based on fair value, according to a documented risk management strategy, or (iii) the financial liabilities contain embedded derivative instruments which should be presented separately.

Financial liabilities other than financial instruments at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

The Group derecognises a financial liability when it is extinguished, that is when the obligation specified in the contract is either discharged or cancelled or expires. When a debt instrument between the same parties is replaced by another instrument whose terms are substantially different, the Group treats such replacement as if the former financial liability was extinguished and recognises a new liability. Similarly, material modifications to the terms of a contract concerning an existing financial liability are presented as extinguishment of the former and recognition of a new financial liability. Any differences in the respective carrying amounts arising in connection with the replacement are charged to profit or loss.

Other non-financial liabilities include in particular value added tax payable to tax authorities and liabilities under prepayments received, to be settled by supplying merchandise or property, plant and equipment or by rendering of services. Other non-financial liabilities are recognised at amounts due.

**9.28. Recognition of revenue**

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 half of 2018, the Group recognised revenue from grid connection fees when it was earned (upon completion of a 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 June 30th 2018. Except as described above, the implementation of IFRS 15 did not affect revenue recognition.

### 9.28.1 Sale of merchandise and products

Revenue from sale of products and merchandise, including electricity, heat and pellets, is recognised upon transfer of control related to ownership of such products or merchandise to the customer, and if the revenue amount can be reliably estimated.

### 9.28.2 Certificates of origin

Due to the short operating cycle and high turnover, green certificates of origin and yellow certificates of origin for energy produced by high-efficiency gas-fired cogeneration sources are measured at fair value and recognised as operating income and current assets (inventories) when energy is generated, to the extent it is probable that the Group will receive the related economic benefits.

### 9.28.3 Recognition of compensation for stranded costs and cost of gas

Compensation for stranded costs, which the Group is entitled to receive under the LTC Termination Act (for details, see Note 9.3 and Note 43), is recognised as revenue on a systematic basis over the accounting period pro rata to estimated operating profit or loss from sale of electricity, capacity and ancillary control services, net of accumulated depreciation/amortisation of non-current assets used in these operations.

In any given accounting period the revenue may not exceed the lower of: (a) cumulative compensation receivable, estimated in accordance with the rules of final settlement set out in Art. 31.1 of the LTC Termination Act, and (b) the maximum amount of compensation that the entity may receive in accordance with Schedule 2 to the LTC Termination Act.

In a corresponding entry, compensation for stranded costs is recognised as a receivable from Zarządca Rozliczeń S.A. Prepayments of compensation for stranded costs, made in equal quarterly instalments in cash, are recognised as a decrease in receivables disclosed in prior periods. The balance shown in the settlement account of Zarządca Rozliczeń S.A. as at each reporting date is

the best estimate of net receivables owed to or net payables due from the Company, reflecting the amounts of compensation actually received.

Compensation for the costs referred to in Art. 44 of the LTC Termination Act that are incurred by gas-fired units ("cost of gas") is recognised as revenue on a systematic basis over the accounting period, based on actual quantities of electricity and costs of gas and coal. If actual data is not available as at the reporting date, the most up-to-date estimates are used instead. The other policies for recognising and accounting for compensation for cost of gas are the same as those applied to compensation for stranded costs.

#### **9.28.4 Futures and forward contracts**

Futures and forward contracts to buy or sell electricity (including physical delivery contracts) entered into by the subsidiary Polenergia Obrót are classified by the Group as derivatives falling into the scope of standards applicable to derivative instruments, as electricity traded under such contracts can be readily convertible to cash.

Contracts to buy and sell electricity entered into by the other Group companies fall outside the scope of IFRS 9 based on the 'own use' exemption.

Accordingly, such contracts are measured at fair value, with changes in fair value recognised in profit or loss. Gains and losses on the valuation of outstanding contracts as at the reporting date are recognised on a net basis under revenue or cost of sales, as appropriate. Valuation gains and losses are recognised on a net basis under revenue or cost of sales, as appropriate. Valuation is performed with respect to the outstanding part of the contracts, which is broken down into current portion (to be settled within 12 months from the reporting date), and non-current portion (to be settled in subsequent years).

Typically, the contracts are settled on a gross basis through physical delivery of electricity.

Transactions under electricity sale contracts which are settled during the year through physical delivery of electricity are disclosed as revenue at amounts receivable under the contracts (on contract settlement, revenue is adjusted for the previously recognised gains and losses on revaluation of electricity sale derivatives).

Cost of electricity purchase contracts which are settled during the year through physical purchase of electricity is presented under cost of sales at the purchase price (on contract settlement, cost of sales is adjusted for the previously recognised gains and losses on revaluation of electricity purchase derivatives).

#### **9.28.5 Recognition of carbon emission allowances**

Free carbon emission allowances were not recognised in the statement of financial position when they were allotted or in subsequent periods.

Revenue from sale of allowances acquired for resale is recognised as revenue, and the cost of allowances sold is recognised as cost of sales (raw materials and consumables used). If emission allowances held by the Group as at end of the reporting period do not fully cover its actual CO<sub>2</sub> emissions in a given year, the Group recognises a provision for the costs of covering the deficit.

#### **9.28.6 Interest**

Interest income is recognised gradually as it accrues (using the effective interest rate method, the effective interest rate being one that discounts future cash flows over the estimated life of a financial instrument) relative to the net carrying amount of a given financial asset.

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**9.28.7 Dividends**

Dividends are recognised when the shareholders' rights to receive payment are established.

**9.28.8 Grants**

If there is reasonable assurance that a grant will be received and that any conditions attached to the grant will be complied with, the grant is recognised at fair value.

If a grant relates to a cost item, it is recognised as income over the period necessary to match it with the related costs, for which it is intended to compensate. Where a grant relates to an asset, its fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset in equal annual instalments.

**9.29. Taxes****9.29.1 Current tax**

Current tax assets and current tax liabilities for the current period and for previous periods are measured at the amount expected to be paid to (or recovered from) tax authorities, using the tax rates and tax legislation that have been enacted or substantively enacted at the end of the reporting period.

**9.29.2 Deferred tax**

For the purposes of financial reporting, the Group calculates deferred tax using the balance-sheet liability method in relation to temporary differences existing as at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts as disclosed in the financial statements.

A deferred tax liability is recognised for all taxable temporary differences:

- Except where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- In the case of taxable temporary differences associated with investments in subsidiaries or associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences, as well as unused tax credits and unused tax losses carried forward, to the extent it is probable that taxable income will be available against which the deductible temporary differences, tax credits and tax losses can be utilised:

- Except to the extent that the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit before tax nor taxable income (tax loss), and

- In the case of deductible temporary differences associated with investments in subsidiaries or associates and interests in joint ventures, deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed as at the end of each reporting period and is reduced to the extent it is no longer probable that sufficient taxable income will be generated to allow the deferred tax asset to be realised in full or in part. As at the end of each reporting period, any unrecognised deferred tax asset is reassessed and recognised to the extent that it is probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are calculated using tax rates expected to be effective at the time of realisation of the asset or liability, based on tax rates (and tax legislation) effective at the end of the reporting period or tax rates (and tax legislation) which at the reporting date are certain to be effective in the future.

Income tax on items posted directly to equity is recognised in equity rather than in profit or loss.

Deferred tax assets and deferred tax liabilities are offset by the Group if and only if it has a legally enforceable right to offset current tax assets and current tax liabilities, and the deferred tax relates to the same tax payer and the same taxation authority.

### **9.29.3 Value added tax**

Revenue, expenses, assets and liabilities are recognised net of VAT, except in the following cases:

- Where the value added tax paid on the purchase of assets or services is not recoverable from the tax authorities; in such a case it is recognised in the cost of a given asset or as part of the cost item, and
- In the case of receivables and payables which are recognised inclusive of VAT.

The net amount of the value added tax which is recoverable from or payable to tax authorities is carried in the statement of financial position under receivables or payables, as appropriate.

### **9.30. Earnings per share**

Earnings per share for a reporting period are calculated by dividing net profit attributable to owners of the parent for the period by the weighted average number of shares outstanding in the period.

Diluted earnings per share for a period are calculated as the quotient of net profit adjusted for changes in net profit attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible into ordinary shares) and the weighted average number of ordinary shares outstanding in the period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares, including warrants under the management stock option plan).

### **9.31. Contingent assets and liabilities**

A contingent liability is understood as an obligation to make a payment or provide a service which may arise upon the occurrence or non-occurrence of certain future events. Contingent liabilities are not recognised in the statement of financial position, however information on contingent liabilities is disclosed, unless the likelihood of an outflow of resources embodying economic benefits is remote.

A contingent liability is:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity;

b) a present obligation that arises from past events but is not recognised in the financial statements because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

Contingent receivables are not recognised in the statement of financial position, but information on them is disclosed if an inflow of resources embodying economic benefits is likely to occur.

### 9.32. Emission allowances

The Group recognises a provision for emission allowances if it has a deficit of allowances. A surplus of allowances received free of charge over actual emissions, if any, is recognised as an off-balance-sheet item.

### 9.33. Seasonality and cyclical nature of operations

The Group operates on the industrial power outsourcing market. Its 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. Wind conditions, which determine the output of wind farms, are uneven during a year: in autumn and winter they are significantly better than in spring and summer. The wind farm sites were selected by the Group based on professional wind measurements confirmed by independent, 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.

## 10 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.

EBITDA and ADJUSTED EBITDA

|   | For 6 months ended |                | For 3 months ended |               |
|---|--------------------|----------------|--------------------|---------------|
|   | Jun 30<br>2018     | Jun 30<br>2017 | Jun 30 2018        | Jun 30 2017   |
| Profit/(loss) before tax                    | (27,784)           | 6,434          | (30,485)           | 1,212         |
| Finance income                              | (3,119)            | (3,783)        | (1,830)            | (1,832)       |
| Finance costs                               | 35,896             | 31,056         | 22,024             | 15,655        |
| Depreciation and amortisation               | 48,094             | 48,927         | 24,050             | 24,420        |
| Gain on loss of control of subsidiaries     | (11,983)           | -              | (11,983)           | -             |
| Impairment loss on development projects     | 42                 | -              | (205)              | -             |
| Impairment loss related to biomass business | 16,841             | -              | 16,841             | -             |
| <b>EBITDA</b>                               | <b>57,987</b>      | <b>82,634</b>  | <b>18,412</b>      | <b>39,455</b> |

Purchase price allocation:

|                                  |               |               |               |               |
|----------------------------------|---------------|---------------|---------------|---------------|
| Valuation of long-term contracts | (681)         | (1,362)       | -             | (681)         |
| <b>Adjusted EBITDA</b>           | <b>57,306</b> | <b>81,272</b> | <b>18,412</b> | <b>38,774</b> |

ADJUSTED NET PROFIT/(LOSS) attributable to owners of the parent

|  | unaudited          |                | unaudited          |              |
|--|--------------------|----------------|--------------------|--------------|
|  | For 6 months ended |                | For 3 months ended |              |
|  | Jun 30<br>2018     | Jun 30<br>2017 | Jun 30 2018        | Jun 30 2017  |
| <b>NET PROFIT/(LOSS) attributable to owners of the parent</b>          | <b>(37,259)</b>    | <b>1,246</b>   | <b>(37,359)</b>    | <b>(338)</b> |
| Net unrealised foreign exchange (gains)/losses                         | 382                | (829)          | 369                | (15)         |
| (Income)/costs from valuation of long-term bank borrowings             | 7,357              | 1,380          | 6,703              | 717          |
| (Net gain) on loss of control of subsidiaries                          | (2,953)            | -              | (2,953)            | -            |
| Impairment loss on development projects                                | 42                 | -              | (205)              | -            |
| Impairment loss related to biomass business                            | 16,841             | -              | 16,841             | -            |
| Purchase price allocation:   |                    |                | -                  | -            |
| Depreciation and amortisation  | 5,064              | 5,064          | 2,532              | 2,532        |
| Valuation of long-term contracts                                       | (681)              | (1,362)        | -                  | (681)        |
| Tax  | (831)              | (702)          | (480)              | (351)        |
| <b>Adjusted NET PROFIT/(LOSS) attributable to owners of the parent</b> | <b>(12,038)</b>    | <b>4,797</b>   | <b>(14,552)</b>    | <b>1,864</b> |

EBITDA, adjusted EBITDA and adjusted net profit attributable to owners of the parent – performance metrics not defined in accounting standards

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.

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 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. 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. Therefore, the Group excluded the gain on loss of control of subsidiaries from EBITDA presented in these financial statements.

Adjusted EBITDA is determined by eliminating from EBITDA the effects of economic events that have no effect on the Group's core operations and that lead to no cash flows in the reporting period. These eliminations relate particularly to:

- Accounting for the cost of acquisition as at the acquisition date (elimination of the gain recognised as at the acquisition date in connection with previously existing relations, elimination of the costs / income recognised in connection with accounting for futures and forward contracts recognised at fair value as at the acquisition date),
- Costs of financing other than debt financing at project companies,
- Operating result generated due to a change in the Group's strategy.

The Group defines adjusted net profit attributable to owners of the parent as net profit clear of the effects of the following economic events:

- Accounting for the cost of acquisition as at the acquisition date (elimination of depreciation/amortisation of adjustments made in connection with fair value measurement of acquired non-current assets, elimination of the gain recognised as at the acquisition date in connection with previously existing relations, elimination of the costs / income recognised



in connection with accounting for futures and forward contracts recognised at fair value as at the acquisition date, including the effect of deferred tax on the above items),

- Impairment losses on non-financial non-current assets
- Effect of measurement of long-term receivables under wind farm sale transactions (discount),
- Net finance income/costs related to measurement of borrowings using the amortised cost method (the spreading over time of historically incurred commissions on financing obtained),
- Unrealised foreign exchange gains or losses (this item was not taken into account for the purposes of the forecast),
- Costs of financing other than debt financing at project companies,
- Operating result generated due to a change in the Group's strategy,
- Effect of income tax on the economic events listed above.

In the current period, when determining adjusted EBITDA and adjusted net profit, the Group eliminated the following transactions / events:

- Effect of accounting for the cost of acquisition in connection with contribution of the Neutron Group assets in Q3 2014,
- Net finance income/(costs) related to measurement of borrowings using the amortised cost method (the spreading over time of historically incurred commissions on financing obtained) at the following companies: Amon Sp. z o.o., Talia Sp. z o.o., Grupa PEP Farma Wiatrowa 1 Sp. z o.o., Grupa PEP Farma Wiatrowa 4 Sp. z o.o., Grupa PEP Farma Wiatrowa 6 Sp. z o.o., Grupa PEP Farma Wiatrowa Mycielin Sp. z o.o., Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. and Polenergia Dystrybucja Sp. z o.o.,
- Gain on loss of control of subsidiaries,
- Unrealised foreign exchange gains or losses (item not taken into account for the purposes of the forecast),
- Effect of impairment losses on non-financial non-current assets,
- Effect of income tax on the economic events listed above.

