Polenergia Group

CONSOLIDATED QUARTERLY REPORT

FOR Q3 2017

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Warsaw, November 8th 2017

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A. INTRODUCTION TO THE CONSOLIDATED QUARTERLY REPORT

1. Combined statement of profit or loss for the three quarters ended September 30th 2017

Presented below is the combined statement of profit or loss for the first three quarters of 2017.

In the first three quarters of 2017, the Polenergia Group generated an adjusted EBITDA of PLN 136.1m and net profit of PLN 20.6m, down by PLN 19.2m (-12%) and PLN 3.1m (-13%), respectively, on the corresponding period of the previous year.

Polenergia Group's performance (PLNm)	9M 2017	9M 2016	Change y/y	Change y/y [%]	Q3 2017	Q3 2016	Change y/y	Change y/y [%]
Revenue	**2,010.9**	**2,156.3**	**(145.3)**	**-7%**	**668.4**	**789.80**	**(121.4)**	**-15%**
Including trading segment	1,618.8	1,705.2	(86.4)		537.5	659.5	(122.0)	
Cost of sales	(1,930.1)	(2,062.9)	132.9		(632.1)	(777.0)	144.9	
Including operating expenses	(304.0)	(306.9)	2.9		(97.0)	(96.0)	(1.0)	
Gross profit	**80.8**	**93.3**	**(12.5)**	**-13%**	**36.3**	**12.7**	**23.6**	**186%**
Distribution costs and administrative expenses	(24.3)	(25.6)	1.2		(7.8)	(6.2)	(1.6)	
Other income/expenses	(90.5)	(98.0)	7.5		(96.2)	(47.2)	(49.1)	
A Operating profit (EBIT)	**(34.0)**	**(30.2)**	**(3.7)**		**(67.7)**	**(40.6)**	**(27.1)**	
Depreciation and amortisation	73.1	85.6	(12.5)		24.1	29.4	(5.2)	
Impairment losses	99.1	102.9	(3.8)		(99.1)	48.6	50.4	
EBITDA	**138.2**	**158.2**	**(20.0)**	**-13%**	**55.5**	**37.5**	**18.1**	**48%**
Elimination of purchase price allocation effect	(2.0)	(2.0)	-		(0.7)	(0.7)	-	
Elimination of the effect of sale of Zakrzów CHP Plant	-	(0.8)	0.8		-	-	-	-
Adjusted EBITDA*	**136.1**	**155.3**	**(19.2)**	**-12%**	**54.9**	**36.8**	**18.1**	**49%**
B Finance income	6.1	7.0	(0.9)		1.1	1.3	(0.2)	
C Finance costs	(47.4)	(48.0)	0.7		(15.1)	(15.9)	0.8	
A+B+C Profit/(loss) before tax	**(75.2)**	**(71.3)**	**(3.9)**		**(81.6)**	**(55.1)**	**(26.5)**	
Income tax	(9.0)	(2.9)	(6.1)		(3.9)	6.0	(9.8)	
Net profit/(loss)	**(84.2)**	**(74.2)**	**(10.0)**	**14%**	**(85.5)**	**(49.2)**	**(36.3)**	**74%**
Elimination of purchase price allocation effect	4.5	4.5	-		1.5	1.5	-	
Elimination of unrealised exchange differences effect	(0.7)	0.5	(1.2)		0.1	(0.6)	(0.7)	
Elimination of the effect of loan valuations using AMC method	2.1	1.7	0.3		0.7	0.7	(0.0)	
Elimination of impairment loss related to biomass business	9.8	-	9.8		9.8	-	9.8	
Elimination of impairment loss related to development business	89.3	96.5	(7.2)		89.3	42.3	47.0	
Elimination of the effect of sale of Zakrzów CHP Plant	-	(5.3)	5.3		-	-	-	
Adjusted net profit*	**20.6**	**23.7**	**(3.1)**	**-13%**	**15.8**	**(5.3)**	**21.1**	**-402%**
Adjusted EBITDA margin	**6.8%**	**7.2**	**-0.4%**		**8.2%**	**4.7%**	**3.6%**	
Trading segment revenue	1,618.8	1,705.2	(86.4)		537.5	659.5	(122.0)	
Trading segment costs of sale	(1,602.8)	(1,703.5)	100.8		(527.8)	(659.9)	132.1	
Adjusted EBITDA (excluding trading segment)	**126.9**	**160.2**	**(33.3)**	**-21%**	**47.4**	**39.1**	**8.2**	**21%**
Adjusted EBITDA margin (excluding trading segment)	**32.4%**	**35.5%**	**-3.2%**		**36.2%**	**30.0%**	**6.1%**	

