In case of divergence between the language versions, the Polish version shall prevail.

Polenergia S.A. Group

SEMI-ANNUAL REPORT ON THE OPERATIONS OF THE POLENERGIA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

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1. Combined income statement for the six-month period ended 30 June 2020

In the first half of 2020 the results of Polenergia Group (the "Group"), in terms of the adjusted (normalized) EBITDA and net profit, amounted to PLN 147.7m and PLN 69.0m, respectively, which means growth compared to the corresponding period of the preceding year of PLN 19.9m and PLN 17.7m, respectively.

	Polenergia Group Income Statement (PLN m)	6M 2020	6M 2019	Difference YOY	Difference YOY [%]	Q2 2020	Q2 2019	Difference YOY	Difference YOY [%]
	Sales revenues, including:	**822,0**	**1 304,2**	**(482,2)**	**-37%**	**363,0**	**589,6**	**(226,5)**	**-38%**
	trading and sales segment	484,0	991,2	(507,1)		196,2	456,1	(260,0)	
	other	338,0	313,1	24,9		166,8	133,4	33,4	
	Cost of goods sold, including:	**(704,9)**	**(1 209,9)**	**504,9**	**42%**	**(323,1)**	**(558,4)**	**235,3**	**42%**
	trading segment	(467,0)	(980,8)	513,8		(187,6)	(450,8)	263,2	
	other	(238,0)	(229,1)	(8,9)		(135,5)	(107,6)	(27,9)	
	Gross profit on sales	**117,1**	**94,4**	**22,7**	**24%**	**39,9**	**31,1**	**8,8**	**28%**
	Selling expenses and general overheads	(21,8)	(19,1)	(2,7)	-14%	(11,7)	(9,7)	(2,0)	-21%
	Other operating revenue/expense	2,3	0,9	1,5	170%	0,7	0,4	0,4	95%
A	**Operating profit (EBIT)**	**97,6**	**76,1**	**21,5**	**28%**	**28,9**	**21,8**	**7,1**	**32%**
	Depreciation/Amortization	49,9	51,0	(1,1)		24,6	25,5	(0,8)	
	Impairment losses	0,2	0,8	(0,5)		0,1	0,3	(0,2)	
	EBITDA	**147,7**	**127,9**	**19,9**	**16%**	**53,6**	**47,6**	**6,0**	**13%**
	Normalizing adjustments:								
	Purchase price allocation (PPA)	-	-	-	-	-	-	-	
	Adjusted EBITDA*	**147,7**	**127,9**	**19,9**	**16%**	**53,6**	**47,6**	**6,0**	**13%**
B	Financial income	3,6	3,3	0,3		0,3	1,5	(1,2)	
C	Financial costs	(23,5)	(24,8)	1,3		(11,7)	(12,6)	0,8	
A+B+C	**Gross profit (loss)**	**77,6**	**54,6**	**23,1**	**42%**	**17,4**	**10,7**	**6,7**	**62%**
	Income tax	(13,1)	(8,9)	(4,2)	-47%	(2,8)	(2,1)	(0,8)	-38%
	Net profit (loss)	**64,5**	**45,7**	**18,8**	**41%**	**14,6**	**8,7**	**5,9**	**68%**
	Normalizing adjustments:								
	Purchase price allocation (PPA)	3,5	4,1	(0,6)		1,5	2,1	(0,6)	
	Foreign exchange differences	0,1	0,2	(0,1)		1,4	0,0	1,4	
	Loan valuation using the amortized cost method	0,7	0,7	0,1		0,4	0,3	0,1	
	Impairment losses **	0,2	0,8	(0,5)		0,1	0,3	(0,2)	
	Adjusted net profit (loss)*	**69,0**	**51,4**	**17,7**	**34%**	**18,0**	**11,4**	**6,6***	**58%**
	Adjusted EBITDA*	**147,7**	**127,9**	**19,9**	**16%**	**53,6**	**47,6**	**6,0**	**13%**
	Adjusted EBITDA Margin*	18,0%	9,8%	8,2%		14,8%	8,1%	6,7%	
	Adjusted EBITDA (excl. trading segment)	**137,1**	**121,9**	**15,2**	**12%**	**48,8**	**44,7**	**4,1**	**9%**
	Adjusted EBITDA margin (excl. trading segment)	40,6%	38,9%	1,6%		29,2%	33,5%	-4,3%	

*) Adjusted for non-monetary one-off revenue (cost) recognized in a given financial year

**) The impairment losses in Onshore Wind Power and Unallocated segments

The sales revenues of Polenergia Group in the first half of 2020 were lower by PLN 482.2m year on year, mainly due to lower revenues in the trading segment (by PLN 507.1m), which was partly offset by higher revenues in the onshore wind power segment (by PLN 36.3m).

The adjusted EBITDA in the period in question amounted to PLN 147.7m and exceeded by PLN 19.9m the one in the corresponding period of the preceding year. This was mainly due to better performance of the onshore wind power segment (by PLN 34.0m) resulting from higher production volume and higher prices of green certificates and electricity, as well as due to better performance of the trading segment (by PLN 4.7m) resulting from better performance on sales of electricity generated by the wind farms, and implementation of the new strategy. Those factors were partly offset by lower results in the gas and clean fuels segment (by PLN 22.8m) as a result of no revenues from gas cost compensation (in 2019 a long-term contract for the purchase of gas covered by the compensation scheme was terminated) and lower revenues from the stranded cost compensation (the compensation system coming to an end in May 2020).

In the second quarter of 2020 sales revenues of Polenergia Group were lower by PLN 226.5m year on year, due to lower sales revenues in the trading segment (by PLN 260.0m) partly offset by higher revenues in the onshore wind power segment (by PLN 26.9m).

The adjusted EBITDA in that period amounted to PLN 53.6m and exceeded by PLN 6.0m the one in the corresponding period of the preceding year. This has been mainly due to better performance in the onshore wind power segment and in the trading segment, partly offset by lower performance figures in the gas and clean fuels segment.

2. Detailed comments regarding financial performance for the 6-month period ended 30 June 2020 and other significant information on the position of the Group

In view of the fact that the Supervisory Board approved the Strategy of Polenergia Group for the years 2020-2024, the Group redefined its business areas dividing them into operational segments, while data for the 6-month period ended 30 June 2019 was transposed so as to ensure its comparability.

The onshore wind power segment experienced a PLN 34.0m year-on-year increase in EBITDA, with the EBITDA increase by PLN 11.3 m in the second quarter alone. Better performance of this segment in 2020 resulted from higher sales revenues due to increased generation volumes (better windiness) and higher prices of green certificates and electricity, partly offset by higher total balancing and profile costs. In addition, in 2020 a change in cost and revenue disclosure took place in the wind power segment. As a result of the change of the formula applied to determine the electricity price in the Gawłowice, Skurpie, Rajgród and Mycielin wind farms, the profile costs are disclosed by way of reducing the sales price of electricity. Prior to that the profile costs had been disclosed under operating cost. Also, as of 2020, the Group has been disclosing its revenues from the certificates of origin granted, but not yet sold, by way of reducing the cost of goods sold.

Since the beginning of 2020, the Group distinguishes a separate segment of photovoltaics in its financial performance, as the operating phase commenced for 8 PV projects totaling 8 MW (Sulechów I) which secured auction offtake under the RES support auction scheme. In the H1 2020 this segment yielded EBITDA of PLN 1.3m, including PLN 1.1m in Q2 alone as a result of higher electricity production (better sun exposure) compared to Q1.

The EBITDA result in the gas and clean fuels segment dropped by PLN 22.8 compared to H1 2019 and by PLN 9.5m in Q2 alone, mainly as a result of no revenues from gas cost compensation (in 2019 a long-term contract for the purchase of gas covered by the compensation scheme was terminated) and lower revenues from the stranded cost compensation (the compensation system coming to an end in May 2020).

The trading segment showed a growth of EBITDA in H1 by PLN 4.7m, with an increase of PLN 2.0m in Q2 alone. Better result in H1 is mainly a result of better performance on sales of electricity (higher price of the fixing contracts, with production volume at the level forecast for Q2 2020) generated by the wind farms, better performance on other contracts due to the own asset-based production hedge optimizing transactions, as well as the effects of the implementation of the new strategy in trading. The effect of the abovementioned factors was partly offset by lower result on the trading portfolio and higher operating costs (related, among others, to the new strategy) and commission costs.

The H1 EBITDA of the distribution segment was higher by PLN 0.7m year on year, while in Q2 alone it was lower by PLN 0.2m. The result in H1 was enhanced predominantly by achieving a higher sales margin (the effect of freezing the prices in 2019) and a higher electricity distribution margin (the effect of the implementation of Investment Plan III). The drop of the result in Q2 results mainly from a one-off refund of the real estate tax received in the preceding year. At the same time, in the distribution segment the volume of energy distributed was lower by 13% compared to the preceding year due to lower demand in production facilities and shopping malls.