## 11 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:

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

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 basis for the evaluation is operating profit or loss before depreciation/amortisation, which is to a certain extent measured differently than the operating profit



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or loss in the consolidated financial statements, as indicated in the table below. 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.

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 6 months ended Jun 30 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                                | 70,965           | 148,581             | 1,298,073       | 43,463         | 10,602          | 4                              | 1,387                                 | 681                       | 1,573,756        |
| Total revenue   | 70,965           | 148,581             | 1,298,073       | 43,463         | 10,602          | 4                              | 1,387                                 | 681                       | 1,573,756        |
| <b>Gross profit/(loss)</b>  | <b>19,960</b>    | <b>24,161</b>       | <b>(16,841)</b> | <b>7,263</b>   | <b>(942)</b>    | <b>(171)</b>                   | <b>(1,626)</b>                        | <b>(4,383)</b>            | <b>27,421</b>    |
| Administrative expenses   | (1,365)          | (3,334)             | (4,965)         | (2,665)        | (749)           | (174)                          | (7,575)                               | -                         | (20,827)         |
| Interest income/(expense)   | (22,246)         | (645)               | (2,159)         | (861)          | (70)            | 78                             | 3,891                                 | -                         | (22,012)         |
| Finance income/(costs) from unrealised foreign exchange gains or losses | (972)            | 185                 | 317             | -              | -               | (2)                            | -                                     | -                         | (472)            |
| Other finance income/(costs)  | (9,933)          | (148)               | (612)           | (72)           | (46)            | (30)                           | 548                                   | -                         | (10,293)         |
| Other income/(expenses)   | 2,297            | (588)               | 205             | 251            | (15,780)        | 31                             | -                                     | -                         | (13,584)         |
| <b>Profit/(loss) before tax</b>   | <b>(12,259)</b>  | <b>19,631</b>       | <b>(24,055)</b> | <b>3,916</b>   | <b>(17,587)</b> | <b>(268)</b>                   | <b>7,221</b>                          | <b>(4,383)</b>            | <b>(27,784)</b>  |
| Income tax  | -                | -                   | -               | -              | -               | -                              | (10,315)                              | 831                       | (9,484)          |
| <b>Net profit/(loss)</b>  | <b>-</b>         | <b>-</b>            | <b>-</b>        | <b>-</b>       | <b>-</b>        | <b>-</b>                       | <b>-</b>                              | <b>-</b>                  | <b>(37,268)</b>  |
| <b>EBITDA **)</b>   | <b>49,315</b>    | <b>31,055</b>       | <b>(21,567)</b> | <b>7,120</b>   | <b>458</b>      | <b>(272)</b>                   | <b>(8,803)</b>                        | <b>681</b>                | <b>57,987</b>    |
| Segment assets  | 1,307,136        | 236,150             | 637,446         | 132,133        | 38,460          | 72,054                         | -                                     | -                         | 2,423,379        |
| Unallocated assets  | -                | -                   | -               | -              | -               | -                              | 474,748                               | 14,380                    | 489,128          |
| <b>Total assets</b>   | <b>1,307,136</b> | <b>236,150</b>      | <b>637,446</b>  | <b>132,133</b> | <b>38,460</b>   | <b>72,054</b>                  | <b>474,748</b>                        | <b>14,380</b>             | <b>2,912,507</b> |
| Segment liabilities   | 959,572          | 102,143             | 597,135         | 69,911         | 7,830           | 396                            | -                                     | -                         | 1,736,987        |
| Unallocated liabilities   | -                | -                   | -               | -              | -               | -                              | 2,477                                 | 28,400                    | 30,877           |
| <b>Total liabilities</b>  | <b>959,572</b>   | <b>102,143</b>      | <b>597,135</b>  | <b>69,911</b>  | <b>7,830</b>    | <b>396</b>                     | <b>2,477</b>                          | <b>28,400</b>             | <b>1,767,864</b> |
| Depreciation and amortisation   | 28,423           | 10,816              | 34              | 2,271          | 1,088           | -                              | 398                                   | 5,064                     | 48,094           |

\*) Head office costs unallocated to other segments.

\*\*) EBITDA is defined in Note 10.

| For 6 months ended Jun 30 2018                                | Wind power    | Conventional energy | Trading          | Distribution  | Biomass       | Development and implementation | Unallocated Group management costs *) | Purchase price allocation | Total            |
|---|---------------|---------------------|------------------|---------------|---------------|--------------------------------|---------------------------------------|---------------------------|------------------|
| - revenue from sale and distribution of electricity           | 51,864        | 70,732              | 1,158,203        | 39,176        | -             | -                              | -                                     | -                         | 1,319,975        |
| - income from compensation for stranded costs and cost of gas | -             | 58,866              | -                | -             | -             | -                              | -                                     | -                         | 58,866           |
| - net revenue from sale and distribution of gas               | -             | -                   | 138,529          | 3,752         | -             | -                              | -                                     | -                         | 142,281          |
| - other   | 19,101        | 18,983              | 1,341            | 535           | 10,602        | 4                              | 1,387                                 | 681                       | 52,634           |
| <b>Total</b>  | <b>70,965</b> | <b>148,581</b>      | <b>1,298,073</b> | <b>43,463</b> | <b>10,602</b> | <b>4</b>                       | <b>1,387</b>                          | <b>681</b>                | <b>1,573,756</b> |

| For 6 months ended Jun 30 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                                | 65,228          | 133,980             | 1,081,222    | 43,189       | 15,898         | 4                              | 1,630                                 | 1,362                     | 1,342,513     |
| Total revenue   | 65,228          | 133,980             | 1,081,222    | 43,189       | 15,898         | 4                              | 1,630                                 | 1,362                     | 1,342,513     |
| <b>Gross profit/(loss)</b>  | <b>9,472</b>    | <b>27,138</b>       | <b>6,300</b> | <b>8,746</b> | <b>(1,249)</b> | <b>(142)</b>                   | <b>(2,070)</b>                        | <b>(3,702)</b>            | <b>44,493</b> |
| Administrative expenses   | (1,851)         | (2,986)             | (4,739)      | (3,059)      | (581)          | (188)                          | (2,728)                               | -                         | (16,132)      |
| Interest income/(expense)   | (24,149)        | (868)               | (452)        | (803)        | (125)          | 28                             | 967                                   | -                         | (25,402)      |
| Finance income/(costs) from unrealised foreign exchange gains or losses | 1,286           | (79)                | (180)        | -            | (1)            | (3)                            | -                                     | -                         | 1,023         |
| Other finance income/(costs)  | (2,699)         | (234)               | (743)        | (71)         | (97)           | (21)                           | 971                                   | -                         | (2,894)       |
| Other income/(expenses)   | 4,353           | 26                  | 149          | 126          | 754            | (192)                          | 130                                   | -                         | 5,346         |
| <b>Profit/(loss) before tax</b>   | <b>(13,588)</b> | <b>22,997</b>       | <b>335</b>   | <b>4,939</b> | <b>(1,299)</b> | <b>(518)</b>                   | <b>(2,730)</b>                        | <b>(3,702)</b>            | <b>6,434</b>  |
| Income tax  | -               | -                   | -            | -            | -              | -                              | (5,889)                               | 702                       | (5,187)       |
| <b>Net profit/(loss)</b>  | <b>-</b>        | <b>-</b>            | <b>-</b>     | <b>-</b>     | <b>-</b>       | <b>-</b>                       | <b>-</b>                              | <b>-</b>                  | <b>1,247</b>  |

|                   |           |         |         |         |        |         |         |       |           |
|-------------------|-----------|---------|---------|---------|--------|---------|---------|-------|-----------|
| <b>EBITDA **)</b> | 40,536    | 34,937  | 1,726   | 7,989   | 823    | (522)   | (4,217) | 1,362 | 82,634    |
| Segment assets    | 1,403,140 | 297,921 | 180,548 | 129,433 | 65,990 | 289,619 | -       | -     | 2,366,651 |

Polenergia Group

Interim condensed consolidated financial statements for the six months ended June 30th 2018

(PLN '000)

|                               |                  |                |                |                |               |                |                |               |                  |
|-------------------------------|------------------|----------------|----------------|----------------|---------------|----------------|----------------|---------------|------------------|
| Unallocated assets            | -                | -              | -              | -              | -             | -              | 357,330        | 27,036        | 384,366          |
| <b>Total assets</b>           | <b>1,403,140</b> | <b>297,921</b> | <b>180,548</b> | <b>129,433</b> | <b>65,990</b> | <b>289,619</b> | <b>357,330</b> | <b>27,036</b> | <b>2,751,017</b> |
| Segment liabilities           | 1,038,554        | 186,563        | 141,959        | 65,774         | 9,490         | 1,617          | -              | -             | 1,443,957        |
| Unallocated liabilities       | -                | -              | -              | -              | -             | -              | 3,814          | 33,889        | 37,703           |
| <b>Total liabilities</b>      | <b>1,038,554</b> | <b>186,563</b> | <b>141,959</b> | <b>65,774</b>  | <b>9,490</b>  | <b>1,617</b>   | <b>3,814</b>   | <b>33,889</b> | <b>1,481,660</b> |
| Depreciation and amortisation | 28,562           | 10,759         | 16             | 2,176          | 1,899         | -              | 451            | 5,064         | <b>48,927</b>    |

\*) Head office costs unallocated to other segments.

\*\*) EBITDA is defined in Note 10.

| For 6 months ended Jun 30 2017                                | Wind power    | Conventional energy | Trading          | Distribution  | Biomass       | Development and implementation | Unallocated Group management costs *) | Purchase price allocation | Total            |
|---|---------------|---------------------|------------------|---------------|---------------|--------------------------------|---------------------------------------|---------------------------|------------------|
| - revenue from sale and distribution of electricity           | 51,058        | 64,855              | 938,552          | 38,125        | -             | -                              | -                                     | -                         | 1,092,590        |
| - income from compensation for stranded costs and cost of gas | -             | 49,786              | -                | -             | -             | -                              | -                                     | -                         | 49,786           |
| - net revenue from sale and distribution of gas               | -             | -                   | 138,000          | 3,956         | -             | -                              | -                                     | -                         | 141,956          |
| - other   | 14,170        | 19,339              | 4,670            | 1,108         | 15,898        | 4                              | 1,630                                 | 1,362                     | 58,181           |
| <b>Total</b>  | <b>65,228</b> | <b>133,980</b>      | <b>1,081,222</b> | <b>43,189</b> | <b>15,898</b> | <b>4</b>                       | <b>1,630</b>                          | <b>1,362</b>              | <b>1,342,513</b> |

## 12 Earnings per share

Basic earnings per share are calculated as the quotient of net profit attributable to holders of ordinary shares in the Group and the weighted average number of ordinary shares outstanding in the period.

Diluted earnings per share are calculated as the quotient of net profit attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible into ordinary shares) and the weighted average number of ordinary shares outstanding in the period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares, including warrants under the management stock option plan).

Presented below is data on the net profit and shares used to calculate basic and diluted earnings per share:

|  | For 6 months ended |             |
|--|--------------------|-------------|
|  | Jun 30 2018        | Jun 30 2017 |
| Net profit/(loss)                                  | (37,259)           | 1,246       |
| Weighted average number of ordinary shares         | 45,443,547         | 45,443,547  |
| Loss per ordinary share (PLN)                      | (0.82)             | 0.03        |
|  | For 6 months ended |             |
|  | Jun 30 2018        | Jun 30 2017 |
| Weighted average number of ordinary shares         | 45,443,547         | 45,443,547  |
| Dilutive effect                                    | -                  | -           |
| Diluted weighted average number of ordinary shares | 45,443,547         | 45,443,547  |

### 13 Property, plant and equipment

| Jun 30 2018  | land         | buildings and structures | plant and equipment | vehicles       | other property, plant and equipment | property, plant and equipment under construction | prepayments for property, plant and equipment under construction | Total property, plant and equipment |
|--|--------------|--------------------------|---------------------|----------------|-------------------------------------|--|--|-------------------------------------|
| <b>1. Gross property, plant and equipment at beginning of period</b> | <b>7,797</b> | <b>589,682</b>           | <b>1,397,655</b>    | <b>4,829</b>   | <b>459</b>                          | <b>431,466</b>                                   | <b>626</b>   | <b>2,432,514</b>                    |
| <b>a) increase, including:</b>                                       | -            | <b>2,324</b>             | <b>528</b>          | <b>130</b>     | <b>195</b>                          | <b>8,876</b>                                     | -  | <b>12,053</b>                       |
| - acquisition  | -            | 2,187                    | 86                  | 118            | 181                                 | 8,876  | -  | 11,448                              |
| - transfer   | -            | 137                      | 442                 | 12             | 14                                  | -  | -  | 605                                 |
| <b>b) decrease, including:</b>                                       | <b>(771)</b> | <b>(8,065)</b>           | <b>(10,749)</b>     | <b>(881)</b>   | <b>(167)</b>                        | <b>(174,248)</b>                                 | <b>(626)</b>   | <b>(195,507)</b>                    |
| - sale and retirement  | (771)        | (8,065)                  | (11,135)            | (495)          | (140)                               | -  | -  | (20,606)                            |
| - other  | -            | -                        | -                   | -              | (9)                                 | (173,661)  | (626)  | (174,296)                           |
| - transfer   | -            | -                        | 386                 | (386)          | (18)                                | (587)  | -  | (605)                               |
| <b>2. Gross property, plant and equipment at end of period</b>       | <b>7,026</b> | <b>583,941</b>           | <b>1,387,434</b>    | <b>4,078</b>   | <b>487</b>                          | <b>266,094</b>                                   | -  | <b>2,249,060</b>                    |
| <b>3. Cumulative depreciation at beginning of period</b>             | -            | <b>(94,137)</b>          | <b>(283,261)</b>    | <b>(3,035)</b> | <b>347</b>                          | <b>(106)</b>                                     | -  | <b>(380,192)</b>                    |
| - depreciation for current period                                    | -            | (11,225)                 | (30,994)            | (325)          | (70)                                | -  | -  | (42,614)                            |
| - decrease, including:   | -            | 2,751                    | 5,820               | 327            | 129                                 | -  | -  | 9,027                               |
| - sale and retirement  | -            | 2,751                    | 5,820               | 327            | 127                                 | -  | -  | 9,025                               |
| - transfer   | -            | -                        | -                   | -              | 2                                   | -  | -  | 2                                   |
| <b>4. Cumulative depreciation at end of period</b>                   | -            | <b>(102,611)</b>         | <b>(308,435)</b>    | <b>(3,033)</b> | <b>406</b>                          | <b>(106)</b>                                     | -  | <b>(413,779)</b>                    |
| <b>5. Impairment losses at beginning of period</b>                   | -            | <b>(24,771)</b>          | <b>(58,715)</b>     | <b>(24)</b>    | <b>(11)</b>                         | <b>(177,951)</b>                                 | -  | <b>(261,472)</b>                    |
| - increase   | -            | (8,276)                  | (8,184)             | (233)          | (50)                                | (511)  | -  | (17,254)                            |
| - decrease   | -            | 4,709                    | 4,710               | 24             | 11                                  | 470  | -  | 9,924                               |
| <b>6. Impairment losses at end of period</b>                         | -            | <b>(28,338)</b>          | <b>(62,189)</b>     | <b>(233)</b>   | <b>(50)</b>                         | <b>(177,992)</b>                                 | -  | <b>(268,802)</b>                    |
| <b>7. Net property, plant and equipment at beginning of period</b>   | <b>7,797</b> | <b>470,774</b>           | <b>1,055,679</b>    | <b>1,770</b>   | <b>795</b>                          | <b>253,409</b>                                   | <b>626</b>   | <b>1,790,851</b>                    |
| <b>8. Net property, plant and equipment at end of period</b>         | <b>7,026</b> | <b>452,992</b>           | <b>1,016,810</b>    | <b>812</b>     | <b>843</b>                          | <b>87,996</b>                                    | -  | <b>1,566,479</b>                    |

In the six months ended June 30th 2018, the Group incurred borrowing costs qualifying for capitalisation under initial value of property, plant and equipment, totalling PLN 94 thousand.

