Polenergia Group

CONSOLIDATED QUARTERLY REPORT

FOR Q1 2016

Jacek Głowacki – Vice-President of the Management Board	*Bartłomiej Dujczyński – Member of the Management Board*

Warsaw, May 11th 2016

Table of contents

A. INTRODUCTION TO THE CONSOLIDATED QUARTERLY REPORT 4
1. Combined statement of profit or loss for the first quarter ended March 31st 2016 5
2. The Group's organisational structure 8
3. The Group's development strategy 9
B. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31ST 2016 10
1. Policies applied in the preparation of the interim condensed consolidated financial statements 17
1.1 Duration of the Company and other Group companies 17
1.2 Periods covered by the interim condensed consolidated financial statements 17
1.3 Authorisation of the financial statements 17
1.4 Policies applied in the preparation of the financial statements 17
2. Operating segments 18
3. Other notes 21
3.1 Revenue 21
3.2 Revenue from certificates of origin 21
3.3 Expenses, by nature of expense 21
3.4 Other income 22
3.5 Other expenses 22
3.6 Finance income 22
3.7 Finance costs 23
3.8 Cash flows 23
3.9 Goodwill 24
4. Notes explaining seasonal or cyclic nature of the issuer's operations in the reporting period 24
5. Interest-bearing borrowings 24
6. Changes in accounting estimates 25
7. Issue, redemption and repayment of debt and equity securities 26
8. Dividend paid or declared- aggregate and per share amounts, separately for ordinary and preference shares 26
9. Changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year 27
10. Proceedings pending before common courts of law, arbitration courts or public administration authorities, including the following information: 27
11. Significant related-party transactions 28
12. Loan sureties or guarantees issued by the issuer or its subsidiary where the aggregate value of such outstanding sureties and guarantees issued to a single entity or its subsidiary represents 10% or more of the issuer's equity 28
13. Other information the issuer considered material to the assessment of its human resources, assets, financial standing and financial performance, and changes in any of the foregoing, as well as information material to the assessment of the issuer's ability to fulfil its obligations 28

14. Factors which in the issuer's opinion will affect its performance over at least the next quarter 29
15. Objectives and policies of financial risk management 29
15.1 Interest rate risk 29
15.2 Currency risk 30
15.3 Credit risk 30
15.4 Liquidity risk 31
16. Capital management 31
17. Events subsequent to the date as at which these interim condensed financial statements were prepared, which have not been presented in the statements but may have a material bearing on future financial performance 32
C. OTHER INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT 33
1. Discussion of key financial and economic data contained in the interim financial statements, in particular factors and events, including non-recurring ones, with a material effect on the Issuer's operations and profits earned or losses incurred in the fiancial year; discussion of development prospects in a period covering at least the next financial year. 34
2. Brief description of significant achievements or failures in the reporting period, including identification of key events 36
3. Management Board's position on the feasibility of meeting any previously published forecasts for a given year in light of the results presented in the quarterly report 38
4. Factors and events, especially of non-recurring nature, with a material bearing on financial performance 39
5. Shareholders holding, directly or indirectly through subsidiaries, 5% or more of total voting rights at the General Meeting of the issuer as at the date of issue of the quarterly report, including information on the number of shares held by those shareholders, their interests in the share capital, the resulting number of votes at the General Meeting and their share in total voting rights at the General Meeting, and any changes in the ownership structure of major holdings of the issuer shares after the issue of the previous quarterly report 39
6. Effects of changes in the Group's structure, including changes resulting from mergers, acquisitions or disposals of Group entities, long-term investments, demergers, restructuring or discontinuation of operations 39
7. General information 39
8. Composition of the Parent's Management and Supervisory Boards 40
9. Legal environment 41
9.1 Introduction 41
9.2 Key regulations applicable to the mining sector 41
9.3 Ownership of infrastructure for transmission or distribution of electricity 48
9.4 Transmission easement 49
9.5 Transmission corridors 49
9.6 Environmental protection 49
D. QUARTERLY FINANCIAL INFORMATION OF POLENERGIA S.A. 55

A. INTRODUCTION TO THE CONSOLIDATED QUARTERLY REPORT

1. Combined statement of profit or loss for the first quarter ended March 31st 2016

Presented below is the combined statement of profit or loss for Q1 2016.

In Q1 2016, the Polenergia Group generated an adjusted EBITDA of PLN 87.1m and net profit of PLN 38.6m, up by PLN 21.7m (33%) and PLN 10.0m (35%), respectively, on the corresponding period of the previous year.

Polenergia Group's performance (PLNm)	Q1 2016	Q1 2015	Change y/y	Change y/y [%]
Revenue	**698.8**	**650.2**	**48.5**	
Revenue from certificates of origin	23.7	27.5	(3.8)	
Revenue	722.5	677.8	44.7	
including trading segment	538.2	490.8	47.4	
Cost of sales	(653.6)	(625.6)	(28.0)	
including trading segment	(529.2)	(487.0)	(42.2)	
Gross profit	**68.9**	**52.2**	**16.7**	**32%**
Other income	1.4	1.2	0.2	
Administrative expenses	(8.7)	(8.0)	(0.6)	
Other expenses	(0.6)	(1.4)	0.8	
Operating profit	**61.1**	**43.9**	**17.1**	
Depreciation and amortisation	26.7	20.8	6.0	
EBITDA	**87.8**	**64.7**	**23.1**	**36%**
Elimination of purchase price allocation effect	(0.7)	0.6	(1.3)	
Cost of corporate financing	-	0.1	(0.1)	
Adjusted EBITDA*	**87.1**	**65.4**	**21.7**	**33%**
Finance income	1.2	4.2	(3.0)	
Finance costs	(14.4)	(11.7)	(2.6)	
Profit (loss) before tax	**47.9**	**36.4**	**11.5**	
Income tax	(11.5)	(9.8)	(1.7)	
Net profit (loss)	**36.4**	**26.6**	**9.8**	**37%**
Elimination of purchase price allocation effect	1.5	2.5	(1.0)	
Elimination of unrealised exchange differences effect	0.2	(1.2)	1.4	
Elimination of the effect of loan valuation using the AMC method	0.4	0.5	(0.1)	
Cost of corporate financing	-	0.1	(0.1)	
Adjusted net profit*	**38.6**	**28.6**	**10.0**	**35%**
Adjusted EBITDA (excluding trading segment)	**80.5**	**65.4**	**15.1**	
Adjusted EBITDA margin (excluding trading segment)	**43.7%**	**35.0%**	**8.7%**	

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

EBITDA of the wind power segment improved (up PLN 3.4m), mainly as a result of recognition of the result of the Mycielin and Skurpie wind farms (48 MW and 43.7 MW, respectively), which did not operate in the corresponding period of 2015.

However, the segment's performance was adversely affected by the prices of green certificates, which fell year on year. Also, compared with the same period of the previous year, the Amon and Talia projects posted poorer results following the non-performance of green certificates' purchase agreements by Polska Kompania Handlowa (in Q1 2015, the agreements were performed and certificates were sold at contractual prices, which were higher than market prices).

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The conventional power generation segment performed in line with expectations, having improved its result relative to the corresponding period of the previous year (up PLN 10.8m) following a revision (made in Q1 2016) of the forecast prices of electricity, gas and CO_2 in 2016-2020, which triggered a change in the allocation of stranded costs compensation income in the entire period of the compensation scheme: 2008-2020.

In accordance with the Accounting Policy of Elektrociepłownia Nowa Sarzyna, the change in the allocation of stranded costs relating to prior years (2008-2015) is recognised in the current period, leading to the relatively high operating result in Q1 2016.

In Q1 2016, the distribution segment’s result improved significantly year on year, chiefly due to a reversal of provisions for settlements with a trading partner.

The trading segment’s EBITDA grew in the first three months of 2016 by PLN 5.2m year on year, chiefly on the back of high profitability of gas supply contracts and an improved result on the certificates portfolio.

In the biomass segment, EBITDA remained relatively unchanged year on year.

An analysis of performance data as at the end of Q1 2016 shows a significant increase in profitability (at the EBITDA margin level). As a result of the developments described above, the adjusted EBITDA margin (excluding trading operations, which are characterised by minimum unit margins and very high transaction volumes, accounting for nearly 75% of the Group’s revenue in the first three months of 2016) grew by close to 9pps in the reporting period, from 35.0% to 43.7%, chiefly driven by the cogeneration segment’s performance.

The lower net finance income is attributable to higher interest expense, partly related to the launch of new projects, partly offset due to lower interest rates and lower debt balance on other projects.

Given that the adjusted EBITDA for the last twelve months (from April 1st 2015 to March 31st 2016) was PLN 244.6m, and the Group’s net debt as at March 31st 2016 amounted to PLN 794.5m, the net debt/EBITDA ratio stood at 3.25x. As at the end of the previous year, the ratio was 3.52x (with EBITDA and net debt at PLN 222.9m and PLN 785.8m).

The ratio has buoyed above 3x due to execution of further wind-farm projects (financed to a significant extent with debt), whose contribution to EBITDA will be fully reflected at the end of 2016. It is still the Group’s intention to maintain the ratio below 3x in the medium term.

On April 28th 2016, the Supervisory Board of Polenergia S.A. (“Polenergia”) accepted Mr Zbigniew Prokopowicz’s resignation from the position of President of the Management Board and Ms Anna Kwarcińska’s and Mr Michał Kozłowski’s resignations from the position of Vice-Presidents of the Management Board. The Supervisory Board delegated Mr Jacek Głowacki, previous Senior Vice-President of the Company’s Management Board, to manage the work of the Management Board. Mr Bartłomiej Dujczyński, previous Head of Corporate Finance, became a member of the Management Board. The duties of Mr Michał Kozłowski in the area of wind power project development were taken over by Mr Michał Michalski, who has been with the Polenergia Group since 2011.

Presented on the next page is a breakdown of the Group’s combined performance in Q1 2016 by operating segments.

First three months of 2016 (PLNm)	Conventional energy	Development	Biomass	Wind power	Distribution	Trade	Unallocated management costs	Purchase price allocation	TOTAL
Revenue	83.6	0.0	14.6	53.3	31.3	538.2	0.9	0.7	722.5
Operating expenses	(53.2)	(0.2)	(12.8)	(27.2)	(24.1)	(529.2)	(2.6)	(2.5)	(651.7)
incl. depreciation and amortisation	(4.9)		(1.0)	(16.8)	(1.1)	(0.0)	(0.4)	(2.5)	(26.7)
Gross profit	**30.4**	**(0.2)**	**1.9**	**26.1**	**7.2**	**9.0**	**(1.7)**	**(1.9)**	**70.8**
Administrative expenses	(1.7)	(0.2)	(0.3)	(1.6)	(1.1)	(2.5)	(1.3)		(8.7)
Net other income/expenses	(0.4)	(0.0)	0.0	1.0	0.0	0.1	(1.8)		(1.0)
Operating profit	**28.3**	**(0.4)**	**1.6**	**25.5**	**6.2**	**6.6**	**(4.8)**	**(1.9)**	**61.1**
EBITDA	**33.2**	**(0.4)**	**2.6**	**42.3**	**7.2**	**6.6**	**(4.4)**	**0.7**	**87.8**
Elimination of costs of financing									
Elimination of purchase price allocation effect								(0.7)	(0.7)
Adjusted EBITDA	**33.2**	**(0.4)**	**2.6**	**42.3**	**7.2**	**6.6**	**(4.4)**		**87.1**
Net finance income	(1.9)	(0.0)	(0.3)	(11.2)	(0.3)	(0.4)	0.9		(13.2)
Profit (loss) before tax	**26.4**	**(0.5)**	**1.3**	**14.4**	**5.8**	**6.2**	**(3.9)**	**(1.9)**	**47.9**
Income tax									(11.5)
Net profit (loss) for period									36.4
Elimination of purchase price allocation effect									1.5
Elimination of discount income effect									
Elimination of the effect of loan valuation using the AMC method									0.4
Elimination of costs of financing									
Adjusted net profit									38.6

First three months of 2015 (PLNm)	Conventional energy	Development	Biomass	Wind power	Distribution	Trade	Unallocated management costs	Purchase price allocation	TOTAL
Revenue	87.6	0.3	16.3	44.4	38.4	490.8	(0.0)	-	677.8
Operating expenses	(67.6)	(0.6)	(14.6)	(17.8)	(33.8)	(487.0)	(1.1)	(3.1)	(625.6)
incl. depreciation and amortisation	(4.6)	-	(1.0)	(11.3)	(1.0)	(0.0)	(0.3)	(2.5)	(20.8)
Gross profit	**20.0**	**(0.3)**	**1.7**	**26.7**	**4.6**	**3.7**	**(1.1)**	**(3.1)**	**52.2**
Administrative expenses	(1.8)	(0.1)	(0.2)	(0.3)	(1.0)	(2.3)	(2.2)	-	(8.0)
Net other income/expenses	(0.4)	(0.2)	0.2	1.3	(0.6)	(0.0)	(0.5)	-	(0.2)
Operating profit	**17.8**	**(0.6)**	**1.7**	**27.6**	**3.0**	**1.4**	**(3.8)**	**(3.1)**	**43.9**
EBITDA	**22.4**	**(0.6)**	**2.7**	**38.9**	**4.0**	**1.4**	**(3.5)**	**(0.6)**	**64.7**
Elimination of costs of financing							0.1		0.1
Elimination of purchase price allocation effect								0.6	0.6
Adjusted EBITDA	**22.4**	**(0.6)**	**(2.7)**	**(38.9)**	**4.0**	**1.4**	**(3.4)**	**-**	**65.4**
Net finance income	(2.4)	0.1	(0.3)	(5.7)	(0.5)	(0.4)	1.7	-	(7.5)
Profit (loss) before tax	**15.4**	**(0.5)**	**1.4**	**22.0**	**2.5**	**0.9**	**(2.1)**	**(3.1)**	**36.4**
Income tax									(9.8)
Net profit (loss) for period									26.6
Elimination of purchase price allocation effect									2.5
Elimination of discount income effect									(1.2)
Elimination of the effect of loan valuation using the AMC method									0.5
Elimination of costs of financing									0.1
Adjusted net profit									28.6
Adjusted EBITDA yoy	10.8	0.2	(0.1)	3.4	3.2	5.2	(1.0)	-	21.7