The balance under the Unallocated item in 2020 was higher by PLN 2.0m year on year, predominantly due to higher EBITDA on biomass operations (by 1.2m) and lower costs related, among others, to the intragroup loan conversion into equity (PLN 0.7m) recognized in 2019.

As a consequence of the foregoing events, the adjusted EBITDA margin excluding the trading segment amounted to 40.6%, and was higher by 1.6 pp year on year. On the other hand, in Q2, the adjusted

EBITDA margin amounted to 29.2%, having declined 4.3 pp year on year.

The result on financial operations in H1 2020 was higher compared against the preceding year by PLN 1.6m, being driven by higher financial income (by PLN 0.3m) and lower finance costs (by PLN 1.3m). The difference in financial income is related mainly to the measurement of financial instruments in the gas and clean fuels segment (PLN 0.7m) and the impact of f/x differences (PLN 0.3m), less the recognition of a one-off figure from the winding-up of a subsidiary in 2019 (PLN 0.7m) and lower interest gains (PLN 0.1m). The reduction of the finance costs is mainly attributable to lower interest expense (PLN 1.7m) in view of the reduced debt of the Group and the reduction of the debt service cost following the interest rates drop, partly offset by higher f/x difference cost (PLN 0.4m).

The change in the income tax level compared to the preceding year results from the higher profit before tax of the Group in 2020 H1.

In addition, the net profit was impacted by impairment losses of non-financial fixed assets in the onshore wind power segment and the Unallocated item amounting to PLN 0.2m.

Impact of COVID-19 pandemic

In view of the COVID-19 outbreak, risk factors that may potentially impact the business and financial performance of Polenergia Group have been being monitored and identified on an ongoing basis. The Management Board has taken measures to mitigate the adverse impact of the coronavirus, however the final severity and magnitude of such impact are difficult to estimate.

The Management Board is of the opinion that Polenergia Group has so far been resilient to adverse economic environment caused by the COVID-19 outbreak. Very good financial performance achieved in 2020, including also the second quarter, show that the partial freezing of the Polish economy did not affect the operation of the companies within the Group.

The impact of COVID-19 on the performance in the distribution segment is manifested by drop of the national demand for electricity driven, among others, by the production plants and shopping malls. In addition, in Q1 2020 the company Polenergia Dystrybucja increased its bad debt write-off of PLN 233k, while in Q2 increased delay in payments was identified.

In the trading segment, as a result of the COVID-19 outbreak, high trading business risk persists. This is driven, among others, by increased price volatility, lower liquidity on the markets and increased risk of counterparty insolvency. The abovementioned risk factors may also affect liquidity by increasing the requirements concerning the security deposits and the bad debt level. In the face of increased likelihood of those risks materializing, ongoing monitoring and analytical activities were intensified in this area and a more stringent approach has been applied when entering into new transactions.

The wind power segment remains largely immune to the current volatility of electricity prices throughout 2020 and 2021, given the fact that for the large portion of the portfolio the energy sales prices this year and next year have been fixed on the forward market. Should the drop in energy prices continue for a long time and result in a forward contract quotes reduction, the potential of the financial performance of the segment in subsequent years may be limited.

Implementation of the Polenergia Group Strategy for the years 2020-2024

The new strategy of the Group is being implemented with no significant disturbances.

The Company continues works aimed at building three wind farm projects of the total capacity of 186 MW, which secured auction offtake under the RES support auction scheme. This July, the facilities agreement was entered into for the financing of construction of the biggest project in the Group's history - the Dębsk wind farm with the capacity of 121 MW, with construction works following. Construction of the Szymankowo project (38 MW) is continued. On 29 July 2020 an annex was signed to the facilities agreement of 2019 providing for the increase of the investment loan cap up to 171 million and the increase of the VAT loan up to PLN 27 million. Preparations are in progress to the commencement of construction of the third project Kostomłoty, with the capacity of 27 MW.

The Group does not exclude participation of its subsidiaries Polenergia Farma Wiatrowa Piekło Sp. z o.o. and Polenergia Farma Wiatrowa 16 Sp. z o.o. developing a 13.2 MW Piekło wind farm project in another forthcoming RES auction. As part of the wind power projects in development, the Group also has two projects with the intended capacity of 82 MW that were covered by impairment loss, their implementation depending on the obtaining of relevant permits.

The wind farm company Farma Wiatrowa 17 Sp. z o.o. implementing the Sulechów I PV projects was awarded a concession by the President of the Energy Regulatory Office for the electricity generation in the period 24 January 2020 - 31 December 2030. The Sulechów I projects were fully commissioned into operation, thus entering the operating stage, in the first quarter of 2020. In addition, on 19 May 2020 the company Polenergia Farma Wiatrowa 17 Sp. z o.o. concluded an interest rate hedging transaction corresponding to 95% of the incurred loan amount.

Also, the Group intends to have next photovoltaic projects with the total capacity of ca. 27 MW ready to participate in the forthcoming auction, while further PV projects of the capacity of ca. 238 MW are now in the early phase of development.

Development work in the offshore wind power segment is continued. The Group holds 50% of the shares in the companies Polenergia Bałtyk I S.A., MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o. preparing to develop three offshore wind farms located in the Baltic Sea with total capacity up to 3000 MW. The date of construction of those farms depends on when the relevant regulatory framework is in place.

Development work in the gas and clean fuels segment are also in progress. On 29 June 2020 the Group signed a letter of intent with Siemens Gas and Power GmbH & Co. KG and Siemens Energy sp. z o.o. concerning potential collaboration with respect to the development of gas cogeneration projects and hydrogen technologies.

The Group implements the new strategy in the trading segment by developing new or existing business areas. As part of the geographical expansion, the process of obtaining relevant permits on international markets is underway. On 15 May 2020 the subsidiaries: Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. and Polenergia Obrót S.A. entered into an Agreement for the Provisions of Portfolio Management Services and Sale of Electricity, Gas Fuels and Emission Allowances.

In the distribution segment, on 27 February 2020 the President of the Energy Regulatory Office approved the new tariff for Polenergia Dystrybucja for electricity sales to households. Also, the approved investment plan for the years 2019-2022 totaling PLN 51m has been under implementation.

Other significant information on the Group's condition

On 10 July 2020 the subsidiary Polenergia Farma Wiatrowa 3 Sp. z o.o. entered into a facilities agreement with the European Bank for Reconstruction and Development, mBank S.A., ING Bank Śląski S.A. and Santander Bank Polska S.A. in the form of an investment loan totaling up to PLN 480m for the financing of construction of the Dębsk wind farm and the VAT loan during construction up to PLN 73m. The Facilities Agreement provides for the repayment of the investment loan no later than by 10 June 2037 and of the VAT loan no later than by 31 March 2023.

On 29 May 2020 and 4 June 2020, Polenergia Farma Wiatrowa 3 sp. z o.o. successively entered into contracts with the consortium including ELECTRUM sp. z o.o. and "P.U. Jarex" sp. z o.o., and with the consortium including Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego S.A. and ERBUD S.A for the construction of the Dębsk wind farm. On 19 June 2020 Polenergia Farma Wiatrowa 3 sp. z o.o. entered into a contract with Vestas - Poland Sp. z o.o for the supply, deployment and launching of wind turbines and a contract for the maintenance and availability of those wind turbines for a term of 30 years following the go-live date.

On 14 April 2020 the subsidiaries Polenergia Farma Wiatrowa 3 Sp. z o.o. (implementing the “Dębsk” wind farm project), Polenergia Farma Wiatrowa Dębice/Kostomłoty Sp. z o.o. (the “Kostomłoty” project) and Polenergia Farma Wiatrowa Szymankowo Sp. z o.o. (the “Szymankowo” project) entered into loan agreements with Mansa Investments Sp. z o.o. capped at PLN 233m. In view of the above, the Issuer entered into three surety agreements with the parent company Mansa Investments Sp. z o.o. that will secure the repayment of the loans under the loan agreements concluded, with each surety agreement covering 150% of the respective loan amount.

On 26 February 2020 the subsidiaries Polenergia Farma Wiatrowa 23 Sp. z o.o. and Dipol Sp. z o.o. entered into facilities agreement with mBank S.A. up to PLN 31.8 m purposed to refinancing of Dipol Sp. z o.o. outstanding debt, filling up debt service reserve accounts of Polenergia Farma Wiatrowa 23 Sp. z o.o. and Dipol Sp. z o.o., and refinancing of Polenergia S.A. equity contributed to Polenergia Farma Wiatrowa 23 Sp. z o.o. and Dipol Sp. z o.o. The loan agreement provide for the repayment of term loans no later than 7 years from facilities agreement signing date. In relation to the loan agreement, on 18 March 2020, the companies Polenergia Farma Wiatrowa 23 Sp. z o.o. and Dipol Sp. z o.o concluded interest rate hedging transactions corresponding to 95% of the loan amount.