In the first half of 2018, land and buildings worth PLN 461,780 thousand were encumbered with mortgages securing repayment of credit facilities.

The carrying amount of vehicles used under lease contracts as at June 30th 2018 was PLN 818 thousand.

On May 23rd 2018, the Group acquired the infrastructure of the Krzęcin Wind Farm.

| Dec 31 2017  | land         | buildings and structures | plant and equipment | vehicles       | other property, plant and equipment | property, plant and equipment under construction | prepayments for property, plant and equipment under construction | Total property, plant and equipment |
|--|--------------|--------------------------|---------------------|----------------|-------------------------------------|--|--|-------------------------------------|
| <b>1. Gross property, plant and equipment at beginning of period</b> | <b>7,797</b> | <b>587,606</b>           | <b>1,402,300</b>    | <b>5,202</b>   | <b>1,114</b>                        | <b>442,656</b>                                   | <b>13,146</b>  | <b>2,459,821</b>                    |
| a) increase, including:  | -            | 4,938                    | 10,400              | 574            | 18                                  | 37,589   | -  | 53,519                              |
| - acquisition  | -            | 623                      | 4,081               | 574            | 9                                   | 30,061   | -  | 35,348                              |
| - transfer   | -            | 4,315                    | 6,319               | -              | 9                                   | 7,528  | -  | 18,171                              |
| b) decrease, including:  | -            | (2,862)                  | (15,045)            | (947)          | (673)                               | (48,779)   | (1,2520)   | (80,826)                            |
| - sale and retirement  | -            | (325)                    | (14,500)            | (815)          | (94)                                | -  | -  | (15,734)                            |
| - other (including finance lease)                                    | -            | -                        | 100                 | (132)          | (524)                               | (38,207)   | (4,050)  | (42,813)                            |
| - transfer   | -            | (2,537)                  | (645)               | -              | (55)                                | (10,572)   | (8,470)  | (22,279)                            |
| <b>2. Gross property, plant and equipment at end of period</b>       | <b>7,797</b> | <b>589,682</b>           | <b>1,397,655</b>    | <b>4,829</b>   | <b>459</b>                          | <b>431,466</b>                                   | <b>626</b>   | <b>2,432,514</b>                    |
| <b>3. Cumulative depreciation at beginning of period</b>             | <b>-</b>     | <b>(71,470)</b>          | <b>(223,287)</b>    | <b>(2,991)</b> | <b>134</b>                          | <b>(107)</b>                                     | <b>-</b>   | <b>(297,721)</b>                    |
| - depreciation for current period                                    | -            | (22,693)                 | (62,534)            | (890)          | (89)                                | 1  | -  | (86,205)                            |
| - decrease, including:   | -            | 26                       | 2,560               | 846            | 302                                 | -  | -  | 3,505                               |
| - sale and retirement  | -            | 26                       | 2,560               | 762            | 73                                  | -  | -  | 3,421                               |
| - other (including finance lease)                                    | -            | -                        | -                   | 84             | -                                   | -  | -  | 84                                  |
| - transfer   | -            | -                        | -                   | -              | 229                                 | -  | -  | 229                                 |
| <b>4. Cumulative depreciation at end of period</b>                   | <b>-</b>     | <b>(94,137)</b>          | <b>(283,261)</b>    | <b>(3,035)</b> | <b>347</b>                          | <b>(106)</b>                                     | <b>-</b>   | <b>(380,192)</b>                    |
| <b>5. Impairment losses at beginning of period</b>                   | <b>-</b>     | <b>(20,062)</b>          | <b>(55,207)</b>     | <b>-</b>       | <b>-</b>                            | <b>(87,126)</b>                                  | <b>-</b>   | <b>(162,395)</b>                    |
| - increase   | -            | (4,709)                  | (4,710)             | (24)           | (11)                                | (90,825)   | -  | (100,279)                           |
| - decrease   | -            | -                        | 1,202               | -              | -                                   | -  | -  | 1,202                               |
| <b>6. Impairment losses at end of period</b>                         | <b>-</b>     | <b>(24,771)</b>          | <b>(58,715)</b>     | <b>(24)</b>    | <b>(11)</b>                         | <b>(177,951)</b>                                 | <b>-</b>   | <b>(261,472)</b>                    |
| <b>7. Net property, plant and equipment at beginning of period</b>   | <b>7,797</b> | <b>496,074</b>           | <b>1,123,806</b>    | <b>2,211</b>   | <b>1,248</b>                        | <b>355,423</b>                                   | <b>13,146</b>  | <b>1,999,705</b>                    |
| <b>8. Net property, plant and equipment at end of period</b>         | <b>7,797</b> | <b>470,774</b>           | <b>1,055,679</b>    | <b>1,770</b>   | <b>795</b>                          | <b>253,409</b>                                   | <b>626</b>   | <b>1,790,851</b>                    |

In the year ended December 31st 2017, the Group incurred borrowing costs qualifying for capitalisation under initial value of property, plant and equipment, totalling PLN 100 thousand.

As at December 31st 2017, land and buildings worth PLN 471,070 thousand were encumbered with mortgages securing repayment of credit facilities.

The carrying amount of vehicles used under lease contracts as at December 31st 2017 was PLN 1,130 thousand.

## Polenergia Group

Interim condensed consolidated financial statements for the six months ended June 30th 2018

(PLN '000)

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In the year ended December 31st 2017, the Group decided to extend, to 25 years, the useful lives of property, plant and equipment related to wind farms. The decision was made following an analysis of the current degree of wear and tear of the property, plant and equipment related to wind farms, as well as opinions expressed by market experts (including the manufacturer and maintenance provider for the turbines operated by the Group).



## 14 Intangible assets

| Jun 30 2018                                       | Development work | Acquired permits, patents, licences and similar assets, including: | Prepayments for intangible assets | Intangible assets related to purchase price allocation | Total intangible assets |          |
|---|------------------|--|-----------------------------------|--|-------------------------|----------|
|   |                  | Software   |                                   |  |                         |          |
| 1. Gross intangible assets at beginning of period | 865              | 8,349  | 728                               | -  | 58,000                  | 67,214   |
| a) increase, including:                           | -                | 65   | 25                                | -  | -                       | 65       |
| - acquisition                                     | -                | 57   | 25                                | -  | -                       | 57       |
| - other   | -                | 8  | -                                 | -  | -                       | 8        |
| b) decrease, including:                           | -                | (8)  | -                                 | -  | -                       | (8)      |
| - sale and retirement                             | -                | (8)  | -                                 | -  | -                       | (8)      |
| 2. Gross intangible assets at end of period       | 865              | 8,406  | 753                               | -  | 58,000                  | 67,271   |
| 3. Cumulative amortisation at beginning of period | (727)            | (3,461)  | 24                                | -  | (32,880)                | (37,068) |
| - amortisation for current period                 | (39)             | (509)  | (37)                              | -  | (4,932)                 | (5,480)  |
| 4. Cumulative amortisation at end of period       | (766)            | (3,970)  | (13)                              | -  | (37,812)                | (42,548) |
| 5. Impairment losses at beginning of period       | -                | -  | -                                 | -  | -                       | -        |
| - increase  | (99)             | -  | -                                 | -  | -                       | (99)     |
| 6. Impairment losses at end of period             | (99)             | -  | -                                 | -  | -                       | -        |
| 7. Net intangible assets at beginning of period   | 138              | 4,888  | 752                               | -  | 25,120                  | 30,146   |
| 8. Net intangible assets at end of period         | -                | 4,436  | 740                               | -  | 20,188                  | 24,624   |

| Dec 31 2017                                       | Development work | Acquired permits, patents, licences and similar assets, including:<br><br>Software | Prepayments for intangible assets | Intangible assets related to purchase price allocation | Total intangible assets |        |
|---|------------------|--|-----------------------------------|--|-------------------------|--------|
| 1. Gross intangible assets at beginning of period | 865              | 6,805  | 97                                | 1  | 58,000                  | 65,671 |
| a) increase, including:                           | -                | 1,553  | 631                               | 39   | -                       | 1,592  |
| - acquisition                                     | -                | 103  | 19                                | 39   | -                       | 142    |
| - other   | -                | 1,450  | 612                               | -  | -                       | 1,450  |
| b) decrease, including:                           | -                | (9)  | -                                 | (40)   | -                       | (49)   |
| - sale and retirement                             | -                | (9)  | -                                 | -  | -                       | (9)    |
| - transfer  | -                | -  | -                                 | (40)   | -                       | (40)   |
| 2. Gross intangible assets at end of period       | 865              | 8,349  | 728                               | -  | 58,000                  | 67,214 |

|  |              |                |            |          |                 |                 |
|--|--------------|----------------|------------|----------|-----------------|-----------------|
| <b>3. Cumulative amortisation at beginning of period</b> | <b>(640)</b> | <b>(2,547)</b> | <b>84</b>  | <b>-</b> | <b>(23,016)</b> | <b>(26,203)</b> |
| - amortisation for current period                        | (87)         | (924)          | (60)       | -        | (9,864)         | (10,875)        |
| - decrease, including:                                   | -            | 10             | -          | -        | -               | 10              |
| - sale and retirement                                    | -            | 10             | -          | -        | -               | 10              |
| - transfer   | -            | -              | -          | -        | -               | -               |
| <b>4. Cumulative amortisation at end of period</b>       | <b>(727)</b> | <b>(3,461)</b> | <b>24</b>  | <b>-</b> | <b>(32,880)</b> | <b>(37,068)</b> |
| <b>5. Impairment losses at beginning of period</b>       | <b>-</b>     | <b>-</b>       | <b>-</b>   | <b>-</b> | <b>-</b>        | <b>-</b>        |
| - increase   | -            | -              | -          | -        | -               | -               |
| - decrease   | -            | -              | -          | -        | -               | -               |
| <b>6. Impairment losses at end of period</b>             | <b>-</b>     | <b>-</b>       | <b>-</b>   | <b>-</b> | <b>-</b>        | <b>-</b>        |
| <b>7. Net intangible assets at beginning of period</b>   | <b>225</b>   | <b>4,258</b>   | <b>181</b> | <b>1</b> | <b>34,984</b>   | <b>39,468</b>   |
| <b>8. Net intangible assets at end of period</b>         | <b>138</b>   | <b>4,888</b>   | <b>752</b> | <b>-</b> | <b>25,120</b>   | <b>30,146</b>   |

## 15 Goodwill

Goodwill related to subordinated entities, recognised in 2014 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 the above-mentioned transaction amounted to PLN 184m and was attributable to the following cash-generating units (segments):

- (i) PLN 75m – development segment – comprising Polenergia Bałtyk I, MFW Polenergia Bałtyk II and MFW Polenergia Bałtyk III, disclosed in the interim condensed consolidated statement of profit or loss in connection with sale of these companies (for details see Note 17);
- (ii) PLN 40m – conventional energy segment – comprising Polenergia Elektrociepłownia Nowa Sarzyna;
- (iii) PLN 25m – distribution segment – comprising Polenergia Dystrybucja and Polenergia Kogeneracja;
- (iv) PLN 44m – trading segment – comprising Polenergia Obrót.

As at June 30th 2018, goodwill was PLN 109,613 thousand. Following an assessment of whether there were any indications of goodwill impairment, no need was identified to perform an impairment test.

## 16 Non-current financial assets

|   | Jun 30 2018   | Dec 31 2017   |
|---|---------------|---------------|
| - in other entities                       | 59,420        | 14,609        |
| - shares in non-listed companies          | 181           | 147           |
| - loans advanced                          | 3,355         | 3,367         |
| - long-term contracts                     | 55,884        | 11,095        |
| <b>Total non-current financial assets</b> | <b>59,420</b> | <b>14,609</b> |

## 17 Equity-accounted financial assets

On May 22nd 2018, the Company and Statoil Holding Netherlands B.V. ("Statoil") entered into a final agreement to transfer the ownership of 50% of shares (the "SPV Shares") held by the Company 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.) (jointly the "SPVs", or "Bałtyk II", "Bałtyk III"), which are executing projects to construct offshore wind farms on the Baltic Sea (the "Project"). The SPV Shares are to be sold as part of the parties' cooperation involving joint implementation of the Project (the "Transaction"), as agreed on by the parties.

On the same date, the ownership of the SPV Shares was transferred to Statoil Holding Netherlands. Also on the same day, the following agreements were concluded: (i) Development and Execution Services Agreements between each of the SPVs and Statoil New Energy Service Centre B.V. (an entity of the Statoil Group) providing for the development and execution of offshore wind farm projects on the Baltic Sea, (ii) maintenance agreements between each of the SPVs and the Company, and (iii) shareholder agreements for each of the SPVs, between the Company, Statoil Holding Netherlands and each of the SPVs.