Revenue for the first nine months of 2017 was down 7% year on year, chiefly on the back of lower revenue from sale and distribution of electricity by the Trading and Distribution segments, and a decline in revenue from pellet sales. In Q3 alone, revenue went down by 15%, mainly on lower revenue of the Trading segment. For a description of differences in revenue, see Note 3.1.

For a description of differences in operating expenses, distribution costs and administrative expenses, see Note 3.2. The savings programme continued to produce effects, leading to a year-on-year reduction in the costs of salaries, wages and social security contributions (by an aggregate of PLN 9.1m in the entire 2016 and by a further PLN 4.4m in 2017). In the period under review, adjusted EBITDA was PLN 136.1m, down by PLN 19.2m year on year.

Segment performance is discussed in detail on page 8 (Q1–Q3 results) and page 9 (Q3 results).

The wind power segment saw its YTD EBITDA drop by PLN 14.0m, primarily as a result of a decline in the prices of green certificates, higher rates of property tax paid by some companies, and higher costs related mainly to unplanned repair work , offset by improved productivity and maintenance cost savings. In contrast, Q3 results improved year on year by PLN 5.1m, chiefly on the back of very good wind conditions, which helped offset the negative factors described above.

The operating result of the conventional energy segment for the first nine months of 2017 fell PLN 12.4m following a revision (in Q1 2016) of the forecast prices of electricity, gas and CO2 in 2016−2020, which led to a change in the allocation of stranded costs compensation income over the entire term of the compensation scheme (2008−2020), with a negative impact on stranded costs compensation income. In Q3 2017, the segment's operating result rose PLN 2.1m over the previous year as a result of an upward adjustment to gas compensation for 2016 recognised in Q3 2017 (as specified in the President of the Energy Regulatory Office's Announcement No. 53/2017 of August 2nd 2017).

The trading segment's EBITDA for the first nine months of 2017 and for Q3 2017 alone was higher compared with the comparative periods of 2016 (by PLN 14.1m and PLN 9.9m, respectively). The prices of green certificates markedly declined in the first nine months of 2016 and in Q3 2016, which significantly hurt EBITDA for those periods. In contrast, a positive trend in the prices of green certificates seen in 2017 translated into improved performance delivered in the reporting periods. Performance reported by the electricity trading business also improved thanks to higher margins achieved despite lower volumes.

In the first nine months of 2017, the distribution segment's result was down PLN 3.4m year on year, chiefly due to the reversal of a provision for settlements with a trading partner made in Q1 2016 and a lower margin on electricity distribution in 2017. In Q3 2016, the segment's result did not change noticeably year on year.

In the first nine months of 2017 and in Q3 2017 alone, the biomass segment's performance deteriorated year on year (down PLN 4.8m and PLN 1.2m, respectively), due to lower sales volumes and higher feedstock prices. This effect was partially offset by savings on technical maintenance costs, leases and local taxes. In addition, as announced by the Company in Current Report No. 11/2017 of October 18th 2017, an impairment loss was recognised in connection with the discontinuation of operations by Grupa PEP Biomasa Energetyczna Południe Sp. z o.o., a subsidiary. The impairment loss was a non-cash charge, had no impact on EBITDA and was reported in the consolidated financial statements for the third quarter.

What should be noted is an improvement in the Group management costs in the first nine months, achieved on the back of a cost reduction programme.

In consequence, adjusted EBITDA margin for the first nine months of 2017 stood at 6.8%, having declined year on year. The year-on-year rise in EBITDA margin for Q3 2017 to 8.2% resulted primarily from better wind conditions and higher prices of green certificates, which had a negative impact on the power and trading performance in the comparative period.

Adjusted EBITDA margin excluding trading operations (which are characterised by very low unit margins and very high transaction volumes) fell by 3 pp to 32.5%, and grew by over 6 pp to 36.6% in Q3.