On 30 April 2020 the Company Polenergia Farma Wiatrowa Mycielin Sp. z o.o. increased its interest rate hedge up to the level corresponding to 90% of the amount of the loan incurred.

On 30 June 2020 the company Polenergia Farma Wiatrowa 4 sp. z o.o. implementing the Skurpie wind farm project concluded an interest rate hedging transaction up to the level corresponding to 80% of the amount of the loan incurred.

On 3 August 2020 the subsidiary Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. (”ENS”) received a decision of the President of the Energy Regulatory Office on the consumption cost of the collected natural gas an uncollected natural gas for 2019 due to ENS under the Act of 29 June 2007 on the terms of reimbursement of costs generated by the producers due to the accelerated termination of long term contracts for the sale of power and electricity (PL OJ 2019 item 1874) and the decision of the President of the Energy Regulatory Office on the determination of the annual adjustment factor with respect to the stranded costs for 2019. The sum of the abovementioned annual adjustments determined for ENS for 2019 totals ca. PLN 2,5m.

The Biomass project restructuring has been continued. Talks are in progress with potential buyers of Biomasa Wschód, in cooperation with the bank which finances the plant’s business.

Litigation between Amon Sp. z o.o. and Talia Sp. z o.o. versus Tauron Polska Energia S.A. and Tauron’s subsidiary – Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. is pending. Detailed information about the current status of litigation cases has been provided under item B.8 hereof.

On the following pages a presentation is given of the distribution of the total Group results in 2020 H1 and Q2 broken down into the operating segments.

6M 2020 (PLN m)	Onshore Wind Power	Photovoltaics	Gas and Clean Fuel	Trading	Distribution	Unallocated	Purchase price allocation	TOTAL
Sales revenues*	152,2	1,8	125,8	484,0	46,4	11,9	-	822,0
Operating costs, including	(57,0)	(0,8)	(124,2)	(467,0)	(39,1)	(12,6)	(4,3)	(704,9)
operating costs (without granted green certificates adjustment)	(19,9)							
depreciation/amortization	(31,7)	(0,4)	(9,5)	(0,1)	(2,7)	(1,2)	(4,3)	(49,9)
Granted green certificates adjustment	(5,3)							
Gross profit on sales	**95,2**	**1,0**	**1,5**	**17,1**	**7,3**	**(0,7)**	**(4,3)**	**117,1**
Gross profit on sales margin	*62,6%*	*56,2%*	*1,2%*	*3,5%*	*15,7%*	*"n/a"*	*"n/a"*	*14,2%*
General overheads	(1,3)	(0,1)	(3,3)	(6,9)	(2,6)	(7,3)	-	(21,6)
Other operating activities	1,6	0,0	(0,7)	0,4	0,5	0,3	-	2,1
including impairment losses	(0,1)	-	-	-	-	(0,1)	-	(0,2)
Operating profit	**95,5**	**0,9**	**(2,5)**	**10,5**	**5,2**	**(7,8)**	**(4,3)**	**97,6**
EBITDA	**127,3**	**1,3**	**7,0**	**10,6**	**7,9**	**(6,4)**	**-**	**147,7**
EBITDA Margin	*83,7%*	*73,4%*	*5,5%*	*2,2%*	*17,0%*	*"n/a"*	*"n/a"*	*18,0%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	-
Adjusted EBITDA	**127,3**	**1,3**	**7,0**	**10,6**	**7,9**	**(6,4)**	**-**	**147,7**
Adjusted EBITDA Margin	*83,7%*	*73,4%*	*5,5%*	*2,2%*	*17,0%*	*"n/a"*	*"n/a"*	*18,0%*
Profit (loss) on financial activities	(20,6)	(0,3)	0,8	(1,1)	(1,2)	2,4	-	(20,0)
Profit (loss) before tax	**75,0**	**0,6**	**(1,6)**	**9,5**	**3,9**	**(5,4)**	**(4,3)**	**77,6**
Income tax								(13,1)
Net profit (loss) for period								**64,5**
Normalizing adjustments								
Purchase price allocation (PPA)								3,5
Foreign exchange differences								0,1
Loan valuation using amortized cost method								0,7
Impairment losses								0,2
Adjusted net profit								**69,0**

Revenues from granted, but not yet sold green certificates are presented under IFRS 15 through reduction in cost of goods sold

6M 2019 (PLN m)	Onshore Wind Power	Photovoltaics	Gas and Clean Fuel	Trading	Distribution	Unallocated	Purchase price allocation	TOTAL
Sales revenues	115,8	-	144,0	991,2	46,2	7,0	-	1 304,2
Operating costs	(54,1)	(0,0)	(121,1)	(980,8)	(39,3)	(9,5)	(5,1)	(1 209,9)
including depreciation/amortization	(31,4)	-	(10,8)	(0,0)	(2,5)	(1,2)	(5,1)	(51,0)
Gross profit on sales	**61,7**	**(0,0)**	**22,9**	**10,4**	**6,9**	**(2,5)**	**(5,1)**	**94,4**
Gross profit on sales margin	*53,3%*	*"n/a"*	*15,9%*	*1,0%*	*15,0%*	*"n/a"*	*"n/a"*	*7,2%*
General overheads	(1,6)	-	(3,3)	(4,7)	(2,8)	(6,4)	-	(18,8)
Other operating activities	1,3	-	(0,6)	0,2	0,6	(0,9)	-	0,5
including impairment losses	(0,5)	-	-	-	-	(0,2)	-	(0,8)
Operating profit	**61,4**	**(0,0)**	**19,0**	**5,9**	**4,7**	**(9,8)**	**(5,1)**	**76,1**
EBITDA	**93,3**	**(0,0)**	**29,8**	**5,9**	**7,2**	**(8,4)**	**-**	**127,9**
EBITDA Margin	*80,6%*	*"n/a"*	*20,7%*	*0,6%*	*15,5%*	*"n/a"*	*"n/a"*	*9,8%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	-
Adjusted EBITDA	**93,3**	**(0,0)**	**29,8**	**5,9**	**7,2**	**(8,4)**	**-**	**127,9**
Adjusted EBITDA Margin	*80,6%*	*"n/a"*	*20,7%*	*0,6%*	*15,5%*	*"n/a"*	*"n/a"*	*9,8%*
Profit (loss) on financial activities	(21,8)	(0,0)	(0,8)	(1,6)	(1,0)	3,7	-	(21,5)
Profit (loss) before tax	**39,6**	**(0,0)**	**18,2**	**4,3**	**3,6**	**(6,1)**	**(5,1)**	**54,6**
Income tax								(8,9)
Net profit (loss) for period								**45,7**
Normalizing adjustments								
Purchase price allocation (PPA)								4,1
Foreign exchange differences								0,2
Loan valuation using amortized cost method								0,7
Impairment losses								0,8
Adjusted net profit								**51,4**
Change of adjusted EBITDA yoy	**34,0**	**1,4**	**(22,8)**	**4,7**	**0,7**	**2,0**	**-**	**19,9**