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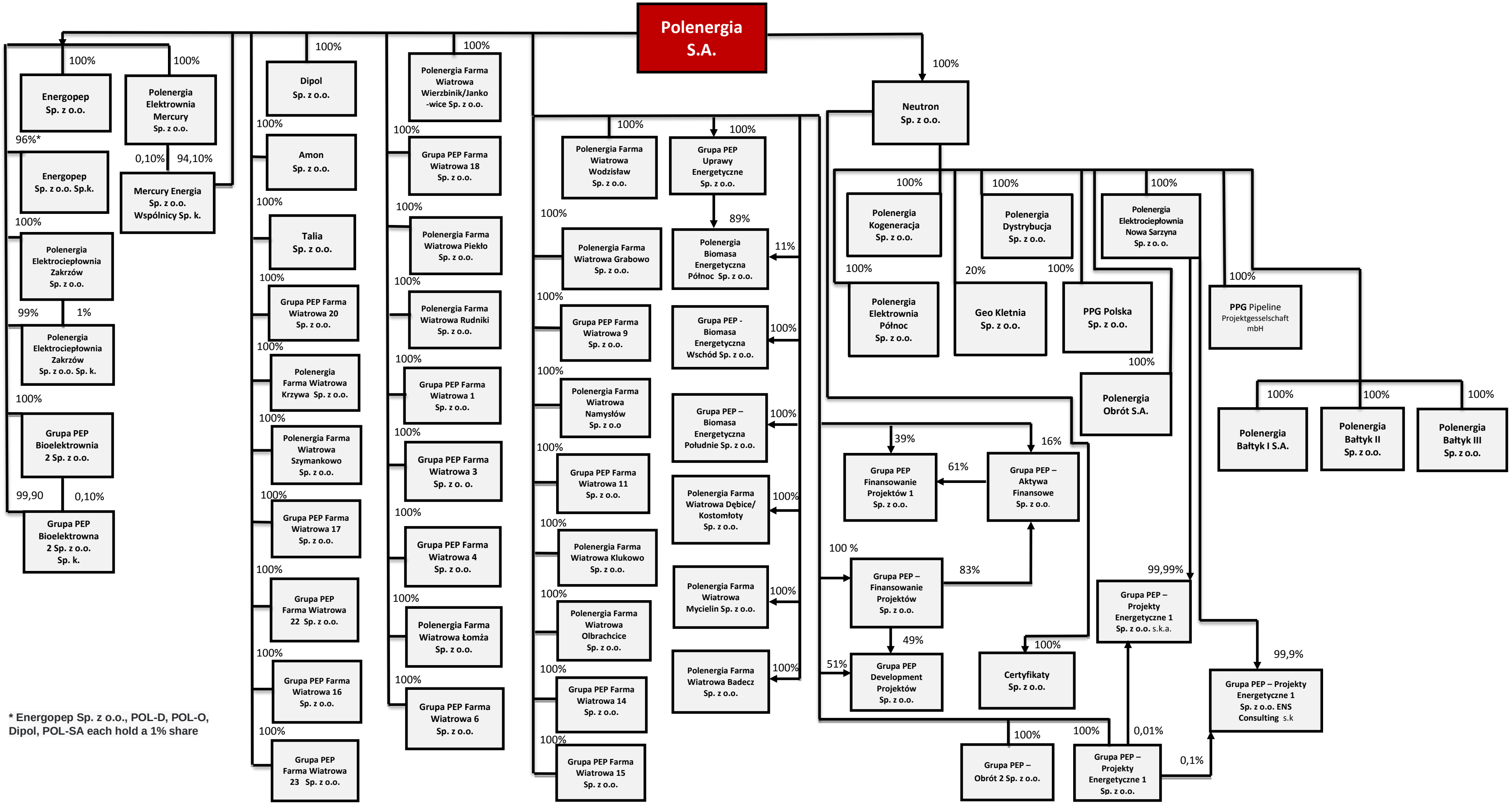
2. The Group's organisational structure



* Energopep Sp. z o.o., POL-D, POL-O, Dipol, POL-SA each hold a 1% share

3. The Group's development strategy

The Group's development strategy and an overview of the Group's business is presented on the Company's website at http://www.polenergia.pl/pol/pl/prezentacje, Investors/Presentations section.

B. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31ST 2016

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at Mar 31 2016

Assets

	Mar 31 2016	Dec 31 2015
I. Non-current assets	2,480,103	2,447,691
1. Property, plant and equipment	**2,219,860**	**2,192,218**
2. Intangible assets	**46,778**	**49,469**
3. Goodwill related to subordinated entities	**184,619**	**184,619**
4. Financial assets	**11,668**	**5,817**
5. Non-current receivables	**4,856**	**4,577**
6. Deferred tax assets	**12,255**	**10,912**
7. Prepayments and accrued income	**67**	**79**
II. Current assets	663,713	750,679
1. Inventories	**56,452**	**47,040**
2. Trade receivables	**123,569**	**158,513**
3. Current tax asset	**3,805**	**2,776**
4. Other current receivables	**30,081**	**64,621**
5. Prepayments and accrued income	**9,525**	**11,416**
6. Current financial assets	**97,684**	**104,217**
7. Cash and cash equivalents	**342,597**	**362,096**
Total assets	3,143,816	3,198,370

Equity and liabilities

	Mar 31 2016	Dec 31 2015
I. Equity	1,411,016	1,397,251
Equity attributable to owners of the parent	1,410,076	1,396,298
1. Share capital	**90,887**	**90,887**
2. Share premium	**786,134**	**786,134**
3. Capital reserve from valuation of options	**13,207**	**13,207**
4. Other capital reserves	**334,686**	**378,069**
5. Retained earnings	**148,416**	**60,350**
6. Net profit	**36,440**	**67,370**
7. Translation differences	**306**	**281**
Non-controlling interests	940	953
II. Non-current liabilities	1,322,755	1,302,808
1. Bank and other borrowings	**1,042,519**	**1,026,551**
2. Deferred tax liability	**74,865**	**66,242**
3. Provisions	**2,207**	**2,207**
4. Accruals and deferred income	**62,092**	**63,161**
5. Other liabilities	**141,072**	**144,647**
III. Current liabilities	410,045	498,311
1. Bank and other borrowings	**94,549**	**121,336**
2. Trade payables	**124,197**	**178,347**
3. Income tax payable	**-**	**6,670**
4. Other liabilities	**160,557**	**166,301**
5. Provisions	**4,216**	**4,216**
6. Accruals and deferred income	**26,526**	**21,441**
Total equity and liabilities	3,143,816	3,198,370

(PLN ‘000)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the three months ended March 31st 2016

	Notes	for the three months ended Mar 31 2016	for the three months ended Mar 31 2015
Revenue from sale of electricity, heat, gas and other revenue	**3.1**	**698,792**	**650,243**
Revenue from sale of certificates of origin	**3.2**	**23,713**	**27,546**
Revenue		722,505	677,789
Cost of sales	**3.3**	**(653,608)**	**(625,622)**
Gross profit		68,897	52,167
Other income	**3.4**	**1,722**	**1,565**
Distribution costs	**3.3**	**(284)**	**(361)**
Administrative expenses	**3.3**	**(8,689)**	**(8,045)**
Other expenses	**3.5**	**(578)**	**(1,381)**
Finance income	**3.6**	**1,177**	**4,212**
Finance costs	**3.7**	**(14,362)**	**(11,745)**
Profit before tax		47,883	36,412
Income tax		**(11,456)**	**(9,780)**
Net profit		36,427	26,632
Net profit attributable to:		36,427	26,632
Owners of the parent		**36,440**	**26,622**
Non-controlling interests		**(13)**	**10**
Earnings per share:			
Weighted average number of ordinary shares		**45,443,547**	**45,443,547**
- basic/diluted earnings for period attributable to owners of the parent		**0.80**	**0.59**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the three months ended March 31st 2016

	for the three months ended Mar 31 2016	for the three months ended Mar 31 2015
Net profit for period	**36,427**	**26,632**
Other comprehensive income that may be reclassified to profit or loss once specific conditions are met		
- Cash-flow hedges	34	(5,005)
- Translation differences	25	-
Net other comprehensive income	59	(5,005)
COMPREHENSIVE INCOME FOR PERIOD	**36,486**	**21,627**
Total comprehensive income for period:	36,486	21,627
Owners of the parent	36,499	21,617
Non-controlling interests	(13)	10

(PLN '000)

ADDITIONAL DATA

Adjusted EBITDA and adjusted net profit – performance metrics not defined in accounting standards

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

EBITDA and adjusted EBITDA

	for the three months ended	
	Mar 31 2016	Mar 31 2015
Profit before tax	47,883	36,412
Finance income	(1,177)	(4,212)
Finance costs	14,362	11,745
Depreciation and amortisation	26,742	20,751
EBITDA	**87,810**	**64,696**
Cost of financing	-	143
Purchase price allocation:		
Valuation of long-term contracts	(681)	603
Adjusted EBITDA	**87,129**	**65,442**

Adjusted net profit attributable to owners of the parent

	for the three months ended	
	Mar 31 2016	Mar 31 2015
NET PROFIT attributable to owners of the parent	**36,440**	**26,622**
Unrealised foreign exchange gains/losses	247	(1,154)
(Income)/costs from valuation of non-current bank borrowings	424	477
Cost of financing	-	116
Purchase price allocation:		
Depreciation and amortisation	2,532	2,532
Valuation of long-term contracts	(681)	603
Tax	(351)	(597)
Adjusted NET PROFIT attributable to owners of the parent	**38,611**	**28,599**

(PLN '000)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended March 31st 2016

	Notes	for the three months ended Mar 31 2016	Mar 31 2015
A. Cash flows from operating activities			
I. Profit before tax		**47,883**	**36,412**
II. Total adjustments		**172**	**30,636**
1. Depreciation and amortisation	3.3	26,742	20,751
2. Foreign exchange losses		95	(2,271)
3. Interest and profit distributions (dividends)		8,635	9,877
4. Gain (loss) on investing activities		305	384
5. Income tax		(10,628)	(4,067)
6. Change in provisions		-	540
7. Change in inventories		(9,412)	(4,932)
8. Change in receivables	3.8	69,757	34,342
9. Change in current liabilities (net of borrowings)	3.8	(76,193)	(20,102)
10. Change in accruals and deferrals	3.8	(9,131)	(3,925)
11. Other adjustments		2	39
III. Net cash from operating activities (I+/-II)		**48,055**	**67,048**
B. Cash flows from investing activities			
I. Cash receipts		**16**	**691**
1. Disposal of intangible assets and property, plant and equipment		10	3
2. Proceeds from financial assets, including:		6	688
a) disposal of financial assets		6	-
b) repayment of non-current loans advanced		-	661
c) interest		-	27
II. Cash payments		**47,249**	**100,198**
1. Acquisition of property, plant and equipment		47,179	99,713
2. Payments for financial assets, including:		70	485
a) acquisition of financial assets		70	15
b) non-current loans advanced		-	470
III. Net cash from investing activities (I-II)		**(47,233)**	**(99,507)**
C. Cash flows from financing activities			
I. Cash receipts		**45,060**	**33,208**
1. Proceeds from borrowings		45,060	33,208
II. Cash payments		**65,400**	**44,470**
1. Repayment of borrowings		53,063	34,813
2. Payment of finance lease liabilities		306	223
3. Interest		11,209	8,448
4. Other payments		822	986
III. Net cash from financing activities (I-II)		**(20,340)**	**(11,262)**
D. Total net cash flows (A.III+/-B.III+/-C.III)		**(19,518)**	**(43,721)**
E. Net increase/decrease in cash, including:		**(19,499)**	**(43,402)**
- effect of exchange rate fluctuations on cash held		19	319
F. Cash at beginning of period		**362,096**	**416,809**
G. Cash at end of period, including:		**342,597**	**373,407**
- restricted cash	3.8	117,736	102,083

(PLN '000)

External financing sources - bank borrowings (statement of cash flows)	for the three months ended	
	Mar 31 2016	Mar 31 2015
item C.I.2 Proceeds from borrowings	45,060	33,208
item C.II.2 Repayment of borrowings	(53,063)	(34,813)
Change in external financing sources, including:	**(8,003)**	**(1,605)**
net increase in investment facilities	26,525	17,495
net increase/decrease in VAT financing facility	(29,664)	(8,146)
net increase/decrease in overdraft facility	(4,864)	(10,954)

(PLN '000)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended March 31st 2016

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net profit	Translation differences	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1 2016	**90,887**	**786,134**	**13,207**	**378,069**	**127,720**	**-**	**281**	**1,396,298**	**953**	**1,397,251**
Total comprehensive income for period										
- Net profit for reporting period	-	-	-	-	-	36,440	-	36,440	(13)	36,427
- Other comprehensive income for period	-	-	-	34	-	-	25	59	-	59
Transactions with owners of the parent recognised directly in equity										
- Allocation of profit	-	-	-	(20,696)	20,696	-	-	-	-	-
- Payment of dividend	-	-	-	(22,721)	-	-	-	(22,721)	-	(22,721)
As at Mar 31 2016	**90,887**	**786,134**	**13,207**	**334,686**	**148,416**	**36,440**	**306**	**1,410,076**	**940**	**1,411,016**

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net profit	Translation differences	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1 2015	**90,887**	**802,909**	**13,207**	**372,427**	**53,533**	**-**	**73**	**1,333,036**	**948**	**1,333,984**
Total comprehensive income for period										
- Net profit for reporting period	-	-	-	-	-	26,622	-	26,622	10	26,632
- Other comprehensive income for period	-	-	-	(5,005)	-	-	-	(5,005)	-	(5,005)
Exchange differences on translating foreign operations	-	-	-	-	-	-	(283)	(283)	-	(283)
Transactions with owners of the parent recognised directly in equity										
- Allocation of profit	-	-	-	4,199	(4,199)	-	-	-	-	-
as at Mar 31 2015	**90,887**	**802,909**	**13,207**	**371,621**	**49,334**	**26,622**	**(210)**	**1,354,370**	**958**	**1,355,328**

(PLN '000)

1. Policies applied in the preparation of the interim condensed consolidated financial statements

1.1 Duration of the Company and other Group companies

The Company and all of its related entities have been established for an indefinite period.

1.2 Periods covered by the interim condensed consolidated financial statements

These interim condensed consolidated financial statements cover the three months ended March 31st 2016 and contain comparative data for the three months ended March 31st 2015 and as at December 31st 2015. The statement of profit or loss and the notes to the statement of profit or loss cover the three months ended March 31st 2016, as well as comparative data for the three months ended March 31st 2015.

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 end of the reporting period, i.e. March 31st 2016.

1.3 Authorisation of the financial statements

These interim condensed consolidated financial statements were authorised for issue by the Parent's Management Board on May 11th 2016.

1.4 Policies applied in the preparation of the financial statements

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 and cover the three months from January 1st to March 31st 2016, a comparative period from January 1st to March 31st 2015, as well as the data as at December 31st 2015, presented in the statement of financial position. These interim condensed financial statements for the three months ended March 31st 2016 have not been reviewed by an independent auditor, whereas the comparative data for the financial year ended December 31st 2015 have been audited.

These interim condensed consolidated financial statements have been prepared in compliance with the historical cost convention, except for the following material items in the statement of financial position:

- financial derivatives, measured at fair value,

The International Financial Reporting Standards comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Some of the Group companies maintain their accounting books in accordance with the policies set out in the Polish Accounting Act of September 29th 1994 (the "Act") as amended, and the regulations issued thereunder ("Polish GAAP"). In these interim condensed consolidated financial statements certain adjustments have been made to bring the financial statements of these companies into conformity with the IFRS, which are not disclosed in their books of account.