Net finance income/costs remained broadly flat in the first nine months of 2017 and in Q3 alone.

A year-on-year change in income tax for the first nine months of 2017 primarily resulted from a decrease in deferred tax liability (down PLN 6.3m) related to the impairment loss on the gas pipeline construction project in Q3 2016. The liability was recognised as a result of purchase price allocation made after Neutron assets were contributed to the Group in 2014.

Also, net profit was affected by impairment losses on the following projects:

- Wind farm development projects: as announced in Current Report No. 9/2017 of September 26th 2017, a decision was made to abandon the Grabowo wind farm project, which led to the recognition of a non-cash impairment loss.
- Elektrownia Północ Power Plant project: as announced in Current Report No. 10/2017 of October 18th 2017, given the market environment and the project's economics, a decision was made to recognise an impairment loss on fixed assets. The impairment loss was a non-cash charge.
- Grupa PEP Biomasa Energetyczna Południe: as announced in Current Report No. 11/2017 of October 18th 2017; the impairment loss is discussed in more detail in the biomass segment summary.

Given that adjusted EBITDA for the last twelve months (LTM) (from October 1st 2016 to September 30th 2017) was PLN 208.8m, and the Group's net debt as at September 30th 2017 amounted to PLN 712.8m, the net debt/LTM EBITDA ratio stood at 3.41x.At the end of the prior quarter, the ratio was 3.86x (with EBITDA and net debt amounting to PLN 190.7m and PLN 736.5m, respectively).

Breakdown of the Group's combined performance for the first nine months of 2017 and Q3 2017 by business segment is presented on the following pages.

The Group is analysing potential investment projects in the area of energy storage. The off-shore wind farm development projects are being implemented on schedule. In April 2017, the second environmental permit was obtained for the Bałtyk Środkowy II project. Wind farm debt reprofiling in under way. Additionally, the Group is analysing the legal and economic consequences of amendments to the Act on Renewable Energy Sources, which are described in more detail further on in this report.