Q2 2020 (PLN m)	Onshore Wind Power	Photovoltaics	Gas and Clean Fuel	Trading	Distribution	Unallocated	Purchase price allocation	TOTAL
Sales revenues*	70,9	1,4	66,9	196,2	22,1	5,6	-	363,0
Operating costs, including	(42,8)	(0,4)	(65,8)	(187,6)	(18,6)	(6,0)	(1,8)	(323,1)
operating costs (without granted green certificates adjustment)	(10,2)	-	-	-	-	-	-	(10,2)
depreciation/amortization	(15,9)	(0,2)	(4,7)	(0,0)	(1,4)	(0,6)	(1,8)	(24,6)
Granted green certificates adjustment	(16,8)	-	-	-	-	-	-	(16,8)
Gross profit on sales	**28,0**	**0,9**	**1,1**	**8,6**	**3,4**	**(0,4)**	**(1,8)**	**39,9**
Gross profit on sales margin	*39,6%*	*67,3%*	*1,7%*	*4,4%*	*15,5%*	*"n/a"*	*"n/a"*	*11,0%*
General overheads	(0,6)	(0,1)	(1,6)	(4,1)	(1,5)	(3,8)	-	(11,6)
Other operating activities	0,8	0,0	(0,5)	0,4	(0,1)	0,1	-	0,6
including imairment losses	(0,0)	-	-	-	-	(0,1)	-	(0,1)
Operating profit	**28,2**	**0,9**	**(1,0)**	**4,8**	**1,9**	**(4,1)**	**(1,8)**	**28,9**
EBITDA	**44,1**	**1,1**	**3,7**	**4,8**	**3,2**	**(3,4)**	**-**	**53,6**
EBITDA Margin	*62,3%*	*78,7%*	*5,6%*	*2,5%*	*14,6%*	*"n/a"*	*"n/a"*	*14,8%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	-
Adjusted EBITDA	**44,1**	**1,1**	**3,7**	**4,8**	**3,2**	**(3,4)**	**-**	**53,6**
Adjusted EBITDA Margin	*62,3%*	*78,7%*	*5,6%*	*2,5%*	*14,6%*	*"n/a"*	*"n/a"*	*14,8%*
Profit (loss) on financial activities	(9,9)	(0,1)	(0,9)	(0,7)	(0,6)	0,9	-	(11,5)
Profit (loss) before tax	**18,3**	**0,7**	**(1,9)**	**4,1**	**1,2**	**(3,2)**	**(1,8)**	**17,4**
Income tax								(2,8)
Net profit (loss) for period								**14,6**
Normalizing adjustments								-
Purchase price allocation (PPA)								1,5
Foreign exchange differences								1,4
Loan valuation using amortized cost method								0,4
Impairment losses								0,1
Adjusted net profit							-	**18,0**

Revenues from granted, but not yet sold green certificates are presented under IFRS 15 through reduction in cost of goods sold

Q2 2019 (PLN m)	Onshore Wind Power	Photovoltaics	Gas and Clean Fuel	Trading	Distribution	Unallocated	Purchase price allocation	TOTAL
Sales revenues	44,0	-	63,3	456,1	22,4	3,7	-	589,6
Operating costs	(27,0)	(0,0)	(53,6)	(450,8)	(19,2)	(5,2)	(2,5)	(558,4)
including depreciation/amortization	(15,7)	-	(5,4)	(0,0)	(1,2)	(0,6)	(2,5)	(25,5)
Gross profit on sales	**17,0**	**(0,0)**	**9,8**	**5,3**	**3,2**	**(1,6)**	**(2,5)**	**31,1**
Gross profit on sales margin	*38,6%*	*"n/a"*	*15,4%*	*1,2%*	*14,1%*	*"n/a"*	*"n/a"*	*5,3%*
General overheads	(0,8)	-	(1,6)	(2,6)	(1,4)	(3,2)	-	(9,6)
Other operating activities	0,7	-	(0,2)	0,1	0,4	(0,7)	-	0,3
including imairment losses	(0,2)	-	-	-	-	(0,1)	-	(0,3)
Operating profit	**16,9**	**(0,0)**	**7,9**	**2,9**	**2,2**	**(5,5)**	**(2,5)**	**21,8**
EBITDA	**32,9**	**(0,0)**	**13,3**	**2,9**	**3,4**	**(4,8)**	**-**	**47,6**
EBITDA Margin	*74,7%*	*"n/a"*	*21,0%*	*0,6%*	*15,3%*	*"n/a"*	*"n/a"*	*8,1%*
Purchase price allocation (PPA)	-	-	-	-	-	-	-	-
Adjusted EBITDA	**32,9**	**(0,0)**	**13,3**	**2,9**	**3,4**	**(4,8)**	**-**	**47,6**
Adjusted EBITDA Margin	*74,7%*	*"n/a"*	*21,0%*	*0,6%*	*15,3%*	*"n/a"*	*"n/a"*	*8,1%*
Profit (loss) on financial activities	(10,8)	(0,0)	(0,4)	0,4	(0,5)	0,2	-	(11,1)
Profit (loss) before tax	**6,1**	**(0,0)**	**7,5**	**3,3**	**1,6**	**(5,3)**	**(2,5)**	**10,7**
Income tax								(2,1)
Net profit (loss) for period	-	-	-	-	-	-	-	**8,7**
Normalizing adjustments								
Purchase price allocation (PPA)								2,1
Foreign exchange differences								0,0
Loan valuation using amortized cost method								0,3
Impairment losses								0,3
Adjusted net profit	-	-	-	-	-	-	-	**11,4**
Change of adjusted EBITDA yoy	**11,3**	**1,1**	**(9,5)**	**2,0**	**(0,2)**	**1,5**	**-**	**6,0**

3. Description of the issuer group's organization, consolidated entities, as well as changes in the group's organization and reasons for such changes

For a description of the issuer's group, refer to Note 7 to the Interim Condensed Consolidated Financial Statements.

Except as described in section 4 below, no material changes in the issuer group's organization took place in the reporting period.

4. Identification of effects of changes in the entity's structure, including changes resulting from mergers, acquisitions or disposals of the issuer's group entities, long-term investments, splits, restructuring or discontinuation of operations

In the reporting period, there were no material changes in the entity's structure including ones resulting from mergers, acquisitions or disposals of the issuer's group entities, long-term investments, splits, restructuring or discontinuation of operations, save for the following events:

On 13 February 2020 an entry of the merger of the companies: Grupa PEP-Projekty Energetyczne 1 sp. z o.o. with Grupa PEP-Projekty Energetyczne 2 sp. z o.o. was made in the National Register of Entrepreneurs (KRS).

On 17 February 2020 the company Polenergia Ukraina LLC was entered into the Ukrainian State Register of Corporations EDRPOU.

On 2 June 2020 the company Encore sp. z o.o. was entered into the National Register of Entrepreneurs (KRS).

On 19 June 2020 the company Polenergia Farma Fotowoltaiczna 1 sp. z o.o. was entered into the National Register of Entrepreneurs (KRS).

On 8 July 2020 the company Polenergia Farma Fotowoltaiczna 3 sp. z o.o. was entered into the National Register of Entrepreneurs (KRS).

On 22 July 2020 the company Polenergia Farma Fotowoltaiczna 2 sp. z o.o. was entered into the National Register of Entrepreneurs (KRS).

5. Discussion of key financial and economic data contained in the half-year financial statements, in particular factors and events, including non-recurring ones, with a material effect on the issuer's operations and profits earned or losses incurred in the financial year, as well as discussion of development prospects at least during the next financial year

Key economic and financial data concerning the issuer's performance is presented in the table below:

Major economic and financial data (PLN m)	6M 2020	6M 2019	Difference
Sales revenues	822,0	1 304,2	(482,2)
EBITDA	147,7	127,9	19,9
Adjusted EBITDA with the elimination of the effect of purchase price allocation	147,7	127,9	19,9
Net profit (loss)	64,5	45,7	18,8
Adjusted net profit with the elimination of the effect of purchase price allocation, unrealized f/x differences, impairment losses, loas valuation and net gain/loss on disposal of assets	69,0	51,4	17,7

The year-on-year changes in H1 2020 performance were driven by the following factors:

a) On the level of EBITDA (increase by PLN 19.9 m):

- Better performance of the onshore wind power segment (by PLN 34.0m) resulting predominantly from higher production volume and higher prices of green certificates and electricity, partly offset by higher total balancing and profile costs;

- Better performance of the photovoltaics segment (by PLN 1.4m) which was distinguished by the Group as a separate item as of 2020 because of the commencement of the operating stage by 8 PV projects totaling 8 MW (Sulechów I) which secured auction offtake under the RES support auction scheme;
- Lower performance figure of the gas and clean fuels segment (by PLN 22.8m) resulting from no revenues from gas cost compensation (because of expiration of a long-term contract for the purchase of gas) and lower revenues from the stranded cost compensation (the compensation system coming to an end in May 2020);
- Better performance of the trading segment (by PLN 4.7 m) resulting mainly from higher profit on sales of electricity generated by the wind farms within the Group and higher profit on other contracts due to the own asset-based production hedge optimizing transactions and implementing the new strategy of the company, partly offset by lower result on the trading portfolio, higher operating and commission costs;
- Better performance of the distribution segment (by PLN 0.7m) due to a higher electricity sales margin (the effect of freezing the prices in 2019) and a higher distribution margin (the effect of the implementation of Investment Plan III);
- Better performance under the Unallocated item by PLN 2.0m, predominantly due to higher EBITDA on biomass operations (by 1.2m) and lower costs in the Group related, among others, to the intragroup loan conversion into equity (PLN 0.7m) recognized in 2019.

b) On the level of adjusted EBITDA (increase by PLN 19.9m):

- The EBITDA effect described above (better result by PLN 19.9m);

c) On the level of Net Profit (increase by PLN 18.8m):

- The EBITDA effect (better result by PLN 19.9m);
- Lower depreciation/amortization (by PLN 1.1m) resulting predominantly from the end of amortization of the asset from gas compensation and stranded costs recognized under the Purchase Price Allocation, lower depreciation in the gas and clean fuels segment (lower value of depreciable repairs and lower depreciation rate due to a longer depreciation period for repairs) partly offset by bringing fixed assets into use in the photovoltaics segment and by lease cost resulting from the change in disclosure according to IFRS16;
- The effect of impairment losses (better result by PLN 0.5m) resulting from lower impairment losses YOY in the onshore wind power segment and under the Unallocated item;

All the abovementioned factors contributed to the increase of the operating profit by PLN 21.5m.