These interim condensed consolidated financial statements do not include all the information and disclosures required in the case of full-year consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31st 2015.

These interim condensed consolidated financial statements have been prepared using the same accounting policies and calculation methods as those applied in the most recent full-year financial statements, for the year ended December 31st 2015.

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the annual periods ended December 31st 2015 and, consequently, they have not been applied in preparing these interim condensed consolidated financial statements. None of the new Standards, amendments to Standards, and Interpretations will have a material effect on the Group's financial statements.

2. 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, a conventional power plant and a gas pipeline,
- wind power segment comprising the generation of electricity,
- 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.

Allocation to the above segments has not changed, but following the acquisition of the Neutron Group, the Group's operations now include new segments.

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 results. 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 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 the 3 months ended Mar 31 2016	Conventional energy	Development and implementation	Biomass	Wind power	Distribution	Electricity sales and trading	Unallocated Group management costs *)	Total
Revenue from sales to external customers	83,557	2	14,634	53,256	31,307	538,202	1,547	722,505
Gross profit/(loss)	**30,389**	**(175)**	**1,875**	**26,088**	**7,174**	**8,981**	**(5,435)**	**68,897**
Administrative expenses	(1,707)	(217)	(295)	(1,618)	(1,055)	(2,475)	(1,322)	(8,689)
Interest income/(expense)	(1,580)	45	(104)	(10,073)	(344)	(23)	514	(11,565)
Finance income/(costs) from unrealised exchange gains/losses	(111)	(63)	-	(82)	-	(49)	-	(305)
Other finance income/(costs)	(187)	(28)	(148)	(998)	(5)	(345)	396	(1,315)
Other income/(expenses)	(408)	(27)	3	1,045	32	94	121	860
Profit (loss) before tax	**26,396**	**(465)**	**1,331**	**14,362**	**5,802**	**6,183**	**(5,726)**	**47,883**
Income tax	-	-	-	-	-	-	(11,456)	(11,456)
Net profit/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**36,427**
EBITDA **)	33,178	(419)	2,579	42,345	7,208	6,611	(3,692)	87,810
Segment assets	332,584	222,744	72,871	1,619,540	121,107	234,312	-	2,603,158
Unallocated assets	-	-	-	-	-	-	540,658	540,658
Total assets	**332,584**	**222,744**	**72,871**	**1,619,540**	**121,107**	**234,312**	**540,658**	**3,143,816**

*) Including purchase price allocation and other unallocated

**) EBITDA – pre-tax profit less finance income plus finance costs, before depreciation and amortisation

(PLN '000)

For the 3 months ended Mar 31 2015	Conventional energy	Development and implementation	Biomass	Wind power	Distribution	Electricity sales and trading	Unallocated Group management costs *)	Total
revenue from sale to external customers	87,602	305	16,345	44,408	38,373	490,767	(11)	677,789
Gross profit/(loss)	**19,955**	**(274)**	**1,730**	**26,656**	**4,577**	**3,725**	**(4,202)**	**52,167**
Administrative expenses	(1,836)	(145)	(224)	(284)	(978)	(2,330)	(2,248)	(8,045)
Interest income/(expense)	(2,053)	97	(192)	(6,460)	(504)	118	1,565	(7,429)
Finance income/(costs) from unrealised exchange gains/losses	(236)	50	12	1,646	-	(47)	-	1,425
Other finance income/(costs)	(109)	(79)	(133)	(848)	(15)	(516)	171	(1,529)
Other income/(expenses)	(367)	(166)	229	1,258	(587)	(10)	(534)	(177)
Profit (loss) before tax	**15,354**	**(517)**	**1,422**	**21,968**	**2,493**	**940**	**(5,248)**	**36,412**
Income tax	-	-	-	-	-	-	(9,780)	(9,780)
Net profit/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**26,632**
EBITDA **)	22,353	(585)	2,722	38,944	4,001	1,391	(4,130)	64,696
Segment assets	378,924	524,569	79,438	913,917	120,715	209,128	-	2,226,691
Unallocated assets	-	-	-	-	-	-	499,194	499,194
Total assets	**378,924**	**524,569**	**79,438**	**913,917**	**120,715**	**209,128**	**499,194**	**2,725,885**

*) Including purchase price allocation
**) EBITDA – profit before tax less finance income plus finance costs, before depreciation and amortisation

(PLN '000)

3. Other notes

3.1 Revenue

	for the three months ended	
	Mar 31 2016	Mar 31 2015
- revenue from sale of electricity	581,494	565,115
- revenue from sale of heat	8,768	10,883
- revenue from consulting and advisory services	874	611
- income from reinvoicing and reimbursement of expenses	-	2
- income from lease and operator services	18	42
- revenue from sale of merchandise	1,584	1,540
- revenue from sale of pellets	13,044	14,799
- rental income	13	34
- income from compensation for stranded costs and cost of gas	37,306	39,978
- net revenue from sale of gas	55,035	16,714
- other	656	525
Total revenue	**698,792**	**650,243**

3.2 Revenue from certificates of origin

	for the three months ended	
	Mar 31 2016	Mar 31 2015
- revenue from certificates of origin	21,338	23,724
- revenue from carbon dioxide emission allowances	2,375	3,822
Total revenue from certificates of origin	**23,713**	**27,546**

3.3 Expenses, by nature of expense

	for the three months ended	
	Mar 31 2016	Mar 31 2015
- depreciation and amortisation expense	26,742	20,751
- raw materials and consumables used	51,502	68,207
- services	13,773	10,654
- taxes and charges	6,238	3,929
- salaries and wages	9,588	9,549
- social security and other benefits	1,478	1,554
- other expenses, by nature of expense	879	890
Total expenses by nature	**110,200**	**115,534**
- cost of merchandise and materials sold (+)	552,381	518,494
- distribution costs (-)	(284)	(361)
- administrative expenses (-)	(8,689)	(8,045)
Total cost of sales	**653,608**	**625,622**

(PLN ‘000)

3.4 Other income

	for the three months ended	
	Mar 31 2016	Mar 31 2015
- reversal of impairment losses and write-downs, including:	469	-
- impairment losses on receivables	469	-
- other, including:	1,253	1,565
- compensations and additional charges	12	400
- settlement of grants	1,070	1,112
- gain on disposal of non-financial non-current assets	77	-
- other	94	53
Total other income	**1,722**	**1,565**

3.5 Other expenses

	for the three months ended	
	Mar 31 2016	Mar 31 2015
- impairment losses and write-downs, including:	439	81
- impairment losses on receivables	439	81
- other, including:	139	1,300
- penalties, fines, compensation	-	522
- assigned compensation	3	-
- other development costs	82	180
- loss on disposal of non-financial non-current assets	-	39
- other	54	559
Total other expenses:	**578**	**1,381**

3.6 Finance income

	for the three months ended	
	Mar 31 2016	Mar 31 2015
- income from interest on deposits and loans	1,095	2,242
- interest on finance leases	39	42
- foreign exchange losses, including:	5	1,760
- unrealised	(8)	1,705
- realised	13	55
- valuation of financial liabilities*)	16	-
- consideration for cancellation of shares	1	-
- other	21	168
Total finance income	**1,177**	**4,212**

*) applicable to bank borrowings measured with amortised cost method

(PLN '000)

3.7 Finance costs

	for the three months ended	
	Mar 31 2016	Mar 31 2015
- interest expense	12,699	9,713
- foreign exchange losses, including:	394	435
- unrealised	297	280
- realised	97	155
- fees and commissions	595	778
- valuation of financial liabilities *)	540	589
- other	134	230
Total finance costs	**14,362**	**11,745**

*) applicable to bank borrowings measured with amortised cost method

3.8 Cash flows

Restricted cash	for the three months ended	
	Mar 31 2016	Mar 31 2015
- cash for credit facility repayments	32,102	16,076
- cash for the settlement of compensation for stranded costs	77,841	81,091
- cash for long- and medium-term overhauls	4,231	4,798
- other restricted cash	3,562	118
Total	**117,736**	**102,083**

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

Receivables:	for the three months ended	
	Mar 31 2016	Mar 31 2015
- change in current and non-current receivables, net in the statement of financial position	69,205	(20,546)
- change in financial receivables	552	54,888
Change in receivables in the statement of cash flows	**69,757**	**34,342**

Liabilities:	for the three months ended	
	Mar 31 2016	Mar 31 2015
- change in liabilities, net of borrowings, in the statement of financial position	(63,469)	(28,336)
- change in finance lease payables	290	219
- change due to dividend payable	(22,722)	-
- change in investment commitments	10,045	12,464
- change in financial liabilities	(337)	(4,449)
Change in liabilities in the statement of cash flows	**(76,193)**	**(20,102)**

Prepayments, accruals and deferrals:	for the three months ended	
	Mar 31 2016	Mar 31 2015
- change in accruals and deferrals in the statement of financial position	5,919	(8,262)
- commissions on credit facilities	(4,668)	578
- property, plant and equipment under construction, not invoiced	(10,382)	3,759
Change in accruals and deferrals in the statement of cash flows	**(9,131)**	**(3,925)**

(PLN '000)

3.9 Goodwill

Goodwill related to subordinated entities, recognised as a result of the contribution of the Neutron Group assets to the Group, is attributable to the difference between the purchase price and the fair value of net assets acquired.
Goodwill following from the abovementioned transaction amounted to PLN 184m and was attributable to the following cash-generating segments:
(i) PLN 75m − development segment − comprising PPG Pipeline Projektgesellschaft mbH, PPG Polska Sp. z o.o., and Natural Power Association Sp. z o.o. along with the subsidiaries;
(ii) PLN 40m – conventional energy segment − comprising Elektrociepłownia Nowa Sarzyna;
(iii) PLN 25m – distribution segment – comprising Polenergia Dystrybucja and Polenergia Kogeneracja;
(iv) PLN 44m − trading segment − comprising Polenergia Obrót.

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

The Polenergia Group operates in the following market segments:

- Conventional power generation,
- Development of building projects and project implementation,
- Biomass,
- Wind power generation,
- Distribution,
- Energy trading and sale.

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

Polenergia Group's key customers use the heat and electricity supplied by the Group mostly for production purposes at their industrial facilities, and this business is not subject to seasonal fluctuations. However, a small proportion of heat delivered by the Group is used for heating purposes, both by industrial and municipal customers. Those delivery patterns are seasonal, with higher consumption of heat in the first and the fourth quarters of the financial year. However, this seasonality does not have a material effect on the Group's financial performance.

Moreover, wind conditions, which determine the output of wind farms, are uneven during the year: in autumn and winter they are significantly better than in spring and summer. The wind farm sites were selected by the issuer based on professional wind measurements confirmed by independent and reputable specialists. 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.

5. Interest-bearing borrowings

On March 11th 2016, Grupa PEP – Farma Wiatrowa 4 Sp. z o.o. ("FW4") executed an annex with Bank Ochrony Środowiska S.A. to shorten the term of the VAT financing facility as it no longer had to finance VAT from external financing sources.
On March 17th 2016, Polenergia Biomasa Energetyczna Północ Sp. z o.o. ("POLBEPN") fulfilled the conditions precedent and the overdraft facility agreement executed on September 24th 2015 became effective. The facility amount is PLN 2,000 thousand.
On March 24th 2016, Grupa PEP – Farma Wiatrowa 1 Sp. z o.o. ("FW1"), FW4 and Grupa PEP – Farma Wiatrowa 6 Sp. z o.o. ("FW6"), executed an annex to the credit facility agreement of October 4th 2013, as amended, with Bank Ochrony Środowiska S.A. and the European Bank for Reconstruction and Development. Under the annex, projects may be finally settled by extending the period of the facility's availability to FW4 and transferring the availability of part of the financing from FW4 to FW1 and FW6.
On March 30th 2016, Grupa PEP – Biomasa Energetyczna Wschód Sp. z o.o. ("GPBEWSCH") and Bank Polska Kasa Opieki S.A. executed Annex 10 to the working capital facility agreement, extending the term of the facility and reducing its amount to PLN 3,000 thousand to match the company's current needs.

6. Changes in accounting estimates

a) Effective tax rate

	for the three months ended	
	Mar 31 2016	Mar 31 2015
Tax expense recognised in profit or loss, including:	**11,456**	**9,780**
Current income tax	2,930	8,903
Deferred tax	8,526	877
Profit before tax	**47,883**	**36,412**
Tax at the effective rate of 19% (2015: 19%)	9,098	6,918
Adjustments to current income tax from previous years	-	41
Non-tax-deductible costs:	**2,269**	**2,821**
- permanent differences	405	153
- tax assets on account of tax losses in Special Economic Zone	(156)	(134)
- tax asset on account of other tax losses	2,020	2,802
Non-taxable income:	**89**	**-**
- other	89	-
Tax recognised in profit or loss	**11,456**	**9,780**

b) Change in provisions

Change in current and non-current provisions

	Mar 31 2016	Dec 31 2015
Provisions at beginning of period	**6,423**	**5,115**
- provisions recognised	-	1,425
- provisions reversed	-	(117)
Provisions at end of period	**6,423**	**6,423**

(PLN '000)

c) Trade and other receivables

In the period ended March 31st 2016, impairment losses on unrecoverable trade receivables went down to PLN 7,261 thousand.

	Mar 31 2016	Dec 31 2015
At beginning of period	**7,779**	**8,853**
- Increase	(32)	265
- Use	(17)	(1,339)
- Reversal	(469)	-
At end of period	**7,261**	**7,779**

Presented below is a breakdown of trade receivables past due as at March 31st 2016, for which no impairment losses have been recognised.

			Past due but recoverable				
	Total	Not past due	< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	>120 days
Mar 31 2016	123,569	114,075	5,338	3,297	108	312	439
Dec 31 2015	158,513	151,567	5,925	388	174	129	330

Receivables past due more than 120 days relate mainly to the distribution business, which is characterised by a large number of clients and in the case of which impairment losses are recognised as follows:

- Receivables past due from 181 to 270 days – 25%
- Receivables past due from 271 to 365 days – 50%
- Receivables past due more than 365 days – 100%

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.

d) Valuation of contracts on purchase and sale of electricity and green certificates

Forward contracts as derivative instruments are measured at fair value, with changes in fair value recognised in profit or loss. Valuation was performed with respect to the outstanding part of the contracts, with a break-down into current and non-current portion.

7. Issue, redemption and repayment of debt and equity securities

The Group does not issue any debt securities. As at the date of this report, the Parent did not issue any debt securities in the first quarter ended March 31st 2016.

8. Dividend paid or declared- aggregate and per share amounts, separately for ordinary and preference shares

No dividend was paid in the period of three months ended March 31st 2016.