The terms and conditions of the sale of the SPV Shares by Polenergia, including the final agreement to transfer the SPV Shares to Statoil Holding Netherlands, and other agreements specified above, are as follows:

- The total base price of the SPV Shares is PLN 94,275 thousand, determined based on the actual capital expenditure incurred on the Project, taking into account a standard price adjustment mechanism based on each SPV's financial condition at the time of transferring the ownership of the SPV Shares, increased by EUR 5,000,000 (translated using the exchange rate of PLN 4.2991, applicable at the date of the sale) payable in instalments by September 30th 2019.
- The parties also agreed on other contingent payments by Statoil to Polenergia, depending on achievement of specific Project milestones or parameters. No receivables have been recognised under that contingent consideration as achievement of the targets determining its payment is uncertain.
- Two shareholder agreements were also executed regarding the SPVs (the "Shareholder Agreement"). The Shareholder Agreement defines mutual rights and obligations of Polenergia and Statoil as SPV shareholders, and the rules of cooperation in executing the Transaction. It establishes joint control over the SPVs as all important decisions concerning the activities of Bałtyk II and Bałtyk III require a unanimous consent of both investors.
- In addition, a series of Development and Execution Services Agreements as well as Operation and Maintenance Services Agreements were executed between the SPVs and the Statoil Group entity (which is to provide certain services to the SPVs as the Project Manager), setting out the scope of services to be provided by the Project Manager, its roles, responsibilities and consideration, as well as subcontracting rules. The parties agreed that Polenergia (or designated entities of the Polenergia Group) would act for the SPVs in consultation with the Project Manager by providing a specific range of services for the purposes of the Project. As regards the rights and obligations of the parties as shareholders in the SPVs, the Shareholder Agreement defines, among other things, (i) the internal organisation and business operations of the SPVs and (ii) the rules governing acquisition or disposal of shares in the SPVs, as well as possible restrictions on such acquisition or disposal. With respect to the Project, the Shareholder Agreement defines the main development phases and management rules for the Project, rights and obligations the parties have in planning, budgeting and financing the Project, as well as procedures for resolving any decision deadlocks concerning the Project. The Shareholder Agreement is governed by Polish law.
- A call option to purchase a 50% interest in another Polenergia subsidiary by Statoil. Under the Shareholder Agreement, Polenergia issued a call option for Statoil Holding Netherlands to purchase 50% of shares in another Polenergia subsidiary – Polenergia Bałtyk I S.A. The option may be exercised from May 22nd until December 31st 2018 at a strike price set as 50% of the capitalised expenditure already incurred by Polenergia to build the Bałtyk I wind farm.

The transaction to sell the shares in Bałtyk II and Bałtyk III is disclosed in the Group's consolidated financial statements as sale of fully consolidated subsidiaries, because the Group lost control of the subsidiaries as a result of the transaction. The Group retained 50% interests in the subsidiaries. The partners entered into agreements whereunder the interests and the attached voting rights give the Polenergia Group joint control of the subsidiaries, with all material decisions regarding the activities of Bałtyk II and Bałtyk III requiring a unanimous consent of both partners. The retained 50% interests in the SPVs were initially recognised at fair value as at the date when the control was lost and are accounted for using the equity method. These interests are disclosed under equity-accounted financial assets

in the consolidated statement of financial position.

As Polenergia issued a call option for the purchase of a 50% interest in the subsidiary Polenergia Bałtyk I S.A. to Statoil, control of the subsidiary is deemed to have been lost as the option constitutes a substantive potential voting right held by Statoil. The call option is considered a substantive potential

voting right as Statoil may exercise it at any time between May 22nd and December 31st 2018 at a price which is not higher than the fair value of the shares covered by the option. In addition, Statoil would derive synergies from the acquisition of the shares and there are no barriers to Statoil exercising the option. Once control was lost following the issue of the call option to Statoil, the carrying amount of net assets of Bałtyk I was derecognised and the retained interest (100% of retained shares) were measured at fair value as at the date of loss of control. The shares are measured at the reporting date using the equity method and are disclosed under equity-accounted financial assets in the consolidated statement of financial position. The retained investment in Bałtyk I is a joint venture, as Polenergia and Statoil have joint control of the subsidiary (given that all material decisions concerning the activities of Bałtyk I require a unanimous consent of both partners).

The call option to acquire a 50% interest in Bałtyk I issued by Polenergia to Statoil is a derivative instrument, which after initial recognition is measured at fair value through profit or loss in accordance with IFRS 9. As at June 30th 2018, the loss on remeasurement of the derivative instrument was close to nil and was not disclosed in the statement of profit or loss.

If Statoil resolves to exercise the call option, then 50% of the investment in Bałtyk I will be derecognised, and the difference between the sale price and carrying amount of the 50% interest will represent gain or loss on the disposal, which will be adjusted for the derecognised carrying amount of the call option.

Gain on the loss of control of the subsidiaries was PLN 11,983 thousand and was disclosed in the consolidated statement of profit or loss as a separate item 'Gain on loss of control of subsidiaries' under continuing operations. As the subsidiaries were not carrying out any operations, they did not meet the criteria for recognition as discontinued operations in accordance with IFRS 5.

Gain on loss of control of subsidiaries was calculated as follows:

|   |               |
|---|---------------|
| Sale price of 50% of shares in subsidiaries Bałtyk III and Bałtyk II                | 115,771       |
| - cash received   | 94,275        |
| - cash received (EUR 1,667 thousand)  | 7,167         |
| - deferred payment (EUR 3,333 thousand)   | 14,329        |
| - contingent consideration  | -             |
| Fair value measurement of retained shares in jointly-controlled entities, including | 141,138       |
| - 50% shares in Bałtyk III *  | 57,886        |
| - 50% shares in Bałtyk II *   | 57,886        |
| - 100% shares in Bałtyk I *   | 25,366        |
| Net assets of subsidiaries as at the date of loss of control                        | 244,926       |
| <b>Gain on loss of control of subsidiaries, including</b>                           | <b>11,983</b> |
| - Gain on fair value measurement of retained shares                                 | 5,992         |

\* The fair value of the retained shares in MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o. was determined based on the price of the 50% interest sold in the transaction (the price of a transaction with an unaffiliated party), while the fair value of the 100% interest in Polenergia Bałtyk I S.A. was determined based on the strike price of the call option.

As at the date of loss of control, net assets of the subsidiaries (MFW Bałtyk II sp. z o. o., MFW Bałtyk III sp. z o. o., Polenergia Bałtyk I S.A. ) comprised:

|  | Bałtyk III | Bałtyk II | Bałtyk I | Total          |
|--|------------|-----------|----------|----------------|
| Property, plant and equipment – expenditure on wind farms under construction | 83,379     | 65,543    | 25,374   | <b>174,296</b> |
| Other receivables  | 438        | 477       | 90       | <b>1,005</b>   |
| Cash   | 2,017      | 2,048     | 72       | <b>4,137</b>   |
| Deferred tax liability   | 4,624      | 3,633     | -        | <b>8,257</b>   |
| Trade payables   | 385        | 354       | 149      | <b>888</b>     |
| Prepayments and accrued income   | 168        | 180       | 19       | <b>367</b>     |
| <b>Total net assets excluding goodwill</b>                                   |            |           |          | <b>169,926</b> |
| <b>Goodwill allocated to the Bałtyk I, Bałtyk II, and Bałtyk III CGUs</b>    |            |           |          | <b>75,000</b>  |
| <b>Total net assets</b>  |            |           |          | <b>244,926</b> |

## 18 Long-term receivables

|                                   | Jun 30 2018  | Dec 31 2017  |
|-----------------------------------|--------------|--------------|
| - receivables from other entities | 4,331        | 4,489        |
| - finance lease                   | 2,345        | 2,503        |
| - other receivables               | 1,986        | 1,986        |
| <b>Long-term receivables, net</b> | <b>4,331</b> | <b>4,489</b> |

## 19 Inventories

|                                 | Jun 30 2018   | Dec 31 2017   |
|---------------------------------|---------------|---------------|
| - materials and merchandise     | 6,801         | 8,827         |
| - certificates of origin        | 17,950        | 17,345        |
| - prepaid deliveries            | 19            | 42            |
| <b>Total inventories, net</b>   | <b>24,770</b> | <b>26,214</b> |
| - inventory write-downs         | -             | 148           |
| <b>Total inventories, gross</b> | <b>24,770</b> | <b>26,362</b> |

## 20 Short-term receivables

|   | Jun 30 2018 | Dec 31 2017 |
|---|-------------|-------------|
| - trade receivables                       | 95,250      | 123,091     |
| - to related entities                     | 2,643       | 4,781       |
| - from other entities                     | 92,607      | 118,310     |
| - current tax asset                       | 3,231       | 1,319       |
| - other receivables                       | 76,258      | 39,995      |
| - from the state budget                   | 23,328      | 19,429      |
| - finance lease                           | 355         | 347         |
| - under settlement of long-term contracts | 9,339       | -           |
| - other                                   | 43,236      | 20,219      |

|  |                |                |
|--|----------------|----------------|
| <b>Total short-term receivables, net</b>   | <b>174,739</b> | <b>164,405</b> |
| - impairment losses on receivables         | 2,184          | 2,340          |
| <b>Total short-term receivables, gross</b> | <b>176,923</b> | <b>166,745</b> |

For information on related-party transactions, see Note 42.

Trade receivables bear no interest and are typically payable within 7–45 days.

As at June 30th 2018, impairment losses on uncollectible trade receivables were reduced to PLN 2,184 thousand from PLN 2,340 thousand as at December 31st 2017. Changes in impairment losses on receivables were as follows:

|                               | <b>Jun 30 2018</b> | <b>Dec 31 2017</b> |
|-------------------------------|--------------------|--------------------|
| <b>At beginning of period</b> | <b>2,340</b>       | <b>2,281</b>       |
| - increase                    | 58                 | 259                |
| - use                         | (170)              | (150)              |
| - reversal                    | (44)               | (50)               |
| <b>At end of period</b>       | <b>2,184</b>       | <b>2,340</b>       |

Below is a classification of trade receivables into impairment stages:

|             | <b>Total</b> | <b>stage 1</b> | <b>stage 2</b> |
|-------------|--------------|----------------|----------------|
| Jun 30 2018 | 95,250       | 94,117         | 1,133          |
| Dec 31 2017 | 123,091      | 122,748        | 343            |

## 21 Short-term prepayments and accrued income

|  | <b>Jun 30 2018</b> | <b>Dec 31 2017</b> |
|--|--------------------|--------------------|
| - insurance  | 1,479              | 3,649              |
| - subscriptions  | 51                 | 39                 |
| - wind turbine maintenance                                 | 1,815              | 981                |
| - property tax, perpetual usufruct charges, lease payments | 3,341              | 85                 |
| - accrued income   | 1,068              | 772                |
| - accrued commissions                                      | 607                | 169                |
| - other  | 1,919              | 1,244              |
| <b>Total prepayments and accrued income</b>                | <b>10,280</b>      | <b>6,939</b>       |

## 22 Current financial assets

|  | <b>Jun 30 2018</b> | <b>Dec 31 2017</b> |
|--|--------------------|--------------------|
| - valuation of futures and forward contracts | 421,068            | 119,301            |
| <b>Total current financial assets</b>        | <b>421,068</b>     | <b>119,301</b>     |

Futures and forward contracts to buy or sell electricity entered into by Polenergia Obrót S.A., a subsidiary, are classified as derivatives and are accounted for in accordance with standards applicable to derivative instruments. Accordingly, such contracts are measured at fair value, with changes in fair value recognised in profit or loss. Valuation gains and losses are presented on a net basis under revenue or cost of sales, as appropriate. Valuation is performed with respect to the outstanding part of the contracts, which is broken down into current portion (to be settled within 12 months from the reporting date), and non-current portion (to be settled in subsequent years).

|   | <b>For 6 months ended</b> |                    |
|---|---------------------------|--------------------|
|   | <b>Jun 30 2018</b>        | <b>Jun 30 2017</b> |
| Gain/(loss) on valuation of derivatives | (18,188)                  | (3,746)            |

|                    | <b>Jun 30 2018</b> | <b>Dec 31 2017</b> |
|--------------------|--------------------|--------------------|
| Current assets     | 421,068            | 119,301            |
| Non-current assets | 55,884             | 11,095             |
| <b>Total</b>       | <b>476,952</b>     | <b>130,396</b>     |

|                         | <b>Jun 30 2018</b> | <b>Dec 31 2017</b> |
|-------------------------|--------------------|--------------------|
| Current liabilities     | 429,615            | 111,293            |
| Non-current liabilities | 54,066             | 7,645              |
| <b>Total</b>            | <b>483,681</b>     | <b>118,938</b>     |

The table below includes information on financial assets and liabilities which the Group measures at fair value and classifies at specific levels of the fair value hierarchy:

- Level 1 – quoted prices in active markets for identical assets or liabilities (not adjusted),
- Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability in active markets,
- Level 3 – unobservable inputs for the asset or liability.

Derivatives are pairs of futures contracts (long and short positions) entered into on stock exchanges for speculative purposes. They are measured on the basis of a model using market parameters, i.e. the market price of the instrument discounted using interest rates (Level 2). The effect of unobservable inputs, if any, on the valuation of derivatives was negligible.

#### Class of financial instrument

| <b>Jun 30 2018</b> | <b>Level 2</b> | <b>Total</b>   |
|--------------------|----------------|----------------|
| Current assets     | 421,068        | 421,068        |
| Non-current assets | 55,884         | 55,884         |
| <b>Total</b>       | <b>476,952</b> | <b>476,952</b> |

| <b>Jun 30 2018</b>      | <b>Level 2</b> | <b>Total</b>   |
|-------------------------|----------------|----------------|
| Current liabilities     | 429,615        | 429,615        |
| Non-current liabilities | 54,066         | 54,066         |
| <b>Total</b>            | <b>483,681</b> | <b>483,681</b> |

|                       |                |                |
|-----------------------|----------------|----------------|
| <b>Net fair value</b> | <b>(6,729)</b> | <b>(6,729)</b> |
|-----------------------|----------------|----------------|



The table below presents the sensitivity of profit/loss to potential movements in market prices of electricity and gas. The calculation was performed with respect to futures and forward contracts to buy or sell electricity, classified as derivatives measured at fair value.

| Effect on profit/loss     | Jun 30 2018 | Jun 30 2017 |
|---------------------------|-------------|-------------|
| Market price increase +1% | (695)       | 156         |
| Market price decrease -1% | 695         | (137)       |

## 23 Cash and cash equivalents

|  | Jun 30 2018    | Dec 31 2017    |
|--|----------------|----------------|
| Cash and cash equivalents              | 348,341        | 297,898        |
| - cash in hand and at banks            | 348,341        | 297,898        |
| <b>Total cash and cash equivalents</b> | <b>348,341</b> | <b>297,898</b> |

For more information on restricted cash of PLN 64,836 thousand, see Note 37 (2017: PLN 82,192 thousand).