- The difference in financial income (higher by PLN 0.3m) is attributable mainly to the measurement of financial instruments in the gas and clean fuels segment (PLN 0.7m) and the impact of f/x differences (PLN 0.3m), less the recognition of a one-off figure from 2019 on the winding-up of a subsidiary (PLN 0.7m) and lower interest gains (PLN 0.1m).
- Lower finance costs (by PLN 1.3m) result mainly from lower interest expense (PLN 1.7m) in view of the decreasing debt of the Group and the reduction of the debt service cost following the decisions of the Monetary Policy Council, partly offset by higher f/x difference cost.
- Higher income tax (by PLN 4.2 m) due to higher taxable income in 2020.

d) On the level of Adjusted Net Profit (increase by PLN 17.7m):

- Impact of net profit (better result by PLN 18.8m);
- Elimination of the purchase price allocation effect (minus PLN 0.6 m);
- Elimination of the effect of unrealized exchange differences (minus PLN 0.1m);
- Elimination of the effect of measurement of bank loans (PLN 0.1m);
- Reversal of the effect of impairment losses (minus PLN 0.5m).

6. Concise outline of significant achievements or failures of the issuer in the reporting period including a list of related major events

An outline of significant achievements or failures of the issuer in the reporting period including a list of related major events has been delivered in section 2 hereof.

7. Management Board's position on the feasibility of meeting the previously published forecasts for a given year in light of the results presented in the half-year report

The Company publishes no financial performance forecasts.

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

Compared to the risks described in the Directors' Report on the operations of the Polenergia Group in the year ended 31 December 2019, the Group's risk exposures have not changed significantly, except for the following changes and updates:

<u>Risk of foreign exchange rate fluctuation</u>

As at the date of this report, the Group was not a party to any significant sale contracts providing for payments in foreign currencies.

In the onshore wind power segment that includes also projects in development and construction phase, part of the liabilities is denominated in Euro. This is true mainly of the investment payables in the companies Polenergia Farma Wiatrowa Szymankowo sp. z o.o. and Polenergia Farma Wiatrowa 3 sp. z o.o. that implement the Szymankowo and Dębsk projects. The currency risk in the projects will be hedged in the financial market prior to making the investment loan available. The Group monitors the currency market on an ongoing basis and settles positions at the most favorable exchange rates.

Moreover, Polenergia Obrót is exposed to currency risk on account of its electricity trading on foreign markets and participation in the CO_2 emission allowance market. The company's exposure to currency risk is largely mitigated by means of natural hedging, as sales revenue and corresponding costs of purchase, as well as receivables and liabilities, are all generated in foreign currencies. Whenever Polenergia Obrót concludes any substantial transactions, foreign exchange hedging transactions are also concluded. Risk management issues in Polenergia Obrót are governed by the company's Risk Management Policy, in accordance with the rules prescribed by such document.

Companies of the Polenergia Group do not hedge against non-monetary differences resulting from the fair value measurement of their non-monetary assets and liabilities denominated in foreign currencies as at the reporting date. Sensitivity of the Group's profit/loss before tax (due to changes in the fair value of monetary assets and liabilities), estimated by the Management Board, has no material impact on the result.

Interest rate risk

The proportion of debt in the group's financing structure is substantial. In line with the Polenergia Group's strategy of maximizing its return on equity, more than 50% of the costs of projects pursued by the Group were financed with debt. In accordance with the loan agreements entered into by individual Group companies, interest on loans provided to them is based on variable rates. Any significant increase in market interest rates above the values forecast by the Polenergia Group and factored into its project budgets may have an adverse impact on the Group's financial performance. The Polenergia Group is aware of the existence of that risk and takes measures to mitigate it and to prevent its potential adverse consequences by constantly monitoring the situation on the money market and effectively managing its finances.

On 19 June 2015, the subsidiary Polenergia Farma Wiatrowa Mycielin Sp. z o.o. and Alior Bank S.A. executed a transaction to hedge interest rate risk. Such instrument has hedged 60% of interest-related cash flows and took effect in Q2 2016. On top of that, on 30 April 2020 the company made a decision about increasing its interest rate swap up to the level corresponding to 90% by concluding another IRS transaction.

On 18 March 2020, the companies Dipol Sp. z o.o and Polenergia Farma Wiatrowa 23 Sp. z o.o. hedged 95% of the interest rate risk. The respective IRS transactions were executed with mBank.

On 19 May 2020 the company Polenergia Farma Wiatrowa 17 Sp. z o.o. concluded an interest rate swap transaction with ING Bank Śląski S.A. corresponding to 95% of the interest rate risk

On 30 June 2020 the company Polenergia Farma Wiatrowa 4 sp. z o.o. executed an IRS transaction with BOŚ Bank hedging 80% of the interest rate risk

When launching the financing of new projects, i.e. the Szymankowo and Dębsk wind farm projects, transactions to hedge interest rate change risk will be concluded corresponding to at least 75% of the loan value.

At the same time, the Group monitors market interest rates on an ongoing basis and may hedge against interest rate fluctuation in order to reduce the costs of servicing its financial liabilities under other projects, provided that such solution guarantees the expected return on its investment projects.

Sensitivity of the Group's profit/loss before tax, estimated by Polenergia, (due to changes in the fair value of monetary assets and liabilities) to interest rate fluctuation, all other factors being equal, is presented in Note 40 to the Consolidated Financial Statements.

Risk of volatility of electricity market prices

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

The Group also performs trading in electricity on the wholesale market. The performance on such operations depends on trends in electricity market prices and the structure of open positions on the market. Ongoing risk control is kept for this type of business, including granting risk mandates for individual products and portfolios, as well as risk exposure checks using VaR methodology.

Electricity price volatility has indirect impact on the cost of securing the production profile of electricity by the Group's wind farms (hereinafter the Profile cost). The risk of volatility of profile costs remains outside the Group's control to a large extent, such risk may have a material effect on the results obtained by the Group.

At the same time, support granted under the auction-based scheme will protect the producer against market risk for 15 years, also with respect to electricity prices. The support solely applies to the auction awarded Group projects.

As of 2021 a number of rules governing the operation of the Polish balancing market will change, potentially evoking risks of increased price volatility on the current market and changes in attitude of the market participants with respect to preparation of offers in the electricity wholesale market. This is a system-related risk that all participants of the electrical energy market in Poland must face.

The onshore wind power segment remains largely immune to the current volatility of electricity prices throughout 2020 and 2021 given the fact that for the large portion of the portfolio the energy sales prices this year and next year have been hedged on the forward market. Should the drop in energy prices continue for a long time and result in a forward contract quotes reduction, the potential of the financial performance of the segment in subsequent years may be limited.

Risk of volatility in market prices of green certificates

The Group's financial performance depends, without limitation, on the level of market prices of green certificates. The Group keeps monitoring the green certificate market, making decisions to secure a customer base for green certificates generated by the wind power segment on an ongoing basis, while making the most of the available option to conclude transactions in the bilateral contract market and in the stock exchange market segment.

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

The Act of 19 July 2019 amending the Renewable Energy Sources Act and certain other acts (PL OJ 2019, item 1524), made no modifications to the method of calculating the emission charge. The Act imposes the obligation to redeem the certificates of origin for electricity produced from agricultural biogas for 2020 which stayed at the level of 0.50% of the sales volume of electricity to end customers, whereas in the case of certificates of energy originating from other RES, the threshold has been set at 19.5%, which is 1 p.p. more than in 2019.

Excessive supply of green certificates continues on the market, with a potential adverse impact on the market prices.

As at the day of this report, the bill concerning the change of the quantitative share of the sum of electrical energy generated from redeemed certificates of origin confirming generation of electricity from renewable energy sources in 2021 was in its consultation phase. The bill made no changes to the levels of obligatory percentages, leaving them at 19.5% for green certificates and 0.5% for blue certificates.