On March 24th 2016, the Annual General Meeting of the Company resolved to distribute to the shareholders part of the capital reserve created from the Company's profits earned in prior years (PLN 22,721,773.50) as dividend.

(PLN '000)

The dividend will be PLN 0.50 per share, totalling PLN 22,721,773.50.

The dividend will be paid on July 5th 2016 to holders of the Company's shares as at June 14th 2016 (dividend record date).

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

In Q1 2016, there were no changes in the Group's contingent liabilities.

In connection with the commissioning of the wind turbines supplied by VESTAS Poland Sp. z o.o. as part of the Mycielin Wind Farm construction project, the contingent asset in the form of the guarantee received from VESTAS Northen Europe A/S was reduced to 25% of the contract value.

The validity period of AIG Europe Ltd's guarantee received from AECOM Polska Sp. z o.o. (previously URS Polska Sp. z o.o.) in connection with the performance of contract engineer services by AECOM Polska Sp. z o.o. as part of the Mycielin Wind Farm construction project was extended until April 30th 2016 for the bid bond and May 9th 2018 for the maintenance bond.

As at March 31st 2016, the total amount of contract sureties provided by Kulczyk Investments to Polenergia Obrót S.A. amounted to EUR 7,000 thousand.

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

Information on proceedings relating to liabilities or receivables of the issuer or its subsidiary with a value representing 10% or more of the issuer's equity, specifying the subject matter of the proceedings and the issuer's position.

Amon Sp. z o.o. is party to proceedings instigated by Amon Sp. z o.o. to determine the ineffectiveness of termination by Polska Energia – Polska Kompania Handlowa Sp. z o.o. of agreements between Polska Energia – Polska Kompania Handlowa Sp. z o.o. and Amon Sp. z o.o. concerning the sale by Amon Sp. z o.o. to Polska Energia – Polska Kompania Handlowa Sp. z o.o. of (i) electricity generated by the Łukaszów Wind Farm, and (ii) the property rights incorporated in the certificates of origin for electricity confirming generation of renewable energy by the Łukaszów Wind Farm. The litigation value has been determined as the agreements' value until the end of their original term (i.e. until 2027), and amounts to PLN 376,621,551. In the Issuer's opinion, the claim is well-founded and should be granted by the Court.

Talia Sp. z o.o. is party to proceedings instigated by Talia Sp. z o.o. to determine the ineffectiveness of termination by Polska Energia – Polska Kompania Handlowa Sp. z o.o. of agreements between Polska Energia – Polska Kompania Handlowa Sp. z o.o. and Talia Sp. z o.o. concerning the sale by Talia Sp. z o.o. to Polska Energia – Polska Kompania Handlowa Sp. z o.o. of (i) electricity generated by the Modlikowice Wind Farm, and (ii) the property rights incorporated in the certificates of origin for electricity confirming generation of renewable energy by the Modlikowice Wind Farm. The litigation value has been determined as the agreements' value until the end of their original term (i.e. until 2027), and amounts to PLN 249,762,472.00. In the Issuer's opinion, the claim is well-founded and should be granted by the Court.

Information on two or more proceedings relating to liabilities or receivables with a total value of 10% or more of the issuer's equity, specifying the total value of all proceedings involving receivables and all proceedings involving liabilities, together with the issuer's position and – for the proceeding relating to liabilities and receivables of the highest value – their subject matter, value, date of commencement, and parties to the proceedings

There were no proceedings relating to liabilities or receivables with a total value equal to at least 10% of the Company's equity.

Other proceedings

The Company's subsidiary, Grupa PEP – Biomasa Energetyczna Północ Sp. z o.o. is seeking a total of PLN 80 thousand from its trading partners, as a refund of advance payments. The proceedings are pending.

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 ca. PLN 850,000.

The Company's subsidiary Polenergia Obrót S.A. has secured an enforceable title against one customer for the total amount of PLN 5,000, with respect to which enforcement proceedings are pending.

Moreover, the Company's subsidiary Polenergia Elektrownia Północ Sp. z o.o. is in dispute concerning obliging the other party to a preliminary property sale agreement to execute the final sale agreement. Elektrownia Północ Sp. z o.o. has initiated proceedings against the same person, for payment of penalty for breach of contract. The amount in dispute is PLN 100,000.

The Company's subsidiary has been sued by its trading partner for payment of PLN 2.88m by way of return of undue performance. In the subsidiary's opinion, the claim is unfounded. The proceedings are pending.

11. Significant related-party transactions

As at March 31st 2016, the Group did not have any associates involved in material related-party transactions.
In the three months ended March 31st 2016, the following material related-party transactions took place:

Mar 31 2016	Revenue	Costs	Receivables	Liabilities
Kulczyk Investments	-	281	-	281
Kulczyk Holding	-	225	-	-
Krucza Inwestycje KREH 1 Sp. z o.o. S.K.	29	614	-	3
Chmielna Inwestycje KREH2 Sp. z o.o. S.K.A.	303	-	-	-
Polenergia Holding Sarl	249	-	174	-
Ciech Sarzyna S.A.	6,424	728	1,722	299
Autostrada Eksploatacja S.A.	212	-	204	-
Total	**7,217**	**1,848**	**2,100**	**583**

12. Loan sureties or guarantees issued by the issuer or its subsidiary where the aggregate value of such outstanding sureties and guarantees issued to a single entity or its subsidiary represents 10% or more of the issuer's equity

As at March 31st 2016, the Group did not issue any external guarantees.

13. Other information the issuer considered material to the assessment of its human resources, assets, financial standing and financial performance, and changes in any of the foregoing, as well as information material to the assessment of the issuer's ability to fulfil its obligations

In the issuer's opinion, there is no information material to the assessment of its ability to fulfil its obligations other than the information presented in this report.

(PLN '000)

14. Factors which in the issuer's opinion will affect its performance over at least the next quarter

In the Company's opinion, the following factors will have a material effect on its performance (consolidated and separate) in the coming quarters:

- macroeconomic situation in Poland,
- the final shape of the legislation applicable to the Company's business, discussed in detail under "Legal environment",
- prices of electricity and green and yellow certificates,
- wind conditions in the areas where the Puck, Łukaszów, Modlikowice, Rajgród, Gawłowice, Skurpie and Mycielin wind farms are located,
- changes in the price of natural gas and biomass and their availability,
- financial standing of the Company's customers,
- ability to obtain financing for the planned projects,
- EUR exchange rates.

15. 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 holding those financial instruments 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 prices risks. The purpose of these transactions is to manage the currency risk and the risk of market prices which arise in the course of the Group's operations and in connection with the sources of financing it uses.

The key risks connected with the Group's financial instruments are: interest rate risk, liquidity risk, currency risk, and credit risk. The Management Board verifies and establishes rules for managing each of these types of risk; the rules are briefly discussed below. The Group also monitors the risk of market prices with respect to the financial instruments it holds.

15.1 Interest rate risk

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

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

The table below presents sensitivity of the Group's annual profit before tax (in connection with floating-rate liabilities) to reasonably possible movements in interest rates, assuming that other factors remain unchanged. The effect on the Group's equity is not presented.

period ended Mar 31 2016	Increase/decrease (percentage points)	Effect on pre-tax profit/loss over three consecutive months (PLN '000)
1M WIBOR	1%	(2,263)
1M EURIBOR	1%	(86)
1M WIBOR	-1%	2,263
1M EURIBOR	-1%	86

period ended Mar 31 2015	Increase/decrease (percentage points)	Effect on pre-tax profit/loss over three consecutive months (PLN '000)
1M WIBOR	1%	(1,528)
1M EURIBOR	1%	(97)
1M WIBOR	-1%	1,528
1M EURIBOR	-1%	97

15.2 Currency risk

The Group's currency risk involves primarily the risk of changes in the euro exchange rate with respect to its short currency position under bank deposits, investment commitments, and investment credit facilities. As at December 31st 2015, the position was valued at EUR 8.1 thousand. This position is not hedged against changes in currency exchange rates.

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

The table below presents the sensitivity of the Group's profit/loss before tax (due to changes in the fair value of monetary assets and liabilities) to reasonably possible movements in the euro exchange rate, with all other factors unchanged.

	Exchange rate increase/decrease	Effect on profit/loss
Mar 31 2016 - EUR	+ 0.01 PLN/EUR	(81)
	- 0.01 PLN/EUR	81
Mar 31 2015 - EUR	+ 0.01 PLN/EUR	(95)
	- 0.01 PLN/EUR	95

In the period ended March 31st 2016, the Group incurred finance costs of PLN 305 thousand from unrealised exchange differences.

In the period from March 31st 2016 to June 30th 2016, movements in the PLN/EUR exchange rate may affect the amount of unrealised exchange differences. The result on unrealised exchange differences as at June 30th 2016 will mainly depend on the difference between the PLN/EUR exchange rates on June 30th 2016 and March 31st 2016, with the appreciation/depreciation of the Polish złoty against the euro having a positive/negative effect on the net profit of ca. PLN 81 thousand for each PLN 0.01 of the difference relative to the exchange rate as at March 31st 2016 (PLN 4.2684 /EUR).

15.3 Credit risk

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

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

The Group records no material concentration of credit risk.

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

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

15.4 Liquidity risk

The table below presents the Group's financial liabilities by maturity as at March 31st 2016 and December 31st 2015, based on undiscounted contractual payments.

Mar 31 2016	up to 3 months	from 3 to 12 months	from 1 year to 5 years	over 5 years	Total
Interest-bearing borrowings	34,053	114,354	533,222	773,974	**1,455,603**
Other liabilities	160,075	498	43,135	-	**203,708**
Trade payables	124,193	-	4	-	**124,197**

Dec 31 2015	up to 3 months	from 3 to 12 months	from 1 year to 5 years	over 5 years	Total
Interest-bearing borrowings	65,421	100,668	541,029	768,931	**1,476,049**
Other liabilities	161,393	4,908	39,313	-	**205,614**
Trade payables	178,344	-	3	-	**178,347**

16. Capital management

The primary objective behind the Group's capital management is to maintain good credit rating and safe capital ratios, in order to support the Group's operations and build shareholder value.

The Group manages its capital structure and modifies it in response to changes in the economic environment. To maintain or adjust its capital structure, the Group may introduce changes regarding dividend distribution, return capital to the shareholders, or issue new shares. In the period ended March 31st 2016 and in the year ended December 31st 2015, there were no changes in the capital structure management objectives, policies and processes.

The Group monitors its capital position using the leverage ratio, calculated as the ratio of net debt to the sum of total equity and net debt. The Group's net debt includes interest-bearing borrowings, cash and cash equivalents.

	Mar 31 2016	Dec 31 2015
Interest-bearing borrowings	1,137,068	1,147,887
Less cash and cash equivalents	(342,597)	(362,096)
Net debt	**794,471**	**785,791**
Equity	1,411,016	1,397,251
Total equity	**1,411,016**	**1,397,251**
Equity and net debt	**2,205,487**	**2,183,042**
Leverage ratio	36%	36%

(PLN '000)

17. Events subsequent to the date as at which these interim condensed financial statements were prepared, which have not been presented in the statements but may have a material bearing on future financial performance

As at the date of preparation of these interim condensed consolidated financial statements, i.e. May 11th 2016, no events had occurred which should have been but were not disclosed in the accounting records for the reporting period.

C. OTHER INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT

1. Discussion of key financial and economic data contained in the interim financial statements, in particular factors and events, including non-recurring ones, with a material effect on the Issuer's operations and profits earned or losses incurred in the financial year; discussion of development prospects in a period covering at least the next financial year.

Key economic and financial data concerning the Company's performance:

Key economic and financial data [PLNm]	Jan 1–Mar 31 2016	Jan 1–Mar 31 2015	Change
Revenue from continuing operations	722.5	677.8	44.7
EBITDA from continuing operations	87.8	64.7	23.1
Adjusted EBITDA excl. purchase price allocation effect	87.1	65.4	21.7
Net profit/(loss)	36.4	26.6	9.8
Net profit after elimination of purchase price allocation effect	37.9	29.2	8.8
Net profit after elimination of purchase price allocation effect, unrealised exchange differences, loan valuation and discount valuation	38.6	28.6	10.0

In comparison with the corresponding period of 2015, Q1 2016 performance was driven by the following factors:

a) EBITDA (up by PLN 23.1m):

- Substantial improvement in the performance of the conventional power generation segment (up PLN 10.8m) following a revision (in Q1 2016) of the forecast prices of electricity, gas and CO_2 in 2016-2020, which led to a change in the allocation of stranded costs compensation income in the entire period of the compensation scheme: 2008-2020.

  In accordance with the Accounting Policy of Elektrociepłownia Nowa Sarzyna, the effect of change in the allocation of stranded costs relating to prior years (2008-2015) was recognised in the current period, leading to such relative high operating result in Q1 2016.
- Better performance in the renewable energy segment (up by PLN 3.4m), attributable primarily to the recognition of the results of Mycielin and Skurpie wind farms, partly offset by poorer performance of other projects due to less favourable wind conditions and lower prices of green certificates (mainly the Amon/Talia projects, which in Q1 2015 operated based on favourable contracts with PKH).
- Better performance in the trading segment (up PLN 5.2m);
- Better performance in the distribution segment (up PLN 3.2m) thanks to better operating performance of projects and reversal of the provision for settlements with a trading partner;
- Slightly worse performance in the biomass segment (down PLN 0.1m);
- Lower expenses in the development segment (down PLN 0.2m) resulting from tighter cost discipline;
- Lower (by PLN 0.4m) unallocated Group management costs.

b) Adjusted EBITDA (up by PLN 21.7m):

- EBITDA impact as described above (up by PLN 23.1m);
- Absence of costs of securing financing, which were incurred in 2015 (PLN -0.1m yoy);
- Elimination of the purchase price allocation effect (a difference of PLN -1.3m yoy).

(PLN '000)

c) Net profit after elimination of the purchase price allocation effect, unrealised exchange differences, loan valuation and discount valuation (up by PLN 10.0m):

- Impact of EBITDA excluding the purchase price allocation effect and the costs of securing financing (up by PLN 21.7m);
- Higher depreciation and amortisation excluding depreciation and amortisation on purchase price allocation (up PLN 6m) was driven primarily by the launch of new wind farm projects;
- Lower interest income (down PLN 1.1m) followed from lower average balance of cash and cash equivalents in the period and lower interest rates;
- Higher interest and commission expense (up PLN 2.8m) following launch of new wind farm projects;
- Higher income tax (by PLN 1.8m) is attributable to higher profit before tax.

d) Net profit (up by PLN 9.8m):

- Impact of Adjusted Net Profit after elimination of the purchase price allocation effect, unrealised exchange differences, loan valuation and discount valuation (up by PLN 10.0m);
- Negative effect of unrealised exchange differences (of PLN 1.7m);
- Positive loan valuation effect (of PLN 0.1m);
- Costs of purchase price allocation (positive effect of PLN 1.3m);
- Positive effect of income tax on events listed above (PLN 0.1m);

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

CONVENTIONAL ENERGY

Nowa Sarzyna CHP plant

In Q1 2016, the plant operated in line with the schedule. The improvement in operating performance relative to 2015 is attributable to a revision (made in Q1 2016) of the forecast prices of electricity, gas and CO_2 in 2016-2020, which triggered a change in the allocation of stranded costs compensation income in the entire period of the compensation scheme: 2008-2020.