Cash at banks earns interest at floating rates linked to interest rates for overnight deposits. Short-term deposits are placed for various periods, from one day to one month, depending on the Group's immediate cash requirement, and earn interest at agreed interest rates.

## 24 Share capital and statutory reserve funds/capital reserves

### 24.1 Share capital

| Series/issue | Type of shares | Number of shares | Par value of series/issue |
|--------------|----------------|------------------|---------------------------|
| A            | bearer         | 2,213,904        | 4,428                     |
| B            | bearer         | 2,304,960        | 4,610                     |
| C            | bearer         | 515,256          | 1,031                     |
| D            | bearer         | 566,064          | 1,132                     |
| E            | bearer         | 1,338,960        | 2,678                     |
| F            | bearer         | 544,800          | 1,090                     |
| G            | bearer         | 683,376          | 1,367                     |
| H            | bearer         | 288,000          | 576                       |
| I            | bearer         | 856,704          | 1,713                     |
| J            | bearer         | 3,835,056        | 7,670                     |
| K            | bearer         | 1,640,688        | 3,281                     |
| L            | bearer         | 3,144,624        | 6,289                     |
| M            | bearer         | 182,359          | 365                       |
| N            | bearer         | 69,922           | 140                       |
| O            | bearer         | 70,908           | 142                       |
| P            | bearer         | 89,500           | 179                       |
| R            | bearer         | 37,560           | 75                        |
| S            | bearer         | 147,026          | 294                       |
| U            | bearer         | 125,300          | 251                       |

(PLN '000)

|                                  |        |                   |        |
|----------------------------------|--------|-------------------|--------|
| W                                | bearer | 143,200           | 286    |
| T                                | bearer | 945,800           | 1,891  |
| Y                                | bearer | 1,570,000         | 3,140  |
| Z                                | bearer | 24,129,580        | 48,259 |
| <b>Total number of shares</b>    |        | <b>45,443,547</b> |        |
| <b>Total share capital</b>       |        |                   | 90,887 |
| <b>Par value per share (PLN)</b> |        |                   | 2      |

Shares of all series carry equal rights and are fully paid.

## 24.2 Significant shareholders

Shareholders holding 5% or more of the total number of shares as at the date of issue of these condensed consolidated financial statements:

| No.          | Shareholder   | Number of shares  | Number of voting rights | % interest  |
|--------------|---|-------------------|-------------------------|-------------|
| 1            | Kulczyk Investment S.A.*  | 22,811,757        | 22,811,757              | 50.2%       |
| 2            | China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF** | 7,266,122         | 7,266,122               | 16.0%       |
| 3            | ING OFE   | 2,576,969         | 2,576,969               | 5.7%        |
| 4            | Generali OFE  | 2,943,731         | 2,943,731               | 6.5%        |
| 5            | Aviva OFE   | 3,060,872         | 3,060,872               | 6.7%        |
| 6            | Others  | 6,784,096         | 6,784,096               | 14.9%       |
| <b>Total</b> |   | <b>45,443,547</b> | <b>45,443,547</b>       | <b>100%</b> |

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

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

\*) On July 3rd 2018, Dominika Kulczyk entered into an agreement under which she acquired from Kulczyk Investments S.A., a company incorporated under the laws of Luxembourg ("KI"), 100% of shares in Kulczyk Holding S.à r.l., a company incorporated under the laws of Luxembourg, holding indirectly (through Mansa Investments sp. z o.o.) 22,811,757 shares in Polenergia S.A., representing 50.2% of Polenergia S.A.'s share capital and carrying 22,811,757 voting rights at Polenergia S.A.'s General Meeting (50.2% of the total voting power at the General Meeting of Polenergia S.A.).

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

## 24.3 Other capital reserves

Other capital reserves have been accumulated through contributions from profits generated in previous financial years and through revaluation of derivatives hedging future cash flows (for further information on the hedges, see Note 40).

## 24.4 Undistributed profit and limitations on dividend payment

Under the Polish Commercial Companies Code, the parent is required to create statutory reserve funds to cover losses. After each financial year, at least 8% of net profit disclosed in the separate financial statements of the parent should be contributed to statutory reserve funds, until the funds reach at least one-third of the parent's share capital. While it is the General Meeting that resolves how to use statutory reserve funds and capital reserves, a part of statutory reserve funds equal to one-third of the share capital, i.e. PLN 30,296 thousand, may be used exclusively to cover a loss disclosed in separate financial statements and may not be used for any other purposes. The 2017 loss was covered from statutory reserve funds, i.e. from share premium.

## 24.5 Non-controlling interests

|                                   | Jun 30 2018 | Dec 31 2017 |
|-----------------------------------|-------------|-------------|
| At beginning of period            | 926         | 902         |
| - share in profit of subsidiaries | (9)         | 24          |
| At end of period                  | 917         | 926         |

## 24.6 Dividends paid and proposed

No dividends were paid by the parent in the six months ended June 30th 2018. No dividends are expected to be paid by the parent in 2018.

## 25 Income tax

|   | For 6 months ended |                | For 3 months ended |                |
|---|--------------------|----------------|--------------------|----------------|
|   | Jun 30<br>2018     | Jun 30<br>2017 | Jun 30<br>2018     | Jun 30<br>2017 |
| Current income tax                                  | 13,243             | 1,087          | 12,808             | 803            |
| Current income tax expense                          | 13,223             | 1,092          | 12,806             | 803            |
| Adjustments to current income tax for prior years   | 20                 | (5)            | 2                  | -              |
| Deferred income tax                                 | (3,759)            | 4,100          | (5,920)            | 745            |
| Related to temporary differences and their reversal | (3,759)            | 4,100          | (5,920)            | 745            |
| Tax expense recognised in profit or loss            | 9,484              | 5,187          | 6,888              | 1,548          |

|                                     | Statement<br>of financial<br>position | Statement<br>of profit or<br>loss | Capital     | Tax on loss<br>of control of<br>subsidiaries | Statement<br>of financial<br>position |
|-------------------------------------|---------------------------------------|-----------------------------------|-------------|--|---------------------------------------|
| Deferred income tax                 | Jan 1st<br>2018                       |                                   |             |  | Jun 30<br>2018                        |
| Deferred tax liability              |                                       |                                   |             |  |                                       |
| Property, plant and equipment       | 86,922                                | (334)                             | -           | (8,257)                                      | 78,331                                |
| Intangible assets                   | 5,398                                 | (937)                             | -           | -  | 4,461                                 |
| Receivables                         | 11,602                                | (111)                             | -           | -  | 11,491                                |
| Cash                                | (704)                                 | (232)                             | -           | -  | (936)                                 |
| Borrowings                          | (1,114)                               | (2,811)                           | -           | -  | (3,925)                               |
| Lease receivables                   | 298                                   | (28)                              | -           | -  | 270                                   |
| Liabilities                         | (3,282)                               | (1,394)                           | -           | -  | (4,676)                               |
| Other                               | 1,501                                 | (3,955)                           | -           | -  | (2,454)                               |
| Inventories                         | 307                                   | 28                                | -           | -  | 335                                   |
| <b>Gross deferred tax liability</b> | <b>100,928</b>                        | <b>(9,774)</b>                    | <b>-</b>    | <b>(8,257)</b>                               | <b>82,897</b>                         |
| <b>Offset</b>                       |                                       |                                   |             |  | <b>(18,022)</b>                       |
| <b>Deferred tax liability</b>       |                                       |                                   |             |  | <b>64,875</b>                         |
| Deferred tax asset                  |                                       |                                   |             |  |                                       |
| Property, plant and equipment       | 16,926                                | 449                               | -           | -  | 17,375                                |
| Inventories                         | 6                                     | (4)                               | -           | -  | 2                                     |
| Receivables                         | 1,073                                 | -                                 | -           | -  | 1,073                                 |
| Loans                               | (3,807)                               | 9                                 | -           | -  | (3,798)                               |
| Liabilities                         | 9,181                                 | (6,228)                           | (13)        | -  | 2,940                                 |
| Provisions                          | 3,162                                 | 1,460                             | -           | -  | 4,622                                 |
| Lease assets                        | 8                                     | 46                                | -           | -  | 54                                    |
| Loss carried forward                | 14,975                                | (1,357)                           | -           | -  | 13,618                                |
| Prepayments and accrued income      | 10,187                                | (390)                             | -           | -  | 9,797                                 |
| <b>Gross deferred tax asset</b>     | <b>51,711</b>                         | <b>(6,015)</b>                    | <b>(13)</b> | <b>0</b>                                     | <b>45,683</b>                         |
| <b>Offset</b>                       |                                       |                                   |             |  | <b>(18,022)</b>                       |

|                                    |               |         |           |                |
|------------------------------------|---------------|---------|-----------|----------------|
| <b>Deferred tax asset</b>          |               |         |           | <b>27,661</b>  |
| Deferred tax expense               |               | (3,759) |           |                |
| Net deferred tax (asset)/liability | <b>49,217</b> |         | <b>13</b> | <b>(8,257)</b> |
|                                    |               |         |           | <b>37,214</b>  |

The temporary difference related to property, plant and equipment and intangible assets follows from remeasurement of the assets at fair value and accelerated tax depreciation/amortisation.

### EFFECTIVE TAX RATE

|  | For 6 months ended |              |
|--|--------------------|--------------|
|  | Jun 30 2018        | Jun 30 2017  |
| <b>Tax expense recognised in profit or loss, including:</b>            | <b>9,484</b>       | <b>5,187</b> |
| Current tax  | 13,243             | 1,087        |
| Deferred tax   | (3,759)            | 4,100        |
| <b>Profit before tax</b>   | <b>(27,784)</b>    | <b>6,434</b> |
| Tax expense at the effective rate of 19%                               | (5,279)            | 1,222        |
| Adjustments to current income tax for prior years                      | 20                 | (5)          |
| <b>Non-tax-deductible costs:</b>                                       | <b>14,743</b>      | <b>3,970</b> |
| - permanent differences  | 285                | 339          |
| - tax assets on account of tax losses in Special Economic Zone         | 142                | 392          |
| - temporary difference for which no tax asset/liability is recognised* | 14,316             | 32,39        |
| <b>Tax recognised in profit or loss</b>                                | <b>9,484</b>       | <b>5,187</b> |

\*) The item concerns mainly non-recognition of a deferred tax asset related to impairment losses on non-financial non-current assets, non-recognition of a deferred tax asset if there is a risk related to deduction of losses in the future, as well as the effect of sale of MWF Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o.

## 26 Provisions

### PROVISIONS

|   | Jun 30 2018   | Dec 31 2017   |
|---|---------------|---------------|
| <b>Long-term provisions</b>                     |               |               |
| - provision for retirement and similar benefits | 1,020         | 1,087         |
| - provision for litigation                      | 21,139        | 21,820        |
| <b>Total long-term provisions</b>               | <b>22,159</b> | <b>22,907</b> |
| <b>Short-term provisions</b>                    |               |               |
| - provision for retirement and similar benefits | 214           | 514           |
| - provision for accrued holiday entitlements    | 1,259         | 1,349         |
| - provision for litigation and grid losses      | 1,792         | 1,793         |
| <b>Total short-term provisions</b>              | <b>3,265</b>  | <b>3,656</b>  |

### Change in long- and short-term provisions

---

|  | <b>Jun 30 2018</b> | <b>Dec 31 2017</b> |
|--|--------------------|--------------------|
| <b>Provisions at beginning of period</b> | <b>26,563</b>      | <b>28,572</b>      |
| - provisions recognised                  | -                  | 782                |
| - provisions reversed                    | (1,139)            | (2,791)            |
| <b>Provisions at end of period</b>       | <b>25,424</b>      | <b>26,563</b>      |

Using a prudent approach, the Group recognised a long-term provision for litigation in connection with court proceedings involving Eolos Sp. z o.o. (for more information, see Note 30.2).

## 27 Liabilities under bank and other borrowings

Jun 30 2018

| Bank                        | Company                                   | Non-current liability | Current liability | Interest rate       | Maturity date | Security   |
|-----------------------------|---|-----------------------|-------------------|---------------------|---------------|--|
| ING Bank Śląski S.A.        | Elektrociepłownia Nowa Sarzyna Sp. z o.o. | -                     | 29,892            | 3M WIBOR + margin   | Apr 2019      | Mortgage over property, pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement   |
| ING Bank Śląski S.A.        | Elektrociepłownia Nowa Sarzyna Sp. z o.o. | -                     | 220               | 3M WIBOR + margin   | Jul 2018      | Mortgage over property, pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement   |
| ING Bank Śląski S.A.        | Elektrociepłownia Nowa Sarzyna Sp. z o.o. | -                     | 12,800            | 3M WIBOR + margin   | Apr 30 2019   | Mortgage over property, pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement   |
| PEKAO S.A.                  | Polenergia Obrót S.A.                     | -                     | 27,943            | 1M WIBOR + margin   | Aug 31 2018   | Assignment of claims under sale agreements, powers of attorney over bank accounts, statement on voluntary submission to enforcement  |
| ING Bank Śląski S.A.        | Polenergia Dystrybucja Sp. z o.o.         | 41,891                | 2,203             | 3M WIBOR + margin   | Nov 20 2024   | Pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement   |
| Raiffeisen Bank Polska S.A. | Dipol Sp. z o.o.                          | 17,470                | 4,554             | 1M EURIBOR + margin | Dec 31 2021   | Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, powers of attorney over bank accounts, assignment of claims under project contracts, block on funds in the special-purpose reserve account, surety of up to PLN 6,338 thousand issued by Polenergia S.A. (but in the same documentation Polenergia S.A. noted that the sponsor believed the surety to be invalid). EUR denominated facility |

|   |  |         |       |                      |                |  |
|---|--|---------|-------|----------------------|----------------|--|
| Bank<br>syndicate<br>(Raiffeisen Bank<br>Polska S.A., PKO<br>BP S.A., BZ<br>WBK S.A., DNB<br>NORD S.A.) | Amon Sp. z o.o.                                    | 108,645 | 1,212 | 3M WIBOR +<br>margin | Dec 31<br>2026 | Registered pledge over the business, financial and registered pledges over shares in the Borrower and Talia Sp. z o.o., agreements for assignment of claims (under project agreements, lease contracts, maintenance services agreement), financial and registered pledges over receivables from bank accounts and powers of attorney over those accounts, agreement on transfer of rights to the funds held in the Agent's Account, surety of up to PLN 6,700 thousand issued by Polenergia S.A. (jointly with Talia Sp. z o.o.), cross guarantee issued by Talia Sp. z o.o, subordination of Polenergia S.A.'s claims and claims against Talia Sp. z o.o. to the Lender's claims, statement on submission to enforcement. |
| Bank<br>syndicate<br>(Raiffeisen Bank<br>Polska S.A., PKO<br>BP S.A., BZ<br>WBK S.A., DNB<br>NORD S.A.) | Talia Sp. z o.o.                                   | 67,909  | 805   | 3M WIBOR +<br>margin | Dec 31<br>2026 | Registered pledge over the business, financial and registered pledges over shares in the Borrower and Amon Sp. z o.o., agreements for assignment of claims (under project agreements, lease contracts, maintenance services agreement), financial and registered pledges over receivables from bank accounts and powers of attorney over those accounts, agreement on transfer of rights to the funds held in the Agent's Account, surety of up to PLN 6,700 thousand issued by Polenergia S.A. (jointly with Amon Sp. z o.o.), cross guarantee issued by Amon Sp. z o.o, subordination of Polenergia S.A.'s claims and claims against Amon Sp. z o.o. to the Lender's claims, statement on submission to enforcement.     |
| PEKAO S.A.  | Grupa PEP – Biomasa Energetyczna Wschód Sp. z o.o. | -       | 5,250 | 1M WIBOR +<br>margin | Sep 30<br>2022 | Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, assignment of claims under project agreements, powers of attorney over bank accounts, statement on voluntary submission to enforcement  |