Potential reduction of the level of requirements in the following years to the extent greater than the decline in supply of the certificates due to the end of the support for the oldest projects may result in a drop of prices of green certificates and a failure to meet financial ratios referred to in loan agreements for the financing of individual wind power projects. A long-term decline in the prices of green certificates could periodically impair the ability to meet the obligations under certain loan agreements, while in certain projects it may also necessitate drawing on guarantees provided by

Polenergia S.A. The Group curbs its exposure to the risk of green certificates price drop on an ongoing basis by way of early hedging the sale of certificates covering energy generation in subsequent years.

Risk concerning RES auctions

Under the new RES (auction-based) support scheme, to receive support for energy generation from RES a producer will have to win an auction, the results of which will also determine the extent of the support. As a consequence, there exists a risk of obtaining no support for wind farm and photovoltaic farm projects implemented by the Group. On the other hand, support granted under the auction-based scheme will protect the producer against market risk for 15 years. The entry into force of the amended renewable energy sources Act paves the way to launch successive auctions.

As notified by the Minister of Energy, auctions are planned to be launched in 2020 for the purchase of electricity from wind farms and photovoltaic farms. Subsidiaries developing the Piekło wind farm project with the capacity of 13.2 MW do not exclude participation of the project in a forthcoming auction. Further wind power projects with the capacity of ca. 82 MW are still in development phase.

The Group is also planning to prepare three photovoltaic project packages of the total capacity of ca. 27 MW to participate in the forthcoming auction. Further projects of the capacity of ca. 238 MW are at their early stage of development. The photovoltaic projects under development, if unsuccessful in the auction, will be able to participate in the next year's auction without any risk of forfeiting their building permits.

Where a wind farm project or a PV farm project fails to secure auction offtake, further implementation of such project is revised, in particular for the possibility to supply electricity directly to end customer.

Risk related to unstable tax system

The fact that tax regulations lack an unambiguous interpretation may pose certain problems if such regulations change. An example may be the change of law implemented in the legal system in early 2018 concerning thin capitalization rules, as it remains unclear how the limit for the eligibility of treating the finance cost excess as tax deductible expenses should be determined. The Ministry of Finance issued interpretations and clarifications on that subject which are contradictory to the non-final judgments of the District-level Administrative Court (WSA). This issue will probably be resolved in 2020 by the Supreme Administrative Court (NSA).

As of early 2019 the criteria of using the general tax avoidance prevention clause regulations (GAAR) have changed, the obligation of reporting tax schemes and additional tax obligations (sanctions) were implemented. In addition, the obligatory mechanism of split payment for sensitive goods and service and bank account verification was implemented using the so-called White List of VAT payers. The introduced changes came as additional burden to operating, accounting and tax services, and the non-fulfillment of the new requirements would result in extensive adverse impact in terms of CIT and VAT. All the above changes were heavily criticized by the market, as the regulations are not clearly formulated, enabling interpretation by tax bodies to the detriment of taxpayers. The Ministry of Finance issues numerous and extensive tax clarifications concerning the regulations being introduced, however, due their complex nature, taxpayers have many doubts as to their practical implementation. As a result of such actions, taxpayers may be exposed to tax risks. In addition, having regard to the intensified involvement of funds originating from the public finance sector in the economy due to the epidemic threat, the Group is prepared to face increased audit activity of the revenue services.

Risk related to the necessity of meeting environmental requirements

The business operations of Polenergia S.A. and individual Group companies are subject to a number of environmental regulations. In particular, the Company and the Group may be required to obtain integrated permits or sectoral permits (or air emissions of gases and particulate matter or for generation of waste, as required under the water law) and to timely submit properly structured reports on their use of the environment or other matters. Ensuring compliance with environmental regulations may require expenditure to prepare the relevant documents and adjust the Group's installations to the applicable requirements. At the date of approval of this report, Polenergia S.A. and its subsidiaries obtained all relevant environmental permits.

Further, under the EU CO_2 Emissions Trading Scheme, participation permits had to be obtained for installations used in the course of the operations of Polenergia S.A. or any other Group companies.

Trade in emission allowances is an environmental policy instrument designed to reduce pollutant emissions. Both EU membership and the Kyoto protocol require Poland to participate in the Emissions Trading Scheme. The emissions trading scheme was launched on 1 January 2005 by virtue of Directive 2003/87/EC, transposed into Polish legislation by virtue of the Act on Trading in Allowances for Emissions of Greenhouse Gases and Other Substances of 22 December 2004. The current period - EU ETS 2013-2020 is governed by the Act on Trading in Allowances for Emissions of Greenhouse Gases of 12 June 2015.

Plants owned by the Polenergia Group:

a. EL Mercury (KPRU number: PL 0879 05) and
b. EC Nowa Sarzyna (KPRU number: PL 0472 05)

They are the combustion installations with a rated thermal input in excess of 20 MW participating in the EU Emissions Trading Scheme.

Ad a. In accordance with the derogation under Art. 10c of Directive 2003/87/EC, the Mercury Power Plant, as an electricity producer, was provisionally allocated 22,344 EUA ETS emission allowances (for 2013), with the allocation gradually decreasing to 0 EUA in 2020.

Under the Regulation of the Council of Ministers of 8 April 2014 listing electricity generating installations covered by the greenhouse gas emissions trading scheme in the trading period beginning on 1 January 2013, along with the number of allowances allocated to them, the EUA volumes allocated to the Mercury Power Plant (reduced by an adjustment factor) were as follows:

- 2013- 17,763
- 2014- 16,420
- 2015- 14,272
- 2016- 10,859
- 2017- 8,217
- 2018- 6,548
- 2019- 4,869
- 2020- 0

In view of the fact there are no Investments specified in the National Investment Plan, no free allowances were transferred to the operator's account.

Ad b. EC Nowa Sarzyna was allocated free emission allowances pursuant to Art. 10a and Art. 10c of Directive 2003/87/EC of the European Parliament and of the Council.

According to the Regulation of the Council of Ministers of 31 March 2014 listing installations other than those for electricity generation covered by the greenhouse gas emissions trading scheme in the trading period beginning on 1 January 2013, along with the number of allowances allocated to them, the volume of EUA allocated to the Nowa Sarzyna CHP Plant was as follows:

- 2013- 34,256

- 2014- 32,448
- 2015- 30,681
- 2016- 28,959
- 2017- 27,278
- 2018- 25,642
- 2019- 24,046
- 2020- 22,495

The emission allowance allotments are sent to the account of the operator based on a verified CO2 Emission Report for the preceding year.

According to the Regulation of the Council of Ministers of 8 April 2014 listing installations other than those for electricity generation covered by the greenhouse gas emissions trading scheme in the trading period beginning on 1 January 2013, along with the number of allowances allocated to them, the EUA volumes allocated to EC Nowa Sarzyna were as follows:

- 2013- 145,048
- 2014 - 134,082
- 2015 - 116,082
- 2016 - 88,676
- 2017 - 67,103
- 2018 - 53,468
- 2019 - 39,758
- 2020 - 0

In view of the fact there are no Investments specified in the National Investment Plan, no free allowances were transferred to the operator's account.

The installations listed above submit annual reports to the electronic National Database for Emissions of Greenhouse Gases and Other Substances and verified annual reports on CO2 emissions. As of 1 January 2013, all the installations are also subject to new CO2 emission monitoring plans, approved by competent authorities and compliant with the requirements of: Commission Regulation (EU) No. 601/2012 of 21 June 2012 on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council and Commission Regulation (EU) No. 600/2012 of 21 June 2012 on the verification of greenhouse gas emission reports and ton-kilometer reports and the accreditation of verifiers pursuant to Directive 2003/87/EC of the European Parliament and of the Council. Pursuant to the Act on Trading in Greenhouse Gas Emission Allowances of 12 June 2015 (effective as of September 2016), installations covered by the scheme are obligated to apply for emissions trading permits, which are to replace the existing permits and monitoring plans, within 12 months from the effective date of the Act. Both installations were granted new permits in 2016.

Since with the beginning of 2021 another payment period will commence, in May 2019 EC Nowa Sarzyna filed an application for an allotment of free-of-charge emission allowances for the years 2021 - 2025. Currently, the European Commission is in the process of verifying applications. Also, as required by the Act of 4 July 2019 on the Amendment of the Act on the System of Trading in Allowances for Greenhouse Gases Emission and certain other acts, EC Nowa Sarzyna requested and obtained (on 2 December 2019) approval of the greenhouse gases monitoring methodology plan.