In accordance with the Accounting Policy of Elektrociepłownia Nowa Sarzyna, the change in the allocation of stranded costs relating to prior years (2008-2015) is recognised in the current period, leading to the relatively high operating result in Q1 2016.

Mercury power plant

Mercury power plant’s operating result for Q1 was lower than the previous year’s due to a decline in electricity sales volumes resulting from decreased supply of the coking gas from WZK Victoria.

Zakrzów CHP plant

Zakrzów CHP plant’s operating result for Q1 was slightly higher than the previous year’s due to lower gas prices.

WIND POWER

The total result delivered by the wind power segment was up on the previous year (EBITDA up by PLN 3.4m), which was primarily due to the inclusion of the wind farms in Skurpie and Mycielin (which were not operational in Q1 2015). The remaining projects reported lower operating performance due to less favourable wind conditions and lower prices of green certificates. Below is presented detailed information on individual wind farms:

Puck Wind Farm

In Q1 2016, electricity output of the Puck Wind Farm was lower year on year, which translated into a lower operating result.

Łukaszów and Modlikowice Wind Farms

During the first quarter of 2016, electricity output at the two wind farms was slightly lower than that recorded in Q1 2015.

Also, compared with the same period of the previous year, the Amon and Talia projects posted weaker results following the non-performance of green certificates’ purchase agreements by Polska Kompania Handlowa (in Q1 2015, the agreements were performed and certificates were sold at contractual prices, which were higher than market prices).

Gawłowice and Rajgród Wind Farms

The operating performance of the Gawłowice and Rajgród wind farms was lower than in 2015 due to slightly lower generation volumes and lower market prices of green certificates.

Skurpie Wind Farm

Last quarter was the first full period of the 43.7 MW Skurpie wind farm's operation (following expansion).

Mycielin Wind Farm

The 48 MW Mycielin wind farm received the permit to operate in February 2016 (generation from all turbines began in Q4 2015).

DISTRIBUTION

In Q1 2016, Polenergia Dystrybucja and Polenergia Kogeneracja operated in line with the plan. Their operating performance was slightly higher than in the previous year. The significantly better profits are due to the reversal of the provision for settlements with a trading partner.

TRADING

The segment's operations went on without any disruptions. The segment's performance in Q1 2016 was substantially better than in the previous year, chiefly due to high profitability of gas supply contracts, as well as the improved profitability of the certificate portfolio.

BIOMASS

The segment's overall performance was largely similar to the one seen in Q1 2015. Below is presented detailed information on individual companies.

Biomasa Energetyczna Północ

In the first quarter of the year, the sales volume of company-produced pellet was lower than in the same period a year earlier. The plant's operating margin was lower than in the previous year on the back of declining volumes and average selling prices. Relative to 2015, the plant is registering lower unit prices of raw materials, energy, transport and technical support.

Biomasa Energetyczna Południe

In the first quarter of the year, the sales volume of company-produced pellet was broadly flat on the previous year. Despite lower average selling prices, the plant's operating margin was higher than the previous year's figure, chiefly because of lower unit prices of raw materials, energy and technical support.

Biomasa Energetyczna Wschód

In the first quarter of the year, the sales volume of company-produced pellet was broadly flat on the previous year. Despite lower average selling prices, the plant's operating margin was similar to the previous year's figure, chiefly because of lower prices of raw materials, optimised costs of transport, and lower cost of maintenance

DEVELOPMENT AND IMPLEMENTATION

Onshore wind farms

In Q3 2015, as well as in previous periods, the Company continued the efforts to expand its portfolio of wind farms.

The projects currently under development have a combined capacity of approximately 690 MW. The following documents have been obtained for the projects: local land development plans, environmental permits, grid connection conditions and building permits for projects with an aggregate capacity of 237.3 MW; local land developments plans, environmental permits and grid connection conditions for projects with a total capacity of 182 MW; a local land development plan and grid connection conditions for a project with a capacity of 69 MW; grid connection conditions and an environmental permit for a 9 MW project; and grid connection conditions for an 18 MW project.

Development of off-shore wind farms

The Group plans to construct two off-shore wind farms on the Baltic Sea (Bałtyk Środkowy II and Bałtyk Środkowy III) with an aggregate capacity of up to 1,200 MWe, including 600 MWe by 2022 and 600 MWe by 2026.

The off-shore wind farm project is of a long-term nature: the first wind farm is planned to be placed in service in 2022. The Group assumes that the project will be implemented in cooperation with a partner that will acquire a 50% interest in the project after all necessary approvals and permits are obtained (i.e. when the project is ready for construction). The Group does not exclude the option of selling the 100% interest in the project to increase dividend distributions to the shareholders.

Construction of the Bernau-Szczecin gas pipeline

The Group is considering construction of the Bernau-Szczecin gas pipeline, which would connect the Polish and German transmission systems. With a planned annual throughput capacity of 3-5 billion cubic metres, it would help diversify gas supplies to Poland, enabling gas imports from Germany, as well as exports of gas imported to Poland through the LNG terminal which is now under construction in Świnoujście. The pipeline would be placed in service in 2020.

Development of the Elektrownia Północ Power Plant project

The Group is developing a hard-coal fired power plant in northern Poland. Ultimately, the Elektrownia Północ power plant project will comprise two 800 MWe power generating units.

The Group’s plans provide for the sale of the coal-fired power plant in 2018. However, if appropriate signals come from the market, the Group could continue the project, subject to the shareholders’ prior consent.

3. Management Board’s position on the feasibility of meeting any previously published forecasts for a given year in light of the results presented in the quarterly report

The Management Board upholds its 2016 performance forecast published in the current report of February 17th 2016 and announces that in the three months ended March 31st 2016 the forecast was performed as follows:

Item [PLNm]	2016 forecast (full year)	Q1 2016 actual performance	Actual performance after Q1 (%)
Adjusted EBITDA	233.3	87.1	37 %
Adjusted net profit	52.1	38.6	74 %

(PLN ‘000)

4. Factors and events, especially of non-recurring nature, with a material bearing on financial performance

For more information on factors with a material bearing on financial performance, see Section A.1 and C.1-2 of this Report.

5. Shareholders holding, directly or indirectly through subsidiaries, 5% or more of total voting rights at the General Meeting of the issuer as at the date of issue of the quarterly report, including information on the number of shares held by those shareholders, their interests in the share capital, the resulting number of votes at the General Meeting and their share in total voting rights at the General Meeting, and any changes in the ownership structure of major holdings of the issuer shares after the issue of the previous quarterly report

No.	Shareholder	Number of shares	Number of voting rights	% interest
1	Kulczyk Investment S.A.*	22,811,757	22,811,757	50.20%
2	China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF**	7,266,122	7,266,122	15.99%
3	ING OFE	2,576,969	2,576,969	5.67%
4	Generali OFE	2,943,731	2,943,731	6.48%
5	Aviva OFE	3,060,872	3,060,872	6.74%
6	Other	6,748,096	6,748,096	14.93%
	Total	**45,443,547**	**45,443,547**	**100%**

* Through Mansa Investments Sp. z o.o., a subsidiary
** Through Capedia Holdings Limited of Nicosia, Cyprus, a subsidiary

6. Effects of changes in the Group's structure, including changes resulting from mergers, acquisitions or disposals of Group entities, long-term investments, demergers, restructuring or discontinuation of operations

In Q1 2016, ended March 31st 2016, there were no changes resulting from business combinations, acquisitions or disposals of Group entities, long-term investments, demergers, restructuring or discontinuation of operations.

7. General information

The Polenergia Group, formerly Polish Energy Partners S.A. (the company registered the change of its name with the National Court Register on September 11th 2014), (the "Group") comprises Polenergia S.A. (the "Company", the "parent") and its subsidiaries. The Company was established under a notary deed of July 17th 1997. It is entered in the National Court Register maintained by the District Court for the Capital City of Warsaw, 20th Commercial Division of the National Court Register, under KRS No. 0000026545. The Company's Industry Identification Number (REGON) is 012693488. The Company's registered office is at ul. Krucza 24/26 in Warsaw.

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

- production and distribution of electricity (PKD 40.10),
- production and distribution of heat (steam and hot water) (PKD 40.30),
- construction and civil engineering (PKD 45.21),
- construction installation activities (PKD 45.3),
- other credit granting, excluding licensed activities and activities reserved for banks (PKD 65.22),
- research and development of natural sciences and engineering (PKD 73.10),
- development and sale of own real estate (PKD 70.11),
- operating of real estate on a fee or contract basis (PKD 70.32),
- accounting and bookkeeping activities (PKD 74.12),
- construction and process design, urban planning (PKD 74.20),
- business and management consultancy activities (PKD 74.14),

(PLN '000)

- 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.

8. Composition of the Parent's Management and Supervisory Boards

As at March 31st 2016, the composition of the Parent's Management Board was as follows:

Zbigniew Prokopowicz	President of the Management Board
Jacek Głowacki	Vice-President of the Management Board
Anna Kwarcińska	Vice-President of the Management Board
Michał Kozłowski	Vice-President of the Management Board.

On April 27th 2016, Zbigniew Prokopowicz, Anna Kwarcińska and Michał Kozłowski resigned from the Company's Management Board.

On April 28th 2016, the Company's Supervisory Board appointed Bartłomiej Dujczyński as Member of the Management Board and delegated Jacek Głowacki to manage the work of the Management Board.

As at March 31st 2016, 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
Dominik Libicki	Member of the Supervisory Board
Mariusz Nowak	Member of the Supervisory Board
Arkadiusz Jastrzębski	Member of the Supervisory Board
Brian Bode	Member of the Supervisory Board
Dagmara Gorzelana-Królikowska	Member of the Supervisory Board
Dawid Jakubowicz	Member of the Supervisory Board
Orest Nazaruk	Member of the Supervisory Board

(PLN '000)

9. Legal environment

9.1 Introduction

The operations of the Group companies are subject to numerous Polish and EU regulations. The Polish regulations include, in particular, the following legal acts:

- the Energy Law with the secondary legislation;
- the LTC Act;
- the Geological and Mining Law;
- the Act on Marine Areas of the Republic of Poland and Maritime Administration;
- the Act on Trading in Greenhouse Gas Emission Allowances, dated April 28th 2011;
- the Act on the System of Managing Emissions of Greenhouse Gases and Other Substances, dated July 17th 2009;.
- the Environmental Protection Law;
- the Environmental Impact Assessment Act;
- the Act on Prevention of Environmental Damage;
- the Nature Conservation Act.

The EU regulations include:

- Directive 2009/72/EC of the European Parliament and of the Council of July 13th 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC;
- Directive 2009/28/EC of the European Parliament and of the Council of April 23rd 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC;
- Directive 2010/75/EU of the European Parliament and of the Council of November 24th 2010 on industrial emissions (integrated pollution prevention and control);
- Directive 2004/35/EC of the European Parliament and of the Council of April 21st 2004 on environmental liability with regard to the prevention and remedying of environmental damage;
- Directive 2011/92/EU of the European Parliament and of the Council of December 13th 2011 on the assessment of the effects of certain public and private projects on the environment;
- Directive 2009/29/EC of the European Parliament and of the Council of April 23rd 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community;
- Directive 2003/87/EC of the European Parliament and of the Council of October 13th 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

The key laws and regulations affecting the Group's operations are presented and briefly discussed in this section.

9.2 Key regulations applicable to the mining sector

The main legislative act governing the activities of the energy sector in Poland is the Energy Law, along with its secondary legislation. The Energy Law lays down the rules governing the development of the state's energy policy, rules and conditions for supply and use of fuels and energy, including heat, and operation of energy companies, and specifies the authorities competent for fuel and energy management. The purpose of the Energy Law is to create conditions for the sustainable development of the country, its energy security, efficient and rational use of fuels and energy, development of competition, prevention of negative consequences of natural monopolies, respect for environmental protection requirements and obligations arising from international agreements, as well as to balance the interests of energy companies with those of fuel and energy consumers.

The Energy Law also sets forth the rules for the development of the national energy policy, which is drafted and approved by the Council of Ministers every four years. On November 10th 2009, the Council of Ministers approved Poland's Energy Policy until 2030, which sets out the key directions of the energy policy and measures for its implementation.

The power sector is also subject to European Law, and particularly Directive 2009/72/EC of the European Parliament and of the Council of July 13th 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC (OJ L 211/55 of August 14th 2009), as well as regulations adopted as part of the third energy package.

9.2.1 Regulatory body for the Polish energy sector

The regulatory body whose remit includes fuel and energy management and promotion of competition is the President of URE (Polish Energy Regulatory Authority), a central government authority. The President of URE is appointed by the Prime Minister from among candidates selected in an open and competitive recruitment procedure, on the recommendation of the minister competent for economy. The President of URE is also removed by the Prime Minister.

In particular, the responsibilities of the President of URE include:

- Granting and revoking of licenses,
- Approval of gas, electricity and heat tariffs and oversight of their application,
- Supervision of compliance with the requirement to redeem certificates of origin or pay the emission charge (i.e. supervision of the mechanism of support for renewable energy sources),
- Approval of the Grid Code,
- Resolution of certain disputes between energy companies and between energy companies and consumers (for instance disputes concerning refusal to connect a consumer to the grid),
- Imposition of fines on energy companies in accordance with the rules set out in the Energy Law,
- Issuance and redemption of certificates of origin and co-generation certificates of origin.

If an energy company is found to be in breach of its obligations under the Energy Law, the President of URE may impose on the company a fine which may not exceed 15% of the previous fiscal year's revenue of that company, and if the fine is charged in connection with licensed activities, it may not exceed 15% of the company's revenue derived from its licensed activities in the previous fiscal year. The President of URE may also impose a fine on the head of an energy company, which, however, may not exceed 300% of their monthly remuneration. In determining the amount of a fine, the President of URE takes into account the extent of the adverse effects of the breach, the company's culpability, its previous practice and financial standing. The President of URE may decide not to impose a fine if the extent of adverse effects of the breach is insignificant and the company has ceased to be in breach of the law or has performed its obligation.

9.2.2 Licences

In accordance with the Energy Law, a licence is required, with certain exceptions specified therein, to conduct the following business activities:

- Electricity or heat generation,
- Electricity or heat transmission or distribution,
- Trade in electricity or heat.

Licences are granted by the President of URE to an applicant that meets the conditions specified in the Energy Law, provided that no circumstances occur, as specified in the Energy Law, that would prevent the granting of a licence. Licences are granted for a fixed term of at least 10 years, and 50 years as a maximum, unless an application for a shorter term is filed. Energy companies may apply for licence extension not later than 18 months prior to licence expiry. Where so stipulated by the Energy Law, the President of URE may, or in certain cases is required to, revoke the licence or modify its scope.