## Polenergia Group

Interim condensed consolidated financial statements for the six months ended June 30th 2018

(PLN '000)

|   |   |                |                |                   |             |   |
|---|---|----------------|----------------|-------------------|-------------|---|
| European Bank for Reconstruction and Development                | Grupa PEP – Farma Wiatrowa 1 Sp. z o.o.       | 126,262        | 10,289         | 3M WIBOR + margin | Jun 29 2029 | Mortgage over property, registered pledge over assets, pledge over shares in the Borrowers, assignment of claims under project agreements, equity support and subscription agreement, equity contribution subordination agreement, statement on submission to enforcement |
| Bank syndicate (EBRD, BOŚ S.A.)                                 | Grupa PEP – Farma Wiatrowa 4 Sp. z o.o.       | 227,444        | 15,346         | 3M WIBOR + margin | Jun 29 2029 | Mortgage over property, registered pledge over assets, pledge over shares in the Borrowers, assignment of claims under project agreements, equity support and subscription agreement, equity contribution subordination agreement, statement on submission to enforcement |
| European Bank for Reconstruction and Development                | Grupa PEP – Farma Wiatrowa 6 Sp. z o.o.       | 68,056         | 5,370          | 3M WIBOR + margin | Jun 29 2029 | Mortgage over property, registered pledge over assets, pledge over shares in the Borrowers, assignment of claims under project agreements, equity support and subscription agreement, equity contribution subordination agreement, statement on submission to enforcement |
| Bank syndicate (EBRD, BOŚ S.A., Bank of China, ALIOR BANK S.A.) | Polenergia Farma Wiatrowa Mycielin Sp. z o.o. | 186,767        | 13,600         | 3M WIBOR + margin | Sep 15 2029 | Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, assignment of claims under project agreements, equity support and subscription agreement, equity contribution subordination agreement, statement on submission to enforcement  |
| <b>Total</b>  |   | <b>844,444</b> | <b>129,484</b> |                   |             |   |

Dec 31 2017

| Bank                 | Company                                   | Non-current liability | Current liability | Interest rate     | Maturity date | Security   |
|----------------------|---|-----------------------|-------------------|-------------------|---------------|--|
| ING Bank Śląski S.A. | Elektrociepłownia Nowa Sarzyna Sp. z o.o. | 11,449                | 36,767            | 3M WIBOR + margin | Apr 2019      | Mortgage over property, pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement |

Polenergia Group

Interim condensed consolidated financial statements for the six months ended June 30th 2018

(PLN '000)

|   |  |         |         |                     |          |    |   |
|---|--|---------|---------|---------------------|----------|----|---|
| ING Bank Śląski S.A.  | Elektrociepłownia Nowa Sarzyna Sp. z o.o.          | -       | 660     | 3M WIBOR + margin   | Jul 2018 |    | Mortgage over property, pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement  |
| ING Bank Śląski S.A.  | Elektrociepłownia Nowa Sarzyna Sp. z o.o.          | -       | 1,110   | 3M WIBOR + margin   | Jul 2017 | 29 | Mortgage over property, pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement  |
| PEKAO S.A.  | Polenergia Obrót S.A.                              | -       | 4,088   | 1M WIBOR + margin   | Aug 2017 | 31 | Assignment of claims under sale agreements, powers of attorney over bank accounts, statement on voluntary submission to enforcement   |
| ING Bank Śląski S.A.  | Polenergia Dystrybucja Sp. z o.o.                  | 39,394  | 2,203   | 3M WIBOR + margin   | Nov 2024 | 20 | Pledge over assets, pledge over shares in the Borrower, statement on voluntary submission to enforcement  |
| Raiffeisen Bank Polska S.A.   | Dipol Sp. z o.o.                                   | 18,698  | 4,272   | 1M EURIBOR + margin | Dec 2021 | 31 | Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, powers of attorney over bank accounts, assignment of claims under project agreements, block on funds in the special-purpose reserve account, surety of up to PLN 6,338 thousand issued by Polenergia S.A. The credit facility is EUR denominated.  |
| Bank syndicate (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.) | Amon Sp. z o.o.                                    | -       | 112,431 | 3M WIBOR + margin   | Dec 2026 | 31 | Registered pledge over assets, pledge over shares in the Borrower and Talia Sp. z o.o., conditional assignment of claims under project agreements, block on funds in the special-purpose reserve account, surety of up to PLN 6,758 thousand issued by Polenergia S.A. (jointly with Talia Sp. z o.o.), cross guarantee of up to PLN 312,739.5 thousand issued by Talia Sp. z o.o., subordination of Polenergia S.A.'s claims to the Lender's claims, statement on voluntary submission to enforcement. |
| Bank syndicate (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.) | Talia Sp. z o.o.                                   | -       | 70,736  | 3M WIBOR + margin   | Dec 2026 | 31 | Registered pledge over assets, pledge over shares in the Borrower and Amon Sp. z o.o., conditional assignment of claims under project agreements, block on funds in the special-purpose reserve account, surety of up to PLN 6,758 thousand issued by Polenergia S.A. (jointly with Amon Sp. z o.o.), cross guarantee of up to PLN 227,440.50 thousand issued by Amon Sp. z o.o., subordination of Polenergia S.A.'s claims to the Lender's claims, statement on voluntary submission to enforcement.   |
| PEKAO S.A.  | Grupa PEP – Biomasa Energetyczna Wschód Sp. z o.o. | 4,714   | 1,142   | 1M WIBOR + margin   | Sep 2022 | 30 | Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, assignment of claims under project agreements, powers of attorney over bank accounts, statement on voluntary submission to enforcement.  |
| European Bank for Reconstruction and Development                                      | Grupa PEP – Farma Wiatrowa 1 Sp. z o.o.            | 131,493 | 22,966  | 3M WIBOR + margin   | Jun 2029 | 29 | Mortgage over property, registered pledge over assets, pledge over shares in the Borrowers, assignment of claims under project agreements, equity support and subscription agreement, equity contribution subordination agreement, statement on submission to enforcement.  |

Polenergia Group

Interim condensed consolidated financial statements for the six months ended June 30th 2018

(PLN '000)

|   |   |                |                |                   |          |    |  |
|---|---|----------------|----------------|-------------------|----------|----|--|
| Bank syndicate (EBRD, BOŚ S.A.)                                 | Grupa PEP – Farma Wiatrowa 4 Sp. z o.o.       | 235,243        | 19,729         | 3M WIBOR + margin | Jun 2029 | 29 | Mortgage over property, registered pledge over assets, pledge over shares in the Borrowers, assignment of claims under project agreements, equity support and subscription agreement, equity contribution subordination agreement, statement on submission to enforcement. |
| European Bank for Reconstruction and Development                | Grupa PEP – Farma Wiatrowa 6 Sp. z o.o.       | 70,788         | 8,772          | 3M WIBOR + margin | Jun 2029 | 29 | Mortgage over property, registered pledge over assets, pledge over shares in the Borrowers, assignment of claims under project agreements, equity support and subscription agreement, equity contribution subordination agreement, statement on submission to enforcement. |
| Bank syndicate (EBRD, BOŚ S.A., Bank of China, ALIOR BANK S.A.) | Polenergia Farma Wiatrowa Mycielin Sp. z o.o. | 193,725        | 13,067         | 3M WIBOR + margin | Sep 2029 | 15 | Mortgage over property, registered pledge over assets, pledge over shares in the Borrower, assignment of claims under project agreements, equity support and subscription agreement, equity contribution subordination agreement, statement on submission to enforcement.  |
| <b>Total</b>  |   | <b>705,504</b> | <b>298,013</b> |                   |          |    |  |

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 the facility 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, Amon and Talia brought an action 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 2019 was presented under non-current liabilities in the interim condensed consolidated financial statements for the period ended June 30th 2018.

On July 12th 2018, the Company's subsidiaries 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 (jointly: ("GSR")) concluded with a syndicate of financing banks (the European Bank for Reconstruction and Development and Bank Ochrony Środowiska S.A.) an agreement amending the investment facility agreements of October 4th 2013, which had been executed by GSR in connection with 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 covenant under the investment facility agreement. However, as the financing banks waived the covenants as at June 30th 2018 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 as at June 30th 2018 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.

## 28 Liabilities

### CURRENT LIABILITIES

|  | Jun 30 2018    | Dec 31 2017    |
|--|----------------|----------------|
| - bank and other borrowings                  | 129,484        | 298,013        |
| - trade payables                             | 124,134        | 129,613        |
| - to related entities                        | 393            | 576            |
| - to other entities                          | 123,741        | 129,037        |
| - current tax liability                      | 1,051          | 290            |
| - other liabilities                          | 450,345        | 139,972        |
| - to the state budget                        | 10,706         | 7,746          |
| - prepaid deliveries                         | 2,363          | 226            |
| - other financial liabilities                | 244            | 339            |
| - valuation of futures and forward contracts | 429,615        | 111,293        |
| - salaries and wages payable                 | 467            | 1,414          |
| - special accounts                           | 121            | 43             |
| - under settlement of long-term contracts    | 5,185          | 16,436         |
| - other                                      | 1,644          | 2,475          |
| <b>Total current liabilities</b>             | <b>705,014</b> | <b>567,888</b> |

### OTHER NON-CURRENT LIABILITIES

|   | Jun 30 2018   | Dec 31 2017   |
|---|---------------|---------------|
| - under settlement of long-term contracts **)   | -             | 21,776        |
| - valuation of futures and forward contracts *) | 54,066        | 7,645         |
| - risk hedging                                  | 4,229         | 4,543         |
| - investment commitments                        | 1,500         | 1,500         |
| - other financial liabilities                   | 319           | 433           |
| <b>Total other non-current liabilities</b>      | <b>60,114</b> | <b>35,897</b> |

\*) For more information on the valuation of futures and forward contracts, see Note 22

\*\*) For more information on liabilities under settlement of long-term contracts, see Note 43.

Trade payables do not bear interest and are typically paid within 14 days. Other liabilities do not bear interest.

## 29 Accruals and deferred income

|  | Jun 30 2018   | Dec 31 2017   |
|--|---------------|---------------|
| <b>Long-term accruals and deferred income</b>        |               |               |
| - deferred income - grants                           | 54,966        | 56,565        |
| <b>Total long-term accruals and deferred income</b>  | <b>54,966</b> | <b>56,565</b> |
| <b>Short-term accruals and deferred income</b>       |               |               |
|  | Jun 30 2018   | Dec 31 2017   |
| - future bonuses, salaries and wages                 | 4,421         | 8,690         |
| - services   | 3,407         | 2,767         |
| - accrued holiday entitlements                       | 475           | 481           |
| - deferred income - grants                           | 3,197         | 3,197         |
| - expenditure on property, plant and equipment       | 284           | 284           |
| - other  | 1,243         | 467           |
| <b>Total short-term accruals and deferred income</b> | <b>13,027</b> | <b>15,886</b> |

## 30 Contingent liabilities

### 30.1 Guarantees and sureties issued

As at June 30th 2018, the Group did not issue any external guarantees.

### 30.2 Litigation

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. (a Tauron Group company) 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.

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 claim, they brought a new one, requesting payment of compensation for non-performance or improper performance of the above-mentioned contracts, and then extended this claim

to cover subsequent periods of non-performance of the contracts by Polska Energia – Pierwszy Kompania Handlowa Sp. z o.o. 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. Another similar extension is envisaged, as further claims arise in respect of subsequent periods under the contracts.

The matter 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, and 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 thousand in damages, together with interest and litigation costs, and determination of Tauron's liability for future losses, estimated at over PLN 158,000 thousand, so that the total amount claimed in the action by Amon exceeds PLN 205,000 thousand.

Talia is claiming payment of PLN 31,299 thousand in damages, together with interest and litigation costs, and determination of Tauron's liability for future losses, estimated at just under PLN 107,000 thousand, so that the total amount claimed in the action by Talia exceeds PLN 138,000 thousand.

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 thousand 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 thousand. 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 thousand. 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 thousand, 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 Północ 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 Północ 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 thousand. 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.

The Group is a party to court proceedings related to the determination of property tax for 2017. For more details, see the Directors' Report on the Group's operations.

### **30.3 Tax settlements**

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by administrative bodies, which are authorised to impose high penalties and sanctions. As the legal regulations regarding these issues in Poland are relatively new, they are often ambiguous and inconsistent. Differences in the interpretation of tax legislation are frequent, both within public administration bodies and between those bodies and businesses, leading to uncertainty and conflicts. Consequently, tax risk in Poland is substantially higher than in countries with more mature tax systems.

Tax settlements may be subject to inspection for a period of five years from the end of the calendar year in which the tax payment was made. Such inspections may result in additional tax liabilities for the Group companies. As at June 30th 2018, the Group did not identify any tax risk for which a provision should be recognised.

Given the very unclear wording of statutory provisions, uncertainty arose as to the calculation of wind farm property tax. Although, according to expert reports held by the Group, the relevant statutory provisions 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 cases will be resolved by the Supreme Administrative Court. Should the administrative courts issue unfavourable decisions in these cases, they may have an adverse effect on the business of the Group companies operating wind farms. The annual effect on the consolidated financial statements is estimated as additional expenses of approximately PLN 6.3m related to 2017.