Risk of new projects failing

The Polenergia Group has been pursuing a significant number of projects in the onshore wind power segment, offshore wind power segment, photovoltaics segment, gas and clean fuels segment and investments in distribution infrastructure development. Projects pursued by the Group require significant capital expenditure. Such expenditure is particularly high in case of development projects and construction of onshore and offshore wind farms. The Polenergia Group makes decisions to commence further development stage of a project on the basis of detailed financial models, technical analyses and expert reports prepared by its dedicated Group Development Department. Such analyses include a series of assumptions, related to power generation volume, revenue, production costs, required investment capital expenditures and costs of financing. There is a risk that Polenergia S.A. may adopt assumptions more favorable than actual conditions, which would cause the Polenergia Group to achieve a lower than expected return on investment in a given project. Moreover, the costs of preparing a project, even before launching its development stage, are also significant, especially in the offshore wind power segment. A project's failure would prevent the Group from recovering such costs.

The Group Development Department has extensive experience in all aspects of project preparation and implementation, such as development, plant operation and financing. The Group consistently improves its project management methods and is extremely careful in selecting the locations for wind farm and PV farm projects in order to minimize the risk of achieving unsatisfactory return on investment and the risk of incurring significant costs of project preparation without ascertaining the feasibility of the project.

Investment plans non-execution or delay risk

Non-execution or delay in the implementation of investment plans entails a risk of not reaching the assumed operational objectives within the defined time limit. This, in turn, would have an adverse impact on the Group's financial performance which would be worse than in case the project was completed as planned, and might lead to the failure to comply with the requirements set in the loan agreements.

Intending to meet the investment plans set forth, the Group takes steps to minimize such risk (such as, among others, precise planning and analyzing factors which may affect the achievement of objectives, ongoing monitoring of results and immediate response to any signals showing that the achievement of objectives could be at risk, as well as an insurance policy package). The Management Board is particularly diligent in preparing individual projects, working on each and every technological detail and ensuring appropriate financing.

In compliance with the Act on Wind Farm Projects amended on 29 August 2019, with reference to building permits concerning wind power plants and issued prior to the effective date of the abovementioned Act (16 July 2016) for which no operating permit was issued within 5 years of 16 July 2016, i.e. until 16 July 2021, a three years' period in which the investor is obliged to commence construction works should be counted from 16 July 2021.

The companies which develop three onshore wind farm projects with the total capacity of 186 MW were qualified in 2019 among producers whose offers won the auction. On 29 July 2020, the subsidiary Polenergia Farma Wiatrowa Szymankowo Sp. z o.o. entered into an agreement amending and restating the existing loan agreement under which an investment loan will be granted for the financing of construction of a wind farm. The investment loan cap has been increased up to PLN 171 million and the VAT loan up to PLN 27 million. The subsidiary Polenergia Farma Wiatrowa 3 Sp. z o.o. entered into a facilities agreement for the financing of construction of the Dębsk wind farm Construction of the Szymankowo and Dębsk wind farm projects has commenced. Commencement of construction works in the Kostomłoty wind farm project has been scheduled for Q1 2021.

On 29 June 2020 the President of the Energy Regulatory Office issued a decision concerning the company Polenergia Farma Wiatrowa 3 sp. z o.o. pursuing the Dębsk wind farm project, which provided for the extension of the time limit for the performance of the obligation referred to in Art. 79 sec. 3 item 8 letter A of the RES Act by another 12-month period, i.e. no later than by 5

September 2023, while the term referred to in Art. 74 sec. 1 of the RES Act was extended by another 12 months.

The Group does not exclude a possibility of requesting a decision that would extend the deadline for the sale of electricity generated by the plant to Polenergia Farma Wiatrowa Dębice/Kostomłoty sp. z o.o. pursuing the Kostomłoty wind farm project by 12 months.

Risk related to loan agreements

The existing loan agreements provide for a number of financial covenants which have to be met by individual projects, and the defaulting on which may result in acceleration and/or increased costs of financing.

The Group constantly monitors the debt ratios and the risk of default under loan agreements in individual companies, while remaining in constant touch with the financing institutions. Detailed information concerning the execution of new loan agreements and changes to the existing ones in 2020 are included in Note 21 to the Interim Condensed Consolidated Financial Statements.

On 21 July 2020 the company Polenergia Dystrybucja Sp. z o.o. obtained a waiver letter from ING Bank Śląski SA concerning the bank’s refraining from exercising its rights in light of the company's failure to meet the covenants for the nearest four quarters of the year under the existing loan agreement. Due to the COVID-19 outbreak, Polenergia Dystrybucja suffered serious drop in the volume of energy distributed which translated into lower financial performance than expected. In view of the above, the updated financial projections showed higher likelihood of breaching the covenants in subsequent periods under the existing loan agreement, which made the company apply to ING Bank Śląski SA for the waiver letter. Having received such waiver, the Company may safely continue performing its investment obligations. Still, it must be noted that there is no breach of covenants at the moment and that the projected breach was of a benchmarking nature only and would not affect the operations of the Company nor its ability to meet its obligations.

The Polenergia Biomasa Energetyczna Wschód project, due to the worsening market situation and expiration of a long term contract for pellet delivery, ceased to meet the debt service cover ratio in 2018. As a result, the breach of the loan agreement occurred, and the entire liability was disclosed in the balance sheet of the Polenergia Group under the Group’s short term liabilities. The Company is regularly in touch with the lender and took up negotiations which resulted in the execution of an Annex to the loan agreement and modification of the repayment schedule so as to enable ongoing debt service. The Company runs its business based on the contracts for the delivery of pellets entered into with Enea Elektrownia Połaniec and Energa Elektrownie Ostrołęka. The revenues from operational activity enable the ongoing debt service under the loan agreement.

Given the Group's decision to withdraw from the biomass segment, the search for a potential investor is in progress.

Risk related to financial standing of customers and contractors

In the area of industrial energy generation outsourcing, the Polenergia Group generates revenue based on long-term power and heat supply agreements concluded with one or several customers. The financial standing of customers and their ability to meet their liabilities towards companies of the Polenergia Group is, therefore, of key significance for the success of the projects, the financial performance and financial standing of the Polenergia Group. Also, a sudden drop in energy consumption by a customer may affect energy production efficiency.

Prior to signing a contract and launching a project, Polenergia S.A. thoroughly verifies its potential customers, also with the support of external consultants, checking their ability to meet their liabilities towards Polenergia S.A., and prospects for the industries they operate in. The Polenergia Group is very careful in selecting customers, making sure they represent industries with good market prospects. The Company analyses in detail a prospective customer's industrial processes, as well as its power and heat demand. Both parties work together for several months before the launch of a project.

With the rising likelihood of the financial standing of certain companies deteriorating and in view of the ban on payment collection-related power cuts for the duration of the COVID-19 outbreak, the Group has identified a risk of increased level of bad debt in the distribution segment. The abovementioned risk was incorporated into the credit risk assessment model and resulted in the increased bad debt write-off of PLN 233k in Q1 2020. In Q2 the company Polenergia Dystrybucja identified a slight increase of delayed payments. The growing trend was manifest, in the first place, in payments overdue between 1 and 30 days.

In addition, the company Polenergia Dystrybucja launched a daily monitoring system of receivables and has been in constant touch with its largest customers. On the other hand, no information has yet been received by the company about any delay in implementation of the projects included in the investment portfolio. In view of the current situation, an impairment test was performed with respect to the assets and goodwill in the distribution segment, which showed no need to adjust the value thereof.

In addition, in the trading segment, as a result of the COVID-19 outbreak, high trading business risk persists. This is driven, among others, by increased price volatility, lower liquidity on the markets and increased risk of counterparty insolvency. The abovementioned risk factors may also affect liquidity by increasing the requirements concerning the security deposits and the bad debt level. Responding to the of increased risk, the Company intensified the ongoing monitoring and analytical activities in this area with a more stringent approach to customer verification applied when entering into new transactions.

<u>Risk related to the dispute with Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. and Tauron Polska Energia S.A.</u>

The Company's subsidiaries – Amon Sp. z o.o. and Talia Sp. z o.o., each of them acting individually, brought court actions to declare invalid the termination notices issued by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. (the company operating in the Tauron Group) of the Agreements on Sale of Property Rights Incorporated in Certificates of Origin for Electricity Generated in a Renewable Energy Source − wind farms located in Łukaszów (Amon) and Modlikowice (Talia) and the Agreements on Sale of Electricity Generated in the above-mentioned wind farms.

Subsequently, Amon Sp. z o.o. and Talia Sp. z o.o. modified their actions in that they raised a new claim, in addition to the original claim for determination, by demanding compensation for non-performance or improper performance of the abovementioned Contracts and further expanded such claim to include consecutive periods of non-performance of said contracts by Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. (hereinafter referred to as "PKH").

In consequence, Amon Sp. z o.o. currently claims payment of PLN 69,487k, with Talia Sp. z o.o. claiming PLN 46,078k.