Licence holders pay annual fees to the state budget, charged to their operating expenses. A relevant regulation of the Council of Ministers determines the amount and method of collection by the President of URE of annual fees payable by licence holding energy companies. The amount of the annual fee is calculated based on the energy company's revenues, as derived from activities covered by the licence. The fee for each type of activity covered by the licence may not be lower than PLN 200 nor higher than PLN 1,000 thousand. If multiple activities requiring a licence are conducted, the final fee is the total of fees for the individual activities.

9.2.3 Tariffs

The prices and rates charged for the supply of electricity, heat or gas fuel to consumers are specified by energy companies in tariffs approved by the President of URE or determined on the competitive market (in the case of entities exempt from the obligation to submit their tariffs for approval to the President of URE).

Licence holders determine electricity, heat and gas fuels tariffs, which are subject to approval by the President of URE, on their own initiative or at the request of the President of URE, and indicate a proposed validity period for the tariffs. In accordance with the Energy Law, energy companies determine electricity, heat and gas fuels tariffs, as applicable, depending on their scope of business, on terms provided for in the Energy Law and relevant secondary legislation. Tariffs should be calculated in a way ensuring the coverage of energy companies' reasonable operating expenses (related to the activity subject to the tariff, e.g. heat generation) and a reasonable return on capital employed in that activity, coverage of reasonable expenses incurred by distribution and transmission system operators in connection with the performance of their tasks, and protection of customers' interests against unreasonably high prices and charge rates. The detailed rules for calculating tariffs are set out in the Polish Energy Law and relevant secondary legislation The President of URE approves the tariffs or rejects them if a tariff is found to be incompliant with the Energy Law and its secondary legislation.

The President of URE may exempt an energy company from the obligation to submit its tariffs for approval if the President of URE confirms that the energy company operates in a competitive environment, or may revoke an exemption if the conditions justifying the exemption are no longer met. The exemption may apply to a specific part of the business conducted by the energy company, to the extent to which that business is conducted on the competitive market.

The President of URE had exercised that right on numerous occasions, gradually exempting power sector companies from the obligation to submit their tariffs for approval. In consequence, the obligation to submit tariffs for approval to the President of URE applied only to the tariffs of those power sector companies whose business consisted in the transmission and distribution of electricity, as well as tariffs related to sale of electricity to customers who do not conduct business activities, mainly households (G tariff group).

A Group company (Polenergia Dystrybucja), in connection with its business activity involving electricity distribution and sale of electricity to households, is required to submit electricity tariffs for approval to the President of URE.

In the heat sector, the President of URE has not granted any exemptions from the obligation to submit tariffs for approval, hence the tariffs concerning all types of heat-related operations are required to be submitted for approval by the President of URE. This obligation also applies to the heat producers from the Group.

In the gas sector, the President of URE ruled that the obligation to submit tariffs for approval should not apply to gas fuel trading a commodity exchange (or a regulated market). As regards gas fuel trading between trading companies and LNG trading, the President of URE stated that the exemption is granted to the interested energy company upon application to the President of URE. As a result, the obligation to submit tariffs for approval applies to one Group company (Polenergia Kogeneracja), which operates in the area of gas fuel trading and distribution.

It is not certain whether an exemption from the obligation to submit tariffs for approval involves an exemption from the obligation to determine the tariffs in line with the regulations of the Energy Law and relevant secondary legislation. In accordance with the relevant provisions of the Energy Law, the President of URE has the right to grant an exemption from the obligation to submit tariffs for approval, but not from the obligation to apply tariffs. In practice, however, a different interpretation is applied, according to which an exemption from the obligation to submit electricity tariffs for approval is tantamount to an exemption from the obligation to apply tariffs. As a consequence, a number of entities operating on the market (including Group companies) in business activities for which the President of URE exempted them from the obligation to submit tariffs for approval, began to apply prices and rates determined on the competitive market, which may not meet all the requirements set out in the Energy

Law and relevant secondary legislation pertaining to the method of determination and calculation of such tariffs.

9.2.4 Right to free choice of suppliers and the right of access to the grid (TPA)

The Energy Law, implementing in this respect the EU legislation, provides for the right of free choice of supplier and access to the grid.

The right of free choice of supplier means that consumers may purchase electricity from a supplier of their choice (producer, trading company). In accordance with the right of access to the grid, energy companies involved in electricity transmission or distribution are obliged to provide all customers and energy traders, on a non-discriminatory basis, with transmission or distribution services on the terms and in the scope specified in applicable laws. Energy transmission and distribution services are provided on a contractual basis.

9.2.5 Grid connection

Pursuant to the Energy Law, energy companies involved in energy transmission or distribution are required to conclude, on a non-discriminatory basis, a grid connection agreement with entities applying for grid connection if it is technically and economically feasible to make the connection and supply energy and the applicant satisfies the conditions for grid connection and receipt of energy. If an energy company refuses to conclude a grid connection agreement, it is obliged to immediately send a written notification of the refusal to the President of URE and the entity applying for connection, specifying the reasons for the refusal.

At the request (meeting the conditions defined in the Energy Law and the secondary legislation thereto) of the entity applying for connection, if it is technically and economically feasible to make the connection and supply energy and the applicant satisfies the conditions for grid connection and receipt of energy, the energy company issues grid connection conditions valid for two years from delivery. In the validity period, the grid connection conditions represent a conditional obligation of the energy company to conclude the grid connection agreement.

Energy companies involved in energy transmission or distribution are obliged to ensure the execution and financing of grid construction and extension, including for the purpose of connecting the entity applying for connection, on the terms specified in detail in the secondary legislation to the Energy Law and in assumptions to local governments’ electricity and heat supply plans or in local governments’ electricity and heat supply plans.

Any disputes concerning, among other things, refusal to conclude a grid connection agreement are resolved by the President of URE at the request of either party.

Grid connection is subject to a fee set in accordance with the Energy Law. Grid connection of power generation facilities is subject to a fee calculated on the basis of the actual connection cost, except for renewable energy sources with an installed capacity of 5 MWe or less and cogeneration units with an installed electrical capacity of less than 1 MWe, which are subject to a fee equal to a half of the fee calculated on the basis of the actual costs incurred.

If an energy company refuses to conclude a grid connection agreement due to economic infeasibility, the energy company may charge a connection fee in an amount agreed upon with the entity applying for connection in the grid connection contract.

An applicant for connection to the electricity grid with a source whose rated voltage is higher than 1kV is required to make an advance payment towards the grid connection fee. The advance is calculated at the rate of PLN 30 per each kilowatt of connected load as specified in the grid connection application. However, the total amount of the advance may not exceed the expected grid connection fee, subject to a PLN 3m cap.

9.2.6 Supplier of last resort

Pursuant to the Energy Law, a supplier of last resort (in the power sector) is an energy which holds a licence for trade in electricity and provides comprehensive services to household consumers of electricity or gas fuels who do not exercise their right to choose their supplier. A comprehensive service is provided under an agreement that incorporates the provisions of an agreement on the sale of energy and an agreement on the provision of energy transmission or distribution services.

A supplier of last resort is required, to the extent specified in secondary legislation to the Energy Law, to purchase energy from renewable energy sources connected to the grid located within the area of such supplier's activity, offered by energy companies holding generation licences (or entered in the relevant register if such entity generates electricity from agricultural biogas). Electricity is purchased for the average price quoted on a competitive market in the previous calendar year, as announced by the President of URE (2014: PLN 181.55 per 1 MWh).

The supplier of last resort is selected (or appointed where the tender does not result in supplier selection) in accordance with the detailed procedure set forth in the Energy Law, the supplementary legislation thereto and applicable transitional provisions.

9.2.7 Requirement of public sale of electricity by producers

In accordance with the Energy Law, an energy company engaged in generation of electricity is required to sell at least 15% of electricity produced in a given year on a commodity exchange, within the meaning of the Act on Commodity Exchanges of October 26th 2000, or on a market organised by the entity operating the regulated market in Poland.

In addition, an energy company engaged in generation of electricity which is entitled to receive funds to cover its stranded costs under the Act on Rules of Compensating Costs Incurred by Energy Producers Due to Early Termination of Long-Term Capacity and Electricity Purchase Agreements, dated June 29th 2007, is required to sell any generated volumes of electricity which are not required to be sold on a commodity exchange in a manner ensuring public and equal access to such electricity, in an open auction, on a market organised by the entity operating the regulated market in Poland or on a commodity exchange, within the meaning of the Act on Commodity Exchanges of October 26th 2000.

This obligation does not apply to electricity:

- Supplied by the energy company engaged in generation of electricity to an end user via a direct line;
- Produced from a renewable energy source;
- Produced in a cogeneration process with an average annual efficiency of conversion of chemical energy of the fuel into electrical or mechanical energy and useful heat in cogeneration above 52.5%;
- Used by the energy company engaged in generation of electricity for its own needs;
- Necessary for power system operators to perform the activities specified in the Energy Law;
- Produced in a generating unit with a total installed capacity of up to 50 MWe.

The President of URE may also exempt an energy company from the above requirement to the extent related to generation of electricity sold in performance of long-term obligations under contracts executed with financial institutions with a view to implementing projects related to electricity generation, or generated to meet the needs of a transmission system operator and used to ensure proper functioning of the national power grid, provided that such exemption does not cause a material distortion of competition on the electricity market or a disruption on the balancing market.

Group companies are not subject to the requirement of public sale of electricity as they generate electricity from renewable energy sources or because their units have low installed capacities. Also Elektrociepłownia Nowa Sarzyna is not subject to the requirement of public sale of electricity as the capacity of any of its three generating units does not exceed 50 MWe. The rightfulness of the exemption from the requirement has been confirmed by the decision of the President of URE.

9.2.8 Fuel stocks

In accordance with the Energy Law, an energy company engaged in generation of electricity or heat is obliged to maintain fuel stocks at a level which allows it to maintain continuity of the electricity or heat supplies to customers. The precise quantities of hard coal, lignite and fuel oil stocks to be maintained are specified in a relevant regulation of the minister competent for economy.

The Energy Law defines situations in which stocks can be reduced as well as situations where they must be replenished. Compliance with the requirement to maintain specific amounts of fuel stocks can be inspected by the President of URE. If it is found that an energy company fails to meet the requirement, the President of URE may, among other things, impose a fine of no more than 15% of the company's revenue derived from licensed activities in the previous fiscal year.

9.2.9 Laws applicable to energy from renewable energy sources and cogeneration

Energy from renewable sources

In accordance with the Energy Law, a supplier of last resort is required, to the extent specified in a relevant regulation, to purchase electricity produced from renewable energy sources connected to the distribution or transmission network located within the area of such supplier's activity, offered by energy companies holding a licence for its generation (or entered in the relevant register if such entity generates agricultural biogas or electricity from agricultural biogas). Electricity is purchased for the average price quoted on a competitive market in the previous calendar year, as announced each year by the President of URE (2014: PLN 181.55 per 1 MWh).

Energy companies specified in the Energy Law (mainly energy companies engaged in the generation of or trade in electricity and selling electricity to end users connected to the grid in Poland) are also required, to the extent specified in the regulations issued on the basis of the Energy Law, to obtain certificates of origin or else pay a relevant emission charge.

The requirement to obtain certificates of origin and submit them for redemption to the President of URE, or else to pay an emission charge, is considered satisfied if in a given year the share of the total volume of electricity credited under the certificates submitted for redemption, or of the emission charge paid by the energy company, in the energy company's total annual volume of electricity sales to end users is at least equal to the values specified in a relevant regulation issued by the Minister of Economy.

Certificates of origin are issued by the President of URE at the request of the energy company engaged in generation of electricity from renewable sources, submitted through the power system operator in charge of the operating area where the renewable energy source specified in the request is located.

Property rights incorporated in certificates of origin arise as of the first-time registration of the certificates in a relevant account of the certificates of origin register, and inure to the benefit of the holder of that account. Property rights incorporated in certificates of origin are transferable and represent a commodity as defined in the Act on Commodity Exchanges of October 26th 2000 .

An alternative to fulfilling the requirement laid down in the Energy Law by way of certificates redemption is the payment of a relevant emission charge. A unit emission charge (per 1 MWh) is indexed each year by the inflation rate and published by the President of URE. The unit emission charge published by the President of URE in 2014 is PLN 300.03 per 1 MWh.

An emission charge is the product of the unit emission charge (2014: PLN 300.03 per 1 MWh) and the difference between the volumes of electricity in MWh resulting from the requirement to obtain certificates of origin and submit them for redemption.

If a supplier of last resort fails to comply with the obligation to purchase electricity generated from renewable energy sources, the supplier is subject to a fine amounting to no less than the product of the average selling price of electricity for the previous calendar year, expressed in PLN per 1 MWh, and the difference between the volume of electricity produced from renewable energy sources and offered for sale, expressed in MWh, and the volume of electricity produced from renewable energy sources and purchased in a given year, expressed in MWh.

If the requirement to obtain certificates of origin and submit them for redemption by the President of URE is not complied with, the company is obliged to pay an emission charge. If the requirement is not complied with and the emission charged is not paid, the company is subject to a fine equal to or higher than the product of 1.3 and the difference between the emission charge due and actually paid.

In addition, in accordance with the assumptions of the climate and energy package, the share of renewable energy in the EU energy mix is expected to increase to 20% by 2020. Directive 2009/28/EC of the European Parliament and of the Council of April 23rd 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC (OJ L 140, 2009, p. 16), sets a different target share for each Member State. In the case of Poland, the target share of energy from renewable sources in final consumption is 15%, to be achieved by 2020.

The Act on Renewable Energy Sources (the RES Act) was passed by the Polish Parliament on February 20th 2015 and became effective on May 4th 2015, with the main part of the Act, concerning the new support system for energy from renewable energy sources (RES), to enter into force as of July 1st 2016.

The RES Act provides for maintaining the existing RES support system based on green certificates for installations commissioned before the provisions of Chapter 4 of the RES Act enter into force, i.e. before January 1st 2016. Concurrently, in order to maintain high prices of the certificates, the RES Act contains mechanisms that should reduce the oversupply of the certificates by increasing the demand (higher redemption requirements), limiting the supply (limited support for biomass co-firing and hydroelectric power plants), and restricting the possibility of paying the emission charge if prices of certificates are lower than 75% of the emission charge amount.

In addition, all installations participating in the old support system will be able to switch to the new auction-based support system that will be the only available support system for the installations commissioned after January 1st 2016. The key objective behind the system is to provide a 15-year period of support for the RES installations that win the auctions, during which they will be guaranteed to receive compensation for the difference between the auction price and the price of energy on the market.