The Act of June 7th 2018 amending the RES Act and certain other acts (Dz.U. of 2018, item 1276), hereinafter referred to as the "Amending Act", amended Art. 3.3 of the Building Law of July 7th 1994 (consolidated text in Dz.U. of 2018, item 1202), hereinafter referred to as the "Building Law", by changing the definition of a structure. Art. 3.3 of the Building Law now stipulates that the structural elements of technical equipment (such as boilers, industrial furnaces, nuclear power plants, wind power plants and other equipment) should also be deemed "structures" within the meaning of the Building Law.

In addition, Art. 2.6 of the Amending Act amended the existing line "Category XXIX – Free-standing stacks, masts and wind power plants" of the annex to the Building Law. The new wording of the line is as follows: "Category XXIX – Free-standing stacks, masts and structural elements of wind power plants".

Pursuant to Art. 17.2 of the Amending Act, all the amendments presented above came into force on the day following the date of their promulgation, with effect as of January 1st 2018. Therefore, the Group corrected its property tax returns in accordance with the amended regulations.

### **30.4 Capital expenditure**

As at June 30th 2018, the Company plans the Group's capital expenditure on property, plant and equipment to total PLN 38m by the end of 2018. The amount will largely be allocated to investments in the distribution segment and to project development, including offshore and onshore wind power generation.



### 30.5 Contractual obligations

#### Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o., a subsidiary

On March 20th 1998, Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. entered into a long-term agreement with PGNiG S.A., under which it is obliged to order contractual gas volumes of no less than 180 mcm and no more than 210 mcm annually. In each contractual year, the subsidiary is required to pay for the minimum annual gas volume, equal to 90% of the ordered annual gas volume. The agreement expires on December 24th 2019.

On March 21st 2008, the subsidiary entered into an agreement on sale of electricity with GET EnTra Sp. z o.o. Annex 11 of December 6th 2017 provides for electricity sales volumes of no less than 732,000 MWh annually as of 2017, including no less than 335,000 MWh in the summer period. The agreement term ends on December 31st 2019.

Under a heat sale agreement of March 25th 1998, the subsidiary agreed to supply heat to Ciech Sarzyna S.A. In the event of failure to supply the agreed heat volumes, the subsidiary is required to compensate for losses incurred and documented by the customer, up to USD 2m annually (the amount has been indexed to CPI since 1996). Under the agreement amended under Annex 10 of January 24th 2017, the subsidiary is obliged to supply, and Ciech Sarzyna S.A. is obliged to collect, 370,000 GJ of energy annually (the minimum required purchase volume).

On January 24th 2017, the subsidiary and Ciech Sarzyna S.A. executed an agreement under which the company undertook to supply heat to Ciech Sarzyna S.A. in the period from June 4th 2020 to November 30th 2030, starting after the expiry of the agreement of March 25th 1998 referred to above. In the event of failure to supply the agreed heat volumes, the subsidiary is required to compensate for losses incurred and documented by the customer, up to PLN 8m over the entire term of the agreement. The agreement does not provide for any minimum required purchase volume.

On January 24th 2017, the subsidiary and Ciech Sarzyna S.A. executed an agreement under which Ciech Sarzyna S.A. undertook to provide local services in the period from June 4th 2020 to November 30th 2030. The services covered by the agreement include supplies of water and steam condensate, collection of wastewater and access to a railway siding; the company uses these services in its operations connected with electricity and heat generation.

On October 30th 2013, the subsidiary renewed the heat supply agreement with Zakład Gospodarki Komunalnej Nowa Sarzyna Sp. z o.o. The agreement term ends on June 3rd 2020. Under the agreement, in each contractual year the customer is obliged to collect and pay for, and the supplier is obliged to supply, at least 55,000 GJ of heat (the minimum required purchase volume), with the proviso that the customer may change the minimum required purchase volume starting from the fourth contractual year. Additionally, the supplier (the subsidiary) is not obliged to supply more than 120,000 GJ of heat (the maximum required supply volume) in any contractual year.

## 31 Revenue

|   | Jun 30<br>2018 | Jun 30<br>2017 | Jun 30<br>2018 | Jun 30<br>2017 |
|---|----------------|----------------|----------------|----------------|
| - revenue from sale and distribution of electricity           | 1,319,975      | 1,092,590      | 691,317        | 506,946        |
| - revenue from certificates of origin                         | 27,193         | 24,682         | 16,582         | 17,871         |
| - revenue from carbon dioxide emission allowances             | 318            | 374            | 337            | 30             |
| - revenue from sale of heat                                   | 11,334         | 11,014         | 4,370          | 4,488          |
| - revenue from consulting and advisory services               | 1,311          | 1,539          | 1,044          | 924            |
| - income from lease and operator services                     | 524            | 1,059          | 271            | 585            |
| - revenue from sale of merchandise                            | 278            | 2,660          | 132            | 1,175          |
| - revenue from sale of pellets                                | 10,276         | 13,228         | 5,165          | 5,660          |
| - rental income   | 71             | 93             | 25             | 30             |
| - income from compensation for stranded costs and cost of gas | 58,866         | 49,786         | 32,175         | 25,410         |

|   |                  |                  |                |                |
|---|------------------|------------------|----------------|----------------|
| - net revenue from sale and distribution of gas | 142,281          | 141,956          | 74,815         | 66,197         |
| - other   | 1,329            | 3,532            | 710            | 3,255          |
| <b>Total revenue</b>                            | <b>1,573,756</b> | <b>1,342,513</b> | <b>826,943</b> | <b>632,571</b> |

Revenue from sale and distribution of electricity includes income from electricity sale derivatives.

## 32 Operating expenses, by nature of expense

|  | <b>Jun 30<br/>2018</b> | <b>Jun 30<br/>2017</b> | <b>Jun 30<br/>2018</b> | <b>Jun 30<br/>2017</b> |
|--|------------------------|------------------------|------------------------|------------------------|
| - depreciation and amortisation expense      | 48,094                 | 48,927                 | 24,050                 | 24,420                 |
| - raw materials and consumables used         | 112,174                | 96,803                 | 55,306                 | 45,854                 |
| - services                                   | 24,271                 | 27,966                 | 12,669                 | 13,916                 |
| - taxes and charges                          | 11,434                 | 13,301                 | 3,703                  | 6,624                  |
| - salaries and wages                         | 15,186                 | 15,777                 | 7,250                  | 7,937                  |
| - social security and other benefits         | 2,503                  | 2,586                  | 1,139                  | 1,361                  |
| - other operating expenses                   | 1,606                  | 1,633                  | 850                    | 835                    |
| <b>Total operating expenses by nature</b>    | <b>215,268</b>         | <b>206,993</b>         | <b>104,967</b>         | <b>100,947</b>         |
| - cost of merchandise and materials sold (+) | 1,352,179              | 1,107,551              | 730,014                | 520,955                |
| - distribution costs (-)                     | (285)                  | (392)                  | (125)                  | (154)                  |
| - administrative expenses (-)                | (20,827)               | (16,132)               | (11,820)               | (8,130)                |
| <b>Total cost of sales</b>                   | <b>1,546,335</b>       | <b>1,298,020</b>       | <b>823,036</b>         | <b>613,618</b>         |

## 33 Other income

|   | <b>Jun 30<br/>2018</b> | <b>Jun 30<br/>2017</b> | <b>Jun 30<br/>2018</b> | <b>Jun 30<br/>2017</b> |
|---|------------------------|------------------------|------------------------|------------------------|
| - reversal of impairment losses and write-downs, including: | 481                    | 41                     | 481                    | 33                     |
| - impairment losses on receivables                          | 11                     | 41                     | 11                     | 33                     |
| - impairment losses on property, plant and equipment        | 470                    | -                      | 470                    | -                      |
| - provisions reversed, including:                           | 565                    | -                      | 265                    | -                      |
| - provision for site restoration                            | 300                    | -                      | -                      | -                      |
| - other provisions  | 265                    | -                      | 265                    | -                      |
| - other, including:   | 3,619                  | 6,602                  | 2,622                  | 4,878                  |
| - compensation and additional charges                       | 492                    | 368                    | 350                    | 9                      |
| - government grants   | 1,599                  | 1,649                  | 799                    | 830                    |
| - gain on disposal of non-financial non-current assets      | 1,220                  | 459                    | 1,218                  | 407                    |
| - re-invoicing  | -                      | 6                      | -                      | 6                      |
| - other   | 308                    | 4,120                  | 255                    | 3,626                  |
| <b>Total other income</b>                                   | <b>4,665</b>           | <b>6,643</b>           | <b>3,368</b>           | <b>4,911</b>           |

## 34 Other expenses

|   | <b>Jun 30<br/>2018</b> | <b>Jun 30<br/>2017</b> | <b>Jun 30<br/>2018</b> | <b>Jun 30<br/>2017</b> |
|---|------------------------|------------------------|------------------------|------------------------|
| - impairment losses and write-downs, including: | 17,791                 | 228                    | 17,510                 | 111                    |
| - impairment losses on receivables              | 1                      | 56                     | (33)                   | 34                     |

(PLN '000)

|  |               |            |               |            |
|--|---------------|------------|---------------|------------|
| - inventory write-downs                                | 437           | -          | 437           | -          |
| - impairment losses on property, plant and equipment   | 17,353        | 172        | 17,106        | 77         |
| - other, including:                                    | 173           | 677        | 94            | 434        |
| - penalties, fines, compensation                       | -             | 2          | (1)           | -          |
| - other development costs                              | 101           | 95         | 68            | 58         |
| - loss on disposal of non-financial non-current assets | -             | 380        | -             | 325        |
| - other  | 72            | 200        | 27            | 51         |
| <b>Total other expenses</b>                            | <b>17,964</b> | <b>905</b> | <b>17,604</b> | <b>545</b> |

On July 2nd 2018, the Group decided to recognise an impairment loss of PLN 16.8m on property, plant and equipment in the biomass segment, which in line with the adopted definition does not affect EBITDA, and an inventory write-down of PLN 0.4m. The impairment loss relates to two cash-generating units whose recoverable amount, calculated as fair value less costs to sell, was nil as at June 30th 2018. The decision followed from developments in the regulatory environment, namely the enacted amendment to the RES Act, and in the overall business and economic environment in which the biomass segment operates.

### 35 Finance income

|  | For 6 months ended |                | For 3 months ended |                |
|--|--------------------|----------------|--------------------|----------------|
|  | Jun 30<br>2018     | Jun 30<br>2017 | Jun 30<br>2018     | Jun 30<br>2017 |
| - income from interest on deposits and loans | 2,499              | 2,281          | 1,402              | 1,813          |
| - interest on finance leases                 | 63                 | 70             | 31                 | 35             |
| - foreign exchange differences, including:   | 552                | 1,401          | 396                | (32)           |
| - unrealised                                 | 502                | 1,312          | 319                | (70)           |
| - realised                                   | 50                 | 89             | 77                 | 38             |
| - valuation of financial liabilities         | -                  | 1              | -                  | (13)           |
| - other                                      | 5                  | 30             | 1                  | 29             |
| <b>Total finance income</b>                  | <b>3,119</b>       | <b>3,783</b>   | <b>1,830</b>       | <b>1,832</b>   |

### 36 Finance costs

|  | For 6 months ended |                | For 3 months ended |                |
|--|--------------------|----------------|--------------------|----------------|
|  | Jun 30<br>2018     | Jun 30<br>2017 | Jun 30<br>2018     | Jun 30<br>2017 |
| - interest expense                         | 24,574             | 27,753         | 12,233             | 13,707         |
| - foreign exchange differences, including: | 1,042              | 571            | 828                | (149)          |
| - unrealised                               | 974                | 289            | 775                | (88)           |
| - realised                                 | 68                 | 282            | 53                 | (61)           |
| - fees and commissions                     | 1,117              | 943            | 619                | 457            |
| - valuation of financial liabilities *)    | 9,083              | 1,705          | 8,276              | 872            |
| - other                                    | 80                 | 84             | 68                 | 53             |
| <b>Total finance costs</b>                 | <b>35,896</b>      | <b>31,056</b>  | <b>22,024</b>      | <b>14,940</b>  |

\*) Related to bank borrowings measured at amortised cost.

On June 28th 2018, Amon Sp. z o.o. ("Amon") and Talia Sp. z o.o. ("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 (see Note 27). In the Group's opinion, the amendments substantially changed the previous agreements and so, in accordance with IFRS 9, the liability of PLN 7,913 thousand should be derecognised through profit or loss.

### 37 Cash flows

| Restricted cash  | For 6 months ended |               |
|--|--------------------|---------------|
|  | Jun 30 2018        | Jun 30 2017   |
| - cash for credit facility repayments                    | 17,245             | 29,880        |
| - cash for settlement of compensation for stranded costs | -                  | 48,887        |
| - cash on deposits                                       | 41,818             | -             |
| - cash for long- and medium-term overhauls               | 5,677              | 3,310         |
| - other restricted cash                                  | 96                 | 115           |
| <b>Total</b>   | <b>64,836</b>      | <b>82,192</b> |

### 38 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 such transactions is to manage the currency risk and the risk of market prices (particularly 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 establishes and verifies 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.

#### 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 Group'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 Jun 30 2018 | Change | Effect on profit/loss before tax over 3 consecutive months (PLN '000) |
|--------------------------|--------|---|
| 1M WIBOR                 | 1%     | (1,903)   |

|            |     |       |
|------------|-----|-------|
| 1M EURIBOR | 1%  | (54)  |
| 1M WIBOR   | -1% | 1,903 |
| 1M EURIBOR | -1% | 54    |

### 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 June 30th 2018, the position was valued at EUR 5m. 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 those terms with the terms of the hedged item, thus ensuring the maximum effectiveness of hedging; for more detailed information, see Note 40.

The table below presents sensitivity of the Group's profit/loss before tax (in connection with 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 |
|-------------------|---------------------------------|-----------------------|
| Jun 30 2018 - EUR | + PLN 0.01/EUR                  | (50)                  |
|                   | - PLN 0.01/EUR                  | 50                    |
| Jun 30 2017 - EUR | + PLN 0.01/EUR                  | (63)                  |
|                   | - PLN 0.01/EUR                  | 63                    |

In the six months ended June 30th 2018, the Group incurred finance costs of PLN 472 thousand under unrealised foreign exchange differences.

In the period from June 30th to September 30th 2018, movements in the PLN/EUR exchange rate may affect the amount of unrealised exchange differences. Net result on unrealised exchange differences as at September 30th 2018 will mainly depend on the difference between the PLN/EUR exchange rates as at June 30th 2018 and as at September 30th 2018, with any appreciation/depreciation of the Polish złoty against the euro having a positive/negative effect on net gains at a rate of ca. PLN 50 thousand for each PLN 0.01 of the difference relative to the exchange rate as at June 30th 2018 (EUR 1= PLN 4.3616).