On 25 July 2019 the preliminary and partial decision issued by the District Court in Gdańsk, allowing the claim by Amon in the part on declaring ineffectiveness of the statement by PKH on terminating the contracts for the sale of energy and property rights, and on 6 March 2020 the District Court in Gdańsk, with a partial and preliminary judgment, granted the claim of Talia in exactly the same part.

Thus, said termination notices have no legal effect of terminating both contracts, which consequently, after the expiry of the termination period, i.e. following 30 April 2015 shall remain in full force with respect to all their provisions and shall be binding upon parties. The Court also determined that in principle the claims for damages raised by Amon against PKH on account of non-performance by PKH of the Contracts for the Sale of Proprietary Interest were justified. On 7 February 2020 Polenergia S.A. acknowledged the filing of an appeal by PKH against the judgment of the District Court in Gdańsk dated 25 July 2019.

The risk related to a potential dismissal of the actions filed by Amon Sp. z o.o. and Talia Sp. z o.o. consists in preventing compensation from PKH from being obtained, or in case of a partial dismissal of actions, in obtaining compensation in the amount lower than assumed.

In late April 2018, Amon Sp. z o.o. and Talia Sp. z o.o. brought an action against Tauron Polska Energia S.A. for premature termination of long-term contracts for the 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 claims payment of PLN 47,556,025.51 as compensation with interest and litigation cost, and demands that liability of Tauron be determined for future damages estimated at more than PLN 158m, hence the amount of the claim of Amon exceeds PLN 205m.

Talia claims payment of PLN 31,299,188.52 as compensation with interest and litigation cost, and demands that liability of Tauron be determined for future damages estimated at slightly less than PLN 107m, hence the amount of the claim of Talia exceeds PLN 138m.

The risk related to a potential dismissal of the actions filed by Amon Sp. z o.o. and Talia Sp. z o.o. consists in preventing compensation from Tauron Polska Energia S.A. from being obtained, or in case of a partial dismissal of actions, in obtaining compensation in the amount lower than assumed.

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

The company Eolos Polska Sp. z o.o. filed a claim for payment, jointly and severally, by the Company subsidiaries: Certyfikaty Sp. z o.o., Polenergia Obrót S.A. and Polenergia Usługi Sp. z o.o., of liquidated damages on account of termination of the contracts for the sale of property rights incorporated in certificates of origin of electricity generated in renewable energy sources and the payment of receivables on account of balancing costs in the total amount of PLN 27,895,009. The claimant specifies in its statement of claim that the claim amount may be higher in view of the fact that in subsequent years liquidated damages pursued will be increased. The Companies denied the claim in its entirety. Moreover, Polenergia Obrót S.A. maintains that the allegation of its joint and several responsibility for liabilities of Certyfikaty Sp. z o.o. is groundless.

On 27 September and 13 December 2019 two hearings were held before the District Court in Warsaw and witnesses were heard in the action brought by Eolos Sp. z o.o, The hearing scheduled for 8 April 2020 did not take place and no new date of hearing has been scheduled.

Counterparty risk

On 2 January 2020 Polenergia Biomasa Energetyczna Północ Sp. z o.o. reached another settlement following the mediation, whereby the contracting party paid PLN 150k. The above amount of receivables is not reflected in the company's balance sheet.

In December 2019 the Company's subsidiary, Polenergia Elektrownia Północ Sp. z o.o., filed an action in the District Court in Gdańsk for the payment of PLN 500k of liquidated damages.

On 8 March 2019 the District Court in Warsaw granted the action by Nationale Nederlanden PTE SA to state invalidity of part of Resolution No.2 of the Extraordinary General Meeting of Shareholders of the Company dated 13 July 2018. i.e. in the scope of amending article 10.2 item (a) of the Statutes made in item 4) of the a/m resolution. The Company filed an appeal against said judgment requesting that it be set aside and pointing out to the breach of substantive and procedural law. During the hearing on 28 January 2020 the Court of Appeals dismissed the appeal filed by Polenergia S.A. The judgment is final and binding.

Risk related to application of hedge accounting to cash flow hedges

As at 30 June 2020, the Group held the following interest rate hedging instruments for cash flow hedge accounting purposes:

Date of maturity of hedging instrument	Hedge value in kPLN	Interest rate hedged	Instrument
15.06.2021	110 691,60	3,0700%	IRS
15.12.2027	32 861,52	0,7450%	IRS
26.02.2027	4 585,75	1,2500%	IRS
26.02.2027	19 137,12	1,2500%	IRS
30.06.2034	14 414,03	0,8900%	IRS
29.03.2028	167 382,50	0,7900%	IRS

The fair value of the hedging instrument as at the reporting date was PLN 1,308k, disclosed under long term liabilities.

The purpose of the hedging transactions is to mitigate the effect of interest rate movements on future, highly probable credit instalment payments.

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 recognized. The result on a hedging transaction will be taken to profit or loss on exercise of the hedge.

As at 30 June 2020 the Group recognized under other comprehensive income being part of equity minus PLN 3,522k (30 June 2019: PLN 411k) from effective measurement of the hedging instrument at fair value.

9. Number of the Issuer's shares or rights to such shares held by the members of management and supervisory bodies as at the date of submission of the half-year report, with information on any changes in such possession in the period since the submission of the previous report

Mansa Investments Sp. z o.o. which is the majority shareholder to Polenergia S.A. is indirectly controlled by Ms. Dominika Kulczyk, Chairwoman of the Supervisory Board of Polenergia S.A.

10. Identification of shareholders holding, directly or indirectly through subsidiaries, at least 5 % of the total number of votes at the general meeting of shareholders of the Issuer, including the specification of the number of shares held by such entities, their percentage share in the share capital, number of votes attaching to them and their percentage share in the total number of votes at the general meeting, as well as identification of changes in the ownership structure of substantial share interests of the Issuer in the period since the delivery of the most recent past quarterly report:

For information on the Issuer's shareholding structure, see Note 16 to the Interim Condensed Consolidated Financial Statements of the Polenergia Group S.A..

11. Identification of proceedings before a court, an arbitral tribunal or public administration body with respect to liabilities or receivables of the issuer or an Issuer's subsidiary

Litigation between Amon Sp. z o.o. and Talia Sp. z o.o. versus Tauron Polska Energia S.A. and Tauron's subsidiary – Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. is pending. Detailed information has been provided in sec. 8 “Risk related to the dispute with Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. and Tauron Polska Energia S.A.”

Information on the case instituted by Eolos Polska Sp. z o.o. against the subsidiaries Certyfikaty Sp. z o.o. and Polenergia Obrót S.A. and Polenergia Usługi Sp. z o.o has been provided in sec. 8 “Risk related to the dispute with Eolos Polska Sp. z o.o.”

Other disputes with counterparties have been covered in sec. 8 “Counterparty risk”.

12. Information on one or more transactions concluded by the Issuer or its subsidiary with related parties, where such transaction is, or all such transactions jointly are, material and were not concluded at arm’s length terms, excluding transactions concluded with a related party by an issuer which is a fund, and identification of the value of such transactions; information about individual transactions can be grouped by type, except where information on individual transactions is necessary to understand their impact on the Issuer’s assets, financial position and profit or loss

For the Issuer’s related-party transactions, see Note 32 to the Interim Condensed Consolidated Financial Statements.

13. Information on any sureties issued by the Issuer or any subsidiary with respect to a loan or a borrowing or any guarantee issued jointly to a single entity or a subsidiary

For information on loan or borrowing sureties or guarantees issued by the Issuer or the Issuer’s subsidiary - jointly to a single entity or a subsidiary, see Note 22 to the Interim Condensed Consolidated Financial Statements.

14. Other information that, in the Issuer’s opinion, is important in the evaluation of its personnel, property and financial situation, as well as in the assessment of its financial performance and changes thereof and information that is important for the assessment of the Issuer’s ability to perform its obligations.

In the Issuer’s opinion, other than the information disclosed in its Prospectus, as well as Current and Periodic reports, there is no information that would be material to the assessment of the Issuer’s ability to fulfil its obligations.

15. Identification of factors that, in the opinion of the Issuer, will impact its performance in the perspective of at least one quarter

The Company believes that, in the perspective of successive quarters, significant impact on its performance (consolidated and standalone) will be exerted by the following factors:

- macroeconomic situation of Poland,
- final wording of the regulations affecting the Issuer’s business,
- prices of electricity and green certificates,
- windiness levels on locations of the wind farms in: Puck, Łukaszów, Modlikowice, Rajgród, Gawłowice, Skurpie, Mycielin and Krzęcin,
- solar exposure levels on location of the Sulechów PV farm,
- potential price volatility of CO_2 emission allowances, natural gas, biomass and availability of those raw materials,

- financial standing of the Company's customers,
- availability of project financing,
- EUR/PLN exchange rate and WIBOR rate level.