Under the RES Act, the system of green certificates is available for all wind farm projects commissioned before the RES Act enters into force, i.e. before July 1st 2016. The green certificate rights exist for a period of 15 years from the date of launching electricity generation for which it was possible to obtain green certificates (continuation of the green certificates system). All projects under the existing certificate system will be allowed to switch to the auction-based system.

The new, auction-based, system will give project operators the ability to obtain the right to receive compensation for the difference between the auction price and the market price in the period of 15 years from the date of launching operations. The price obtained in an auction will be indexed.

The target volume of energy for which an auction is held will be determined five times for three-year periods; Every year, the Ministry of Economy will set a reference price for each technology, taking into account the average capital expenditure and operating costs for standard projects; Only bids with prices equal to or lower than the reference price for a given technology will be considered; All technologies will be able to participate in the same auctions.

The Ministry of Energy has announced plans to amend the RES Act. The official draft amendment is not known as yet. However, it cannot be ruled out that the potential amendment will have a significant effect of the regulations discussed above.

Electricity from high-efficiency cogeneration

The Energy Law also provides for a system of support for units producing electricity in high-efficiency cogeneration, similar to the support system for renewable energy sources. The system is also based on a certificates of origin scheme:

- ‘Yellow certificates’ are issued for cogeneration units fired with gaseous fuels or having a total installed capacity of less than 1 MWe,
- ‘Violet certificates’ are issued for cogeneration units fired with methane released and captured during underground mining operations in active, inactive or decommissioned coal mines, or gas obtained from biomass processing, within the meaning of Art. 2.1.2 of the Act on Biocomponents and Liquid Biofuels,
- ‘Red certificates’ are issued for units other than those described above (mainly coal- and biomass-fired units).

The system of support under the red and yellow certificates scheme will operate until June 30th 2019.

Similarly to green certificates, energy companies specified in the Energy Law (mainly energy companies engaged in the generation or trade in electricity and selling electricity to end users connected to the grid in Poland) are required, to the extent specified in the applicable legal regulations, to obtain cogeneration certificates of origin or else pay a relevant emission charge.

The requirement to obtain cogeneration certificates of origin and submit them for redemption to the President of URE, or else to pay an emission charge, is considered satisfied if in a given year the share of the total volume of electricity credited under the cogeneration certificates submitted for redemption, or of the emission charge paid by the energy company, in the energy company’s total annual volume of electricity sales to end users is at least equal to the values specified in a relevant act (amending the Energy Law).

The Energy Law also governs the calculation of the amount of a relevant emission charge (which is different for individual types of certificates), origination of property rights incorporated in certificates of origin for electricity produced in high-efficiency cogeneration, and fines for non-compliance with the requirement to redeem cogeneration certificates of origin or pay a relevant emission charge.

9.2.10 Stranded costs

The LTC Act defines the terms of compensating costs incurred by energy producers due to early termination of long-term capacity and electricity purchase agreements, as specified in Appendix 1 to the Act, including the terms of:

- Early termination of long-term contracts;
- Financing of costs which arose due to early termination of long-term contracts (‘stranded costs’);
- Payment of funds to compensate for stranded costs;
- Calculation, adjustment and settlement of stranded costs;
- The operation of ‘Zarządca Rozliczeń Spółka Akcyjna’, the company set up to operate the stranded cost settlement system.

Pursuant to the LTC Act, electricity producers who were parties to LTCs securing a specified revenue stream during the contract term had an option of voluntary termination of those contracts in exchange for payment of compensation for stranded costs arising from their termination, under a relevant compensation scheme. Under the LTC Act, ‘stranded costs’ are expenses incurred by an electricity producer which are not covered by revenues from sale of electricity, capacity reserves or system services on the competitive market after early termination of a long-term contract, and which result from investments in electricity generation assets made by the producer before May 1st 2004.

In the Group, Elektrociepłownia Nowa Sarzyna is a producer of electricity which receives funds to cover its stranded costs; it will participate in the compensation scheme until 2020.

The LTC Act specifies the maximum level of stranded costs for individual producers (PLN 777,535 thousand for Elektrociepłownia Nowa Sarzyna), as well as the maximum amount of expenses incurred by producers who use natural gas to generate electricity, resulting both from the use of collected gas and from uncollected gas (PLN 340,655 thousand for Elektrociepłownia Nowa Sarzyna).

9.3 Ownership of infrastructure for transmission or distribution of electricity

Under the general rule set forth in the Civil Code, any infrastructure permanently attached to land forms part of that land and, as such, is owned by the land owner. Art. 49 of the Civil Code provided for one exception to that rule, according to which (in the version effective before 2008), any facilities used to supply or collect water, steam, gas or electricity, and other similar infrastructure, did not form part of the property if they constituted the assets of an enterprise. Due to the ambiguity and differing interpretations of that provision, entrepreneurs occupied land without holding any legal title thereto, which led to disputes over the ownership of transmission infrastructure located on such properties. Under the 2008 amendment to the Civil Code, the above provision was slightly modified and, at the same time, a paragraph was added under which a person who bore the costs of construction of transmission infrastructure and remains its owner may demand that an entrepreneur who has connected that infrastructure to its own network acquire the ownership title thereto, for an appropriate consideration, unless agreed otherwise by the parties concerned. The demand to transfer the ownership of such infrastructure may also be made by the entrepreneur.

Despite expanding the rights of persons directly or indirectly involved in infrastructure development, the above provision still gives rise to certain ambiguities. On the one hand, it eliminates the general rule that any infrastructure permanently attached to land forms part of that land, but on the other hand it should not be interpreted as automatically entailing the transfer of ownership title to transmission infrastructure to the entrepreneur upon its connection to the entrepreneur’s network. A direct agreement between the parties concerned is still required to settle that issue.

9.4 Transmission easement

The provisions on transmission easement were included in the Civil Code in August 2008, filling the legal vacuum connected with the lack of regulations that would govern the legal relations between transmission companies and owners of the properties on which transmission infrastructure is situated. The amendment offered the possibility of establishing transmission easements both for existing infrastructure and for planned investments, thus facilitating the planning of new energy projects.

Under the transmission easement regulations, a property may be encumbered for the benefit of an enterprise that has built (or intends to build) transmission infrastructure, including any structures and installations forming part of transmission lines used to supply and collect liquids, steam, gas or electricity, as well as other infrastructure used for similar purposes, in such a way that the enterprise may use the property within the specified scope, in accordance with the intended purpose of such infrastructure.

Transmission easement is established on the basis of an agreement, executed as a notary deed, between the enterprise and the owner of land on which transmission infrastructure is located, or is planned to be located. In a case where transmission easement is necessary for the use of transmission infrastructure but the owner of the property refuses to enter into the relevant agreement, the company may demand that the agreement be concluded against remuneration.

One downside of the transmission easement regime is the requirement to secure easements from the owners of all parcels of land crossed by a power line, which is frequently a considerable number of people. To facilitate the process of acquiring legal title to the property to be crossed by a power line, the lawmakers are currently considering the possibility of introducing the so-called transmission corridors (see the following section: Transmission corridors).

9.5 Transmission corridors

As indicated in the document setting out the rationale for the draft Act on Transmission Corridors of June 6th 2012 prepared by the Ministry of Economy (available together with the rationale by the Government Legislation Centre from http://legislacja.rcl.gov.pl/lista/2/projekt/23511), the Ministry is considering the possibility of introducing so-called ‘transmission corridors’ into the Polish legal framework, in order to address the needs of Polish society and economy. Among other things, transmission corridors would eliminate difficulties related to the acquisition of legal title to the property on which power lines are to be installed. According to the draft, the new Act would introduce the mechanism of an administrative decision under which a single permit for the establishment of a transmission corridor would be issued, covering the required number of land parcels to be crossed by a planned power transmission line. In addition, the draft provides that such a decision may also incorporate other decisions required in the development process, including building permits and a decision approving the building permit documentation (planning permission). As a result, the investor would not need to go through the lengthy procedure of obtaining a number of separate administrative decisions, which often can be very time-consuming, since it would obtain all the required permits by way of a single decision, which is expected to facilitate the development process.

Beneficiaries of the new Act will include transmission entrepreneurs, i.e. individuals, legal persons and organisational units which possess transmission infrastructure or implement investment projects related to transmission infrastructure.

9.6 Environmental protection

The Group’s operations are extensively regulated under Polish environmental protection laws (including with respect to the protection of air, water, land surface, animals and plants, as well as protection against noise and electromagnetic fields). They transpose, in full or in part, a number of EU laws, including specifically: (i) Directive 2008/98/EC of the European Parliament and of the Council of November 19th 2008 on waste and repealing certain Directives (OJ EU L 312 of November 22nd 2008), (ii) Directive 2010/75/EU of the European Parliament and of the Council of November 24th 2010 on industrial emissions (integrated pollution prevention and control) (OJ EU L 334 of December 17th 2010), (iii) Directive 2004/35/EC of the European Parliament and of the Council of April 21st 2004 on environmental liability with regard to the prevention and remedying of environmental damage (OJ EU L

143 of April 30th 2004), (iv) Directive 85/337/EEC of the Council of June 27th 1985 on the assessment of the effects of certain public and private projects on the environment (OJ EU L 175 of July 5th 1985), (v) Directive 92/43/EEC of the Council of May 21st 1992 on the conservation of natural habitats and of wild fauna and flora (OJ EU L 206 of July 22nd 1992), (vi) Directive 79/409/EEC of the Council of April 2nd 1979 on the conservation of wild birds (OJ EU L 103 of April 25th 1979), (vii) Directive 2000/60/EC of the European Parliament and of the Council of October 23rd 2000 establishing a framework for Community action in the field of water policy (OJ EU L 327 of December 22nd 2000), (viii) Directive 2003/87/EC of the European Parliament and of the Council of October 13th 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (OJ EU L 275 of October 25th 2003).

The individual national laws on environmental protection regulate the environmental issues both during the development process and the operation of a completed project. They form a framework for the protection of the environment as a whole and of its individual components (by defining environmental quality standards and methods for assessing their achievement, as well as measures designed to ensure that those standards are respected or restored), and specify the administrative procedures and requirements applicable in this area.

This section contains a summary of the key national laws and regulations on environmental protection which are relevant to the Group's operations.

9.6.1 Environmental Protection Law

The Environmental Protection Law is the main legal act regulating environmental issues. It sets forth the rules of environmental protection and the conditions for using environmental resources, including, in particular: (i) the principles of setting the conditions for release of certain substances or energy into the environment, (ii) the principles of determining costs related to the use of the environment, (iii) the duties of public authorities and environmental protection institutions, and (iv) liability for damaging or negative environmental impact, as well as sanctions imposed for non-compliance with the above rules.

The provisions of the Environmental Protection Law apply not only to completed projects (and their operation), but also to the implementation phase, i.e. the investment and construction process, which may have a negative impact on the environment. Already at the construction stage, the investor implementing a project is obliged to ensure compliance with all the environmental regulations in force in the area where the works are being carried out. Under the Environmental Protection Law, newly built or modified installations cannot be placed in service unless and until they meet the applicable environmental requirements.

In the operating phase, the investor may be required to obtain sector-specific permits or an integrated permit specifying the emission limits for all substances or types of energy and the environmental impact conditions (required for installations whose operation − due to its nature or scale − may lead to significant pollution of the environment as a whole or of its individual components; in the power industry, an integrated permit is required for any combustion unit with a rated thermal input of over 50 MWt), and may be required to pay environmental charges (charges for using the natural environment). Pursuant to the Environmental Protection Law, a sector-specific environmental permit is required, as a rule, to operate an installation which: (i) releases gases or dust into the air, (ii) releases effluents into the ground or waters, (iii) generates waste, unless that installation is already covered by an integrated permit. In addition, in cases specified in the Environmental Protection Law, a user of the natural environment is required to pay environmental charges, at rates applying in the period in which the use of the environment took place.

The Environmental Protection Law also provides for civil, criminal and administrative liability for violation of its provisions or for non-compliance with any permits issued thereunder. For instance, where a given activity causes significant deterioration of the environment or poses a threat to human life or health, a decision is issued ordering that the activity be terminated to the extent necessary to prevent any further deterioration of the environment. The law also specifies situations where the operation of an installation may be optionally suspended (including in a case where the entity concerned releases any substances or energy into the environment without the required permit or does not comply with the conditions of such a permit). In addition, the Environmental Protection Law contains provisions on administrative fines imposed, among other things, for exceeding or breaching the conditions for the use of the environment, as well as on increased environmental charges, for example where the required permits have not been obtained.

9.6.2 Environmental Impact Assessment Act

The Environmental Impact Assessment Act specifies, in particular: (i) the principles and procedures for the disclosure of information about the environment and its protection, (ii) the principles and procedures applying to environmental impact assessments, (iii) the rules of public participation in environmental protection, and (iv) the public authorities competent for the above areas. It also defines the procedure and rules for issuing decisions on environmental conditions (specifying the environmental conditions to be met by a project).

Under the Environmental Impact Assessment Act, a decision on environmental conditions is required to implement any projects which always have a significant environmental impact or which may potentially have a significant environmental impact. Such projects are specified in detail (in terms of their possible environmental impacts) in the Regulation of the Council of Ministers of November 9th 2010 on projects with significant environmental impact (Dz.U. No. 213, item 1397). Typically, a decision on environmental conditions is obtained prior to other decisions, including the building permit, planning permit and water permit necessary to build any hydro-engineering structures or facilities.

Where a contemplated project may always have a significant environmental impact, an environmental impact assessment is performed in the course of the procedure related to the issuance of a decision on environmental conditions. Where a planned project may potentially have a significant environmental impact, an environmental impact assessment is performed if the competent authority decides that such an assessment is required. In addition, an assessment is required for projects other than those referred to above in relation to their impact on Natura 2000 sites (i.e. Special Protection Areas for birds, Special Areas of Conservation for habitats, or Sites of Community Importance established to protect the population of wild birds, natural habitats, or any species of Community importance) in a case where a contemplated project may have a significant impact on a Natura 2000 site but is not directly related to the protection of that site and does not result from its protection. An environmental impact assessment for a given project identifies, reviews and evaluates, among other things: (i) the direct and indirect impacts of the project on the environment and on human health and living conditions, (ii) the possibilities and methods of preventing and mitigating the negative environmental impacts of the project, and (iii) the required monitoring measures. An assessment of the impact of a given project on a Natura 2000 site identifies, reviews and evaluates the impact of the project on the Natura 2000 site.

In a decision on environmental conditions for a project, which is issued following the environmental impact assessment, the competent authority specifies, in particular: (i) the type and location of the project, (ii) the conditions for using the site during the implementation and operation/use phase, and (iii) in a case where the environmental impact assessment indicates the need to: a) provide environmental offsets (compensatory measures) − the competent authority states that such offsets are necessary, or b) prevent, mitigate and monitor the environmental impacts of the project − the competent authority imposes the obligation to take such measures. In addition, in a decision on environmental conditions the competent authority may oblige the applicant to submit a post-implementation report, specifying its scope and submission deadline. In a case where an environmental impact assessment has not been performed, a decision on environmental conditions will contain a statement of the competent authority to the effect that an environmental impact assessment is not required for the project.