### Credit risk

The Group executes transactions only with reputable companies enjoying sound credit standing. Each customer who wishes to trade on credit is subject to credit check procedures. Moreover, thanks to ongoing monitoring of receivables, the Group's exposure to the risk of uncollectible 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, the maximum exposure to this risk being 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 the respective 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 breach the covenants with respect to certain projects.

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 banking institutions.

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

### Liquidity risk

The Group monitors the risk of its funds being insufficient to pay liabilities as they fall due through periodic liquidity planning. This tool takes into account the maturities of investments and financial assets (e.g. receivables, other financial assets) and forecast cash flows from operating activities.

The Group aims to balance the continuity and flexibility of financing by using different financing sources, including account overdrafts, credit facilities, finance lease contracts and lease-to-own contracts.

The table below shows the Group's financial liabilities by maturity as at June 30th 2018 and December 31st 2017, based on undiscounted contractual payments.

| <b>Jun 30 2018</b>          | <b>up to 3 months</b> | <b>from 3 to 12 months</b> | <b>from 1 year to 5 years</b> | <b>over 5 years</b> | <b>Total</b>     |
|-----------------------------|-----------------------|----------------------------|-------------------------------|---------------------|------------------|
| Interest-bearing borrowings | 91,527                | 202,638                    | 466,198                       | 646,890             | <b>1,407,253</b> |
| Other liabilities           | 450,162               | 183                        | 60,114                        | -                   | <b>510,459</b>   |
| Trade payables              | 124,134               | -                          | -                             | -                   | <b>124,134</b>   |

| <b>Dec 31 2017</b>          | <b>up to 3 months</b> | <b>from 3 to 12 months</b> | <b>from 1 year to 5 years</b> | <b>over 5 years</b> | <b>Total</b>     |
|-----------------------------|-----------------------|----------------------------|-------------------------------|---------------------|------------------|
| Interest-bearing borrowings | 64,384                | 432,656                    | 405,121                       | 505,731             | <b>1,407,892</b> |
| Other liabilities           | 139,587               | 386                        | 14,120                        | -                   | <b>154,093</b>   |
| Trade payables              | 129,613               | -                          | -                             | -                   | <b>129,613</b>   |

## 39 Financial instruments

### Fair values of financial instrument classes

The table below compares the carrying amounts and fair values of all of the Group's financial instruments, by classes and categories of assets and liabilities.

|                               |                 | <b>Carrying amount</b> |                    | <b>Fair value</b>  |                    |
|-------------------------------|-----------------|------------------------|--------------------|--------------------|--------------------|
|                               | <b>Category</b> | <b>Jun 30 2018</b>     | <b>Dec 31 2017</b> | <b>Jun 30 2018</b> | <b>Dec 31 2017</b> |
| <b>Financial assets</b>       |                 |                        |                    |                    |                    |
| Futures and forward contracts | Level 2         | 476,952                | 130,404            | 476,952            | 130,404            |
| <b>Financial liabilities</b>  |                 |                        |                    |                    |                    |
| Bank borrowings               | Level 2         | 973,928                | 1,003,517          | 973,928            | 1,003,517          |
| SWAPs                         | Level 2         | 4,229                  | 4,544              | 4,229              | 4,544              |

|                               |         |         |         |         |         |
|-------------------------------|---------|---------|---------|---------|---------|
| Futures and forward contracts | Level 2 | 483,681 | 118,938 | 483,681 | 118,938 |
|-------------------------------|---------|---------|---------|---------|---------|

Level 2: The fair value is measured based on other inputs that are observable for the asset or liability either directly or indirectly. As similar contracts are traded in an active market, the prices reflect results of actual transactions in similar derivative instruments. The fair value of borrowings is determined based on their amortised cost, i.e. an analysis of future cash flows discounted using the effective interest rate.

The fair values of short-term and long-term receivables and liabilities approximate their carrying amounts.

### Interest rate risk

The table below presents the carrying amounts of the Group's financial instruments exposed to the interest rate risk, by maturity. Their classification into individual years reflects the dates when the borrowings mature.

Jun 30 2018

|                        | <b>INTEREST RATE RISK</b> |           |           |           |           |              |         |
|------------------------|---------------------------|-----------|-----------|-----------|-----------|--------------|---------|
|                        | < 1 year                  | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Over 5 years | Total   |
| Floating-rate interest |                           |           |           |           |           |              |         |
| PLN bank borrowings    | 124,930                   | 53,910    | 57,872    | 96,580    | 64,082    | 554,529      | 951,903 |
| EUR bank borrowings    | 4,554                     | 4,810     | 5,216     | 7,445     | -         | -            | 22,025  |
| Fixed-rate interest    |                           |           |           |           |           |              |         |
| Cash assets            | 348,341                   | -         | -         | -         | -         | -            | 348,341 |
| Finance leases         | 310                       | 325       | 341       | 358       | 376       | 945          | 2,655   |

**Dec 31 2017**

|                        | <b>INTEREST RATE RISK</b> |           |           |           |           |              |         |
|------------------------|---------------------------|-----------|-----------|-----------|-----------|--------------|---------|
|                        | < 1 year                  | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Over 5 years | Total   |
| Floating-rate interest |                           |           |           |           |           |              |         |
| PLN bank borrowings    | 293,741                   | 61,248    | 53,410    | 88,811    | 56,838    | 426,500      | 980,548 |
| EUR bank borrowings    | 4,271                     | 4,326     | 4,764     | 9,608     | -         | -            | 22,969  |
| Fixed-rate interest    |                           |           |           |           |           |              |         |
| Cash assets            | 297,898                   | -         | -         | -         | -         | -            | 297,898 |
| Finance leases         | 303                       | 318       | 333       | 350       | 367       | 1,135        | 2,806   |

Interest rates for financial instruments bearing interest at floating rates are updated in periods of less than one year.

## 40 Hedging

| <b>Maturity date of the hedging instrument</b> | <b>Value of the hedge (PLN '000)</b> | <b>Interest rate hedged</b> | <b>Instrument</b> |
|--|--------------------------------------|-----------------------------|-------------------|
| Apr 29 2019                                    | 23,782.00                            | 4.95%                       | IRS               |
| Jun 15 2021                                    | 129,334.20                           | 3.07%                       | IRS               |
| <b>153,116.20</b>                              |                                      |                             |                   |

The fair value of the hedge as at the reporting date was PLN 4,229 thousand, disclosed in non-current liabilities.

The purpose of the hedging transactions is to mitigate the effect of interest rate movements on the value of future highly probable loan repayments.

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 of the hedging transaction will be taken to the statement of profit or loss on exercise of the hedge.

As at June 30th 2018, the Group recognised PLN 189 thousand (2017: PLN 726 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.

## 41 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 June 30th 2018 and financial 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 less cash and cash equivalents.



|                                | Jun 30 2018      | Dec 31 2017      |
|--------------------------------|------------------|------------------|
| Interest-bearing borrowings    | 973,928          | 1,003,517        |
| Less cash and cash equivalents | (348,341)        | (297,898)        |
| <b>Net debt</b>                | <b>625,587</b>   | <b>705,619</b>   |
| Equity                         | 1,144,643        | 1,181,988        |
| <b>Total equity</b>            | <b>1,144,643</b> | <b>1,181,988</b> |
| <b>Equity and net debt</b>     | <b>1,770,230</b> | <b>1,887,607</b> |
| Leverage ratio                 | 35%              | 37%              |

## 42 Significant related-party transactions

Key transactions with associates in period ended June 30th 2018:

| Jun 30 2018             | Revenue |
|-------------------------|---------|
| MFW Bałtyk 1 Sp. z o.o. | 45      |
| MFW Bałtyk 2 Sp. z o.o. | 344     |
| MFW Bałtyk 3 Sp. z o.o. | 375     |

Key transactions with related parties in the period ended June 30th 2018:

| Jun 30 2018                              | Revenue       | Costs        | Receivables  | Liabilities |
|--|---------------|--------------|--------------|-------------|
| KI ONE Spółka Akcyjna                    | -             | 278          | -            | 55          |
| Krucza Inwestycje KREH 1 Sp. z o.o. S.K. | -             | 1,143        | -            | 3           |
| Kulczyk Holding Sarl                     | 357           | -            | 108          | -           |
| Polenergia Usługi Sp. z o.o.             | 48            | -            | -            | -           |
| Ciech Sarzyna S.A.                       | 11,245        | 1,008        | 1,266        | 167         |
| Autostrada Eksploatacja S.A.             | 1,060         | -            | 169          | -           |
| Polenergia International Sarl            | 139           | -            | 139          | -           |
| Beyond.pl Sp. z o.o.                     | 654           | 113          | 130          | 2           |
| <b>Total</b>                             | <b>13,503</b> | <b>2,542</b> | <b>1,812</b> | <b>227</b>  |

For information on transactions with members of the parent's Management Board and Supervisory Board, see Notes 45 and 46.

## 43 Compensation for stranded costs and cost of gas

### Compensation for stranded costs

ENS Sp. z o.o., a subsidiary, calculates stranded costs for the period April 2008–May 2020 ("adjustment period") using formulas specified in Art. 30 and Art. 31 of the LTC Termination Act. The estimate is based on the following items:

- revised net carrying amount of power generating property, plant and equipment as at January 1st 2007,

- depreciation of power generating property, plant and equipment for the purposes of corporate income tax in the period January 1st 2007–March 31st 2008,
- operating profit or loss in the adjustment period, calculated based on realised and forecast revenue from sale of electricity and operating expenses related to sales of electricity, adjusted for depreciation and amortisation for the purposes of corporate income tax,
- net carrying amount of power generating property, plant and equipment after the end of the adjustment period.

The maximum amount of stranded costs calculated as described above is allocated to individual years (including 2018) according to the Company's allocation method (based on operating profit or loss for a given year).

Due to the length of the period covered by the calculations, the estimated amounts may change; the amounts disclosed as at the end of the reporting period have been estimated based on the Company's best knowledge and data available on that date.

| For 6 months ended Jun 30 2018                        |        |
|---|--------|
| compensation for stranded costs, entered in the books | 38,529 |

In the first half of 2018, the Company received from Zarządca Rozliczeń S.A. the following payments related to compensation for stranded costs:

| For 6 months ended Jun 30 2018 |              |
|--------------------------------|--------------|
| prepayment for Q1 2018         | 7,250        |
| <b>Total</b>                   | <b>7,250</b> |

#### Compensation for cost of gas

The amount of compensation for the cost of gas is estimated as the product of gross electricity generated by the Company in the period using gas fuel covered by the 'minimum take' clause, the difference between the Company's average cost of gas and the average cost of coal in coal-fired centrally managed generating units, and the adjustment coefficient referred to in the LTC Termination Act.

| For 6 months ended<br>Jun 30 2018                  |        |
|--|--------|
| compensation for cost of gas, entered in the books | 20,337 |

In the first half of 2018, the Company received from Zarządca Rozliczeń S.A. the following payments related to compensation for the cost of gas:

| For 6 months ended<br>Jun 30 2018 |              |
|-----------------------------------|--------------|
| prepayment for Q1 2018            | 9,250        |
| <b>Total</b>                      | <b>9,250</b> |

## 44 Workforce

The Group's workforce by type of position, in FTEs as at June 30th 2018 and December 31st 2017:

|                           | Jun 30 2018 | Dec 31 2017 |
|---------------------------|-------------|-------------|
| Parent's Management Board | 2           | 3           |
| Parent's employees        | 51          | 49          |

|                         |            |            |
|-------------------------|------------|------------|
| Subsidiaries' employees | 149        | 150        |
| <b>Total headcount</b>  | <b>202</b> | <b>202</b> |

The data includes employees on maternity leaves.

#### **45 Information on the total amount of remuneration and awards (in cash or in kind) paid or payable to members of the Management and Supervisory Boards of the parent**

In the period ended June 30th 2018 and the year ended December 31st 2017, remuneration of members of the Management Boards of the parent and subsidiaries, and of the Supervisory Board was as follows:

|                       | <b>Jun 30 2018</b> | <b>Dec 31 2017</b> |
|-----------------------|--------------------|--------------------|
| Jacek Głowacki        | 1,265              | 1,970              |
| Bartłomiej Dujczyński | 1,567              | 1,293              |
| Michał Michalski      | 917                | 792                |
| <b>Total</b>          | <b>3,749</b>       | <b>4,055</b>       |

Certain Management Board members are party to a mutual agreement on termination of employment within the next 6–12 months. If a Management Board member being party to such agreement resigns, the Company is required to pay a severance benefit equal to 100% of the remuneration received by such Management Board member over the last 12 months. Following his resignation as member of the Management Board, Bartłomiej Dujczyński received an appropriate severance benefit.

|                       | <b>Jun 30 2018</b> | <b>Dec 31 2017</b> |
|-----------------------|--------------------|--------------------|
| Tomasz Mikołajczak    | 27                 | 54                 |
| Mariusz Nowak         | 18                 | 36                 |
| Łukasz Rędziniak      | 18                 | 36                 |
| Dawid Jakubowicz      | 18                 | 36                 |
| Dominik Libicki       | 18                 | 36                 |
| Orest Nazaruk         | 18                 | 36                 |
| Arkadiusz Jastrzębski | 18                 | 36                 |
| Brian Bode            | 18                 | 36                 |
| Dagmara Gorzelana     | 18                 | 36                 |
| <b>Total</b>          | <b>171</b>         | <b>342</b>         |

#### **46 Transactions with members of the Group's Management and Supervisory Boards, their spouses, siblings, ascendants, descendants, or other closely related persons**

In the six months ended June 30th 2018, there were no transactions with members of the Management and Supervisory Boards, their spouses, siblings, ascendants, descendants, or other closely related persons.

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## **47 Events after the reporting period**

On July 12th 2018, the Company's subsidiaries amended significant agreements with the syndicate of banks financing the construction of wind farms in Gawłowiec, Skurpie and Rajgród. 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 (jointly: the "Subsidiaries") 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 of October 4th 2013, which had been executed to finance the investment project to construct the Gawłowiec Wind Farm, the Skurpie Wind Farm and the Rajgród Wind Farm, with a total installed capacity of 117.3 MW. The Subsidiaries 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 Subsidiaries 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 Group'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 the Subsidiaries amended the facility agreements and other relevant finance documents concerning the investment facility contracted by the Subsidiaries. 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 Subsidiaries' facility schedule, on July 12th 2018 the contracts between Polenergia Obrót S.A. and the Subsidiaries concerning the sale of electricity generated from renewable sources, contracts for the sale of green certificates representing the Subsidiaries' 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.