9.6.3 Natura 2000 sites

The Natura 2000 programme was established with a view to protecting the rich natural heritage of EU Member States (by protecting the most valuable and endangered habitats and species of plants and animals), and to implementing a cohesive policy for the protection of natural resources within the EU. The key objective behind the programme is to create a network of protected areas in order to preserve certain types of natural habitats as well as animal and plant species considered to be of value and importance. Within the meaning of the Nature Conservation Act, the network of Natura 2000 sites includes: (i) Special Protection Areas for birds, (ii) Special Areas of Conservation for habitats, and (iii) Sites of Community Importance. These all belong to the European network of protected areas.

The legal regulations on Natura 2000 sites provide for a number of restrictions on the implementation of projects within or near Natura 2000 sites. As a rule, it is prohibited to pursue any activities which may have, individually or in combination with other activities, a significant negative impact on the protected natural resources within a Natura 2000 site, and particularly may: (i) cause the condition of natural habitats or habitats of animal and plant species protected within the designated Natura 2000 site to deteriorate, (ii) adversely affect the species protected within the designated Natura 2000 site, or (iii) adversely affect the integrity of the Natura 2000 site or its links to other areas. However, it should also be noted that the designation of an area as a Natura 2000 site does not preclude the use of that area or its surroundings for economic purposes. Subject to certain conditions (including performance of an assessment of the impact of the contemplated project on Natura 2000 sites and obtaining the necessary permits), investment projects may be located within such areas.

9.6.4 Act on Prevention of Environmental Damage

The Act on Prevention of Environmental Damage specifies the scope of responsibility for preventing and remedying environmental damage. The provisions of the Act apply to the direct threat of environmental damage or to actual environmental damage (caused by activities which pose a risk of environmental damage, or by other activities if they concern protected species or protected natural habitats and are caused by the user of the natural environment). The provisions of the Act do not apply, inter alia, in cases where more than 30 years have passed since the emission or event which caused a direct threat of environmental damage or actual environmental damage.

The Act imposes the following obligations on a user of the natural environment: (i) the obligation to take preventive measures in the event of a direct threat of environmental damage, (ii) the obligation to take remedial action or measures aimed at mitigating the effects of environmental damage and at preventing any subsequent environmental damage and any adverse impacts on human health, or any further deterioration of the functioning of the affected components of the environment, where the environmental damage has already occurred, (iii) the obligation to notify the environmental protection authority of any direct threat of environmental damage or of the occurrence of environmental damage, as well as of the completion of preventive or remedial measures, and (iv) the obligation to consult and agree the conditions for implementing remedial action with the environmental protection authority.

In line with the overriding rule of the environmental policy − namely the ‘polluter pays’ principle, any costs of preventive or remedial measures are paid by the user of the environment.

9.6.5 Nature Conservation Act

The Nature Conservation Act defines the objectives, rules and forms of protection of animate and inanimate nature as well as landscape (including Natura 2000 sites). It also defines the measures taken to protect nature, the authorities competent for and services dedicated to its protection, as well as the rules governing management of its components and resources.

9.6.6 Water Law

The Water Law sets forth the principles of water management, development and protection of water resources, as well as water consumption and management of water resources. Moreover, the Water Law regulates issues related to ownership rights to waters and water-covered land. The Water Law provides for some legal instruments designed to facilitate the management of water resources, the most important of these being water permits. Water permits are required for: (i) any special use of waters, (ii) regulation of water courses, (iii) construction of hydraulic engineering structures, as well as (iv) discharge of wastewater into waters or the ground. A water permit defines the purpose and scope of the use of waters, the terms of exercising the awarded rights, and the obligations which must be fulfilled to protect environmental resources and safeguard the interests of the local community and the economy.

9.6.7 Waste Act

The key piece of legislation governing the management of waste is the Waste Act. The Waste Act defines a range of measures designed to protect the environment, human life and health, measures intended to prevent or mitigate the negative impact of the generation of waste and its management on the environment and human health, as well as measures aimed to contain the overall effects of consumption of resources and improve the efficiency of their use.

As far as the ways of handling waste are concerned, the Waste Act imposes a certain hierarchy of actions. First, generation of waste should be prevented and the quantity of generated waste and its negative impact on human life and health and on the natural environment should be limited. Waste whose generation cannot be prevented should be recycled, while waste which cannot be recycled should be disposed of. Waste should be managed in compliance with the ‘proximity principle’. In line with the ‘proximity principle’, waste should first be processed at the place where it was generated. Any waste which cannot be processed at the place where it was generated should be transferred to the closest location where it can be processed, with due regard given to the waste management hierarchy and with the application of the best available technique or technology.

Furthermore, the Waste Act describes the waste management duties of waste owners (including their generators), as well as public administration bodies. Pursuant to the Act, any waste generator has the duty to manage the waste it has generated. The waste generator or another waste owner may engage another entity (meeting specific requirements) the perform its waste management duties. A relevant permit is required for generation of waste (i) with a weight of over 1 Mg per year - in the case of hazardous waste, or (ii) with a weight of over 5,000 Mg per year - in the case of non-hazardous waste, if such waste is generated in connection with the operation of an installation (unless an integrated permit has been issued for the installation). As a rule, a relevant permit is also required to conduct operations involving the collection of waste and its processing.

A catalogue of waste along with a list of hazardous waste and the manner of classifying waste is defined in the Regulation of the Minister of Environment on the catalogue of waste, dated September 27th 2001 (Dz.U. No. 112, item 1206).

9.6.8 Act on Protection of Agricultural and Forest Land

The Act on Protection of Agricultural and Forest Land defines the rules governing the protection of agricultural and forest land and reclamation of such land, as well as the rules for improving such land's value in use. The Act also defines the manner in which the designation of some agricultural and forest land may be changed into non-agricultural or non-forest land, as well as the manner of excluding land allocated for non-agricultural and non-forest purposes from agricultural or forest production.

9.6.9 CO_2 emissions

The operation of a number of industrial installations, especially power sector installations, which emit pollutants (such as greenhouse gases), leads to irreversible changes in the natural environment (including climate changes). The main instrument of the EU's policy in the area of climate protection designed to reduce emissions of greenhouse gases into the air is the European Union Emissions Trading Scheme.

Poland's national regulations with respect to emissions of greenhouse gases, implementing the relevant EU regulations, are set out primarily in: (i) the Act on Greenhouse Gas Emission Allowances Trading, dated April 28th 2011 (Dz.U. No. 122, item 695) and (ii) the Act on the System of Managing Emissions of Greenhouse Gases and Other Substances (Dz.U. No. 130, item 1070, as amended).

These two Acts define, in particular: (i) the rules governing the management of emissions of greenhouse gases and other substances, (ii) the rules governing the operation of the greenhouse gas emissions trading scheme (the "scheme"), (iii) the list of greenhouse gases and other substances released into the air which are covered by the management system, (iv) the types of installations covered by the system or the types of activities conducted in the installations covered by the system in the trading period starting January 1st 2013, as well as the threshold values referring to the installations' production capacities or activities, and the greenhouse gases assigned to a given installation or activity.

It needs to be noted, however, that the Polish regulations provide for only partial implementation of Directive 2009/29/EC of the European Parliament and of the Council of April 23rd 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community (OJ EU L 140 of June 5th 2009), because they do not include the basic principles underlying the scheme in the 2013−2020 trading period, beginning on January 1st 2013. Relevant regulations have not yet been implemented.

Generally, the scheme covers emissions of greenhouse gases from those installations whose operations involve the emission of such gases and which meet the threshold values referring to production capacities. With respect to carbon dioxide emissions, such installations include fuel combustion installations, other than those burning hazardous or municipal waste, with a rated thermal input in excess of 20 MWt (e.g. power plants or CHP plants). In order to be able to release a given quantity of carbon dioxide into the air, entities operating such installations must hold an appropriate number of emission allowances (corresponding to their actual CO_2 emission volumes). Allowances may be either obtained through free allocation or purchased. In the current trading period (2013-2020), in the case of installations for electricity production, the proportion of allowances purchased relative to those obtained free of charge is generally assumed to increase every year, so that in 2020 all emission allowances will be purchased. In the third trading period (2013−2020), auctioning is assumed to be the key method of allocating emission allowances for installations generating electricity.

With respect to the free allocation of allowances, by virtue of its decision of January 22nd 2014, the European Commission conditionally accepted Poland's application for transitional allocation of free carbon dioxide emission allowances as part of the scheme for the power sector (installations for electricity production) for 2013−2019.

9.6.10 Draft act on wind farm projects

A draft act on wind farm projects submitted by Members of the Parliament is currently being processed by the lower house of the Polish Parliament. The adoption of the act in its proposed form may have a material impact of the Group's operations.

Potential negative effects of the contemplated regulation may have an impact on the Group's wind farm development being currently prepared for development (regulations on minimum distance between structures), as well as on wind farms already in service (regulations on property and income tax, and an obligatory, paid technical inspection). The exact effect of these regulations can only be properly evaluated once the legislation process has been completed.

D. QUARTERLY FINANCIAL INFORMATION OF POLENERGIA S.A.

INTERIM CONDENSED SEPARATE STATEMENT OF FINANCIAL POSITION
As at Mar 31 2016

Assets

	Mar 31 2016	Dec 31 2015
I. Non-current assets	**1,444,284**	**1,433,343**
Property, plant and equipment	2,743	2,708
Intangible assets	800	886
Investment property	2,219	2,312
Financial assets	1,424,087	1,413,785
Non-current receivables	2,870	2,941
Deferred tax asset	11,553	10,697
Prepayments and accrued income	12	14
II. Current assets	**86,573**	**102,167**
Inventories	12,043	12,043
Trade receivables	11,233	23,879
Other current receivables	774	666
Prepayments and accrued income	4,086	5,654
Current financial assets	18,819	18,508
Cash and cash equivalents	39,618	41,417
Total assets	**1,530,857**	**1,535,510**

Equity and liabilities

	Mar 31 2016	Dec 31 2015
I. Equity	**1,214,166**	**1,241,731**
Share capital	90,887	90,887
Share premium	786,134	786,134
Capital reserve from valuation of options	13,207	13,207
Other capital reserves	328,782	372,199
Net loss	(4,844)	(20,696)
II. Non-current liabilities	**2,966**	**2,890**
Bank and other borrowings	1,000	1,000
Provisions	1,187	1,187
Other liabilities	779	703
III. Current liabilities	**313,725**	**290,889**
Bank and other borrowings	279,174	274,366
Trade payables	388	768
Other liabilities	26,054	4,496
Provisions	1,938	1,938
Prepayments and accrued income	6,171	9,321
Total equity and liabilities	**1,530,857**	**1,535,510**

(PLN '000)

INTERIM CONDENSED SEPARATE STATEMENT OF PROFIT OR LOSS
for the three months ended March 31st 2016

	for the three months ended	
	Mar 31 2016	Mar 31 2015
Revenue	6,062	6,357
Revenue	**6,062**	**6,357**
Cost of sales	(5,061)	(4,948)
Gross profit/(loss)	**1,001**	**1,409**
Other income	109	26
Administrative expenses	(3,146)	(3,672)
Other expenses	6	(560)
Finance income	1,188	2,144
Finance costs	(4,858)	(5,133)
Loss before tax	**(5,700)**	**(5,786)**
Income tax	856	982
Net loss	**(4,844)**	**(4,804)**

INTERIM CONDENSED SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the three months ended March 31st 2016

	for the three months ended	
	Mar 31 2016	Mar 31 2015
Net profit/(loss) for period	(4,844)	(4,804)
TOTAL COMPREHENSIVE INCOME FOR PERIOD	(4,844)	(4,804)

(PLN '000)

INTERIM CONDENSED SEPARATE STATEMENT OF CHANGES IN EQUITY
for the three months ended March 31st 2016

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net loss	Total equity
As at Jan 1 2016	**90,887**	**786,134**	**13,207**	**372,199**	**(20,696)**	**-**	**1,241,731**
Total comprehensive income for period							
Net profit for period	-	-	-	-	-	(4,844)	(4,844)
Allocation of profit	-	-	-	(20,696)	20,696	-	-
Payment of dividend	-	-	-	(22,721)	-	-	(22,721)
As at Mar 31 2016	**90,887**	**786,134**	**13,207**	**328,782**	**-**	**(4,844)**	**1,214,166**

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net loss	Total equity
As at Jan 1 2015	**90,887**	**802,909**	**13,207**	**372,199**	**(16,091)**	**-**	**1,263,111**
Total comprehensive income for period							
Net profit for period	-	-	-	-	-	(4,804)	(4,804)
as at March 31st 2015	**90,887**	**802,909**	**13,207**	**372,199**	**(16,091)**	**(4,804)**	**1,258,307**

(PLN '000)

INTERIM CONDENSED SEPARATE STATEMENT OF CASH FLOWS
for the three months ended March 31st 2016

	for the three months ended Mar 31 2016	Mar 31 2015
A. Cash flows from operating activities		
Loss before tax	**(5,700)**	**(5,786)**
II. Total adjustments	**14,603**	**14,442**
Depreciation and amortisation	413	442
Foreign exchange losses	(8)	-
Interest and profit distributions (dividends)	4,417	4,487
Loss on investing activities	20	32
Change in receivables	12,609	9,974
Change in current liabilities (net of borrowings)	(1,268)	237
Change in accruals and deferrals	(1,580)	(730)
III. Net cash from operating activities	**8,903**	**8,656**
B. Cash flows from investing activities		
I. Cash receipts	**-**	**10,373**
1. Proceeds from financial assets, including:	-	8,526
– repayment of non-current loans advanced	-	7,961
– interest	-	27
– other proceeds from financial assets	-	538
2. Other cash receipts from investing activities	-	1,847
II. Cash payments	**10,510**	**81,240**
1. Acquisition of intangible assets and property, plant and equipment	289	32
2. Payments for financial assets, including:	10,221	81,208
– acquisition of financial assets	10,221	74,592
– non-current loans advanced	-	6,616
III. Net cash from investing activities (I-II)	**(10,510)**	**(70,867)**
C. Cash flows from financing activities		
I. Cash receipts	**-**	**-**
II. Cash payments	**200**	**152**
Payment of finance lease liabilities	200	152
III. Net cash from financing activities (I-II)	**(200)**	**(152)**
D. Total net cash flows (A.III +/-B.III +/-C.III)	**(1,807)**	**(62,363)**
E. Net increase/decrease in cash, including:	**(1,799)**	**(62,363)**
- effect of exchange rate fluctuations on cash held	8	-
F. Cash at beginning of period	**41,417**	**216,447**
G. Cash at end of period (F+/- E), including:	**39,618**	**154,084**
- restricted cash	12	50

(PLN ‘000)