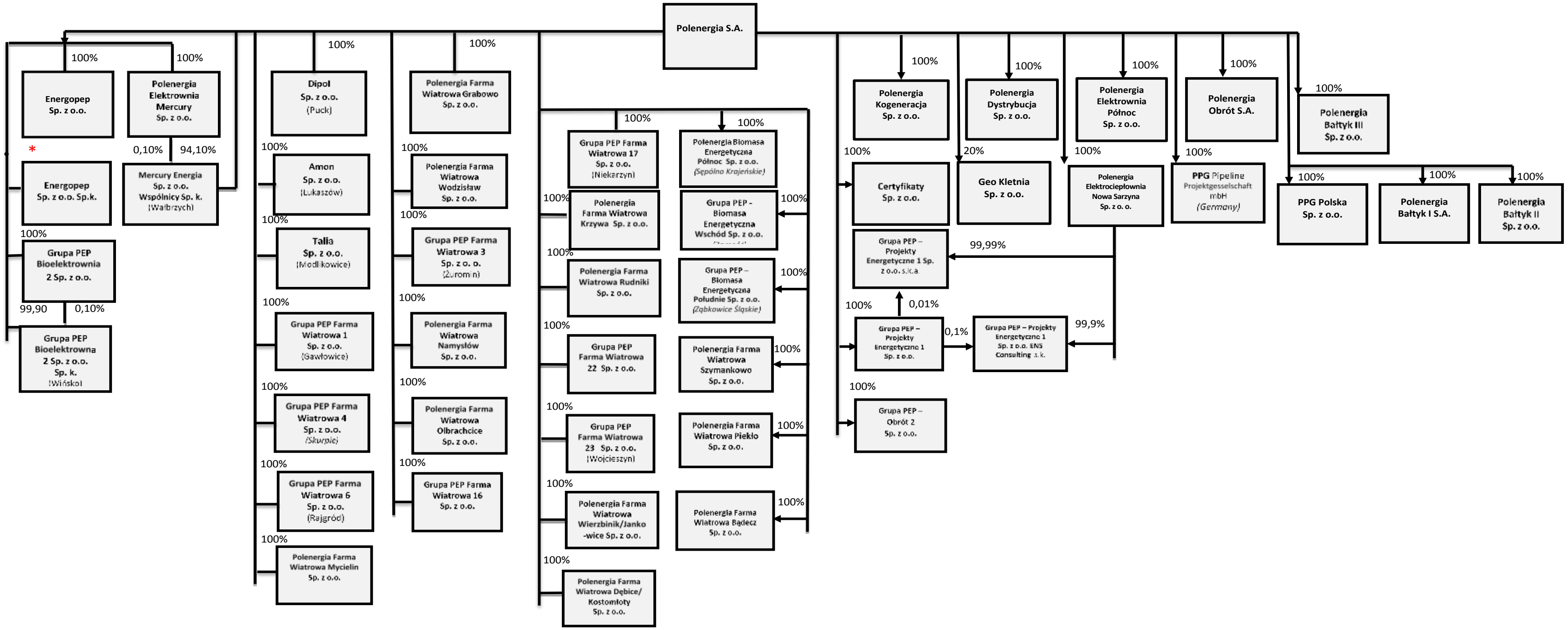
9M 2017 (mPLN)	Wind power	Conventional energy	Trading	Distribution	Biomass	Development	Unallocated Group management costs	Purchase price allocation	TOTAL
Revenue	92.5	208.1	1,618.8	64.0	23.1	0.0	2.3	2.0	2,010.9
Operating expenses	(82.6)	(155.7)	(1,602.8))	(51.4)	(24.5)	(0.2)	(5.3)	(7.6)	(1,930.1)
including depreciation and amortisation	(42.7)	(16.1)	(0.0)	(3.2)	(2.8)	-	(0.7)	(7.6)	(1930.1)
Gross profit	**10.0**	**52.4**	**16.0**	**12.6**	**(1.4)**	**(0.2)**	**(3.0)**	**(5.6)**	**80.8**
Gross margin	10.8%	25.2%	1.0%	19.7%	'n/a'	'n/a'	'n/a'	'n/a'	4.0%
Administrative expenses	(2.6)	(4.5)	(7.0)	(4.6)	(0.9)	(0.3)	(3.9)	-	(23.8)
Net other income/expenses	5.3	(0.2)	0.2	1.8	(9.0)	(89.3)	0.1	-	(91.0)
incl. impairment losses	-				(9.8)	(89.3)			(99.1)
Operating profit	**12.7**	**47.8**	**9.2**	**9.8**	**(11.2)**	**(89.8)**	**(6.8)**	**(5.6)**	**(34.0)**
EBITDA	**55.3**	**63.9**	**9.2**	**13.0**	**1.3**	**(0.5)**	**(6.1)**	**2.0**	**138.2**
EBITDA margin	59.8%	30.7%	0.6%	20.3%	5.8%	'n/a'	'n/a'	'n/a'	6.9%
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	(2.0)	(2.0)
Elimination of the effect of sale of Zakrzów CHP Plant	-	-	-	-	-	-	-	-	-
Adjusted EBITDA	**55.3**	**63.9**	**9.2**	**13.0**	**1.3**	**(0.5)**	**(6.1)**	**-**	**136.1**
Adjusted EBITDA margin	59.8%	30.7%	0.6%	20.3%	5.8%	'n/a'	'n/a'	'n/a'	6.8%
Net finance income	(39.3)	(1.7)	(0.2)	(1.4)	(0.4)	(0.0)	(3.5)	-	(41.2)
Profit/(loss) before tax	**(26.6)**	**46.1**	**7.2**	**8.4**	**(11.6)**	**(89.8)**	**(3.3)**	**(5.6)**	**(75.2)**
Income tax									(9.0)
Net profit/(loss) for period									**(84.2)**
Elimination of purchase price allocation effect									4.5
Elimination of unrealised exchange differences effect									(0.7)
Elimination of the effect of loan valuation using AMC method									2.1
Elimination of impairment loss related to biomass business									9.8
Elimination of impairment loss related to development business									89.3
Elimination of the effect of sale of Zakrzów CHP Plant									-
Adjusted net profit									**20.6**

9M 2016 (PLNm)	Wind power	Conventional energy	Trading	Distribution	Biomass	Development	Unallocated management costs	Purchase price allocation	TOTAL
Revenue	100.9	207.7	1,705.2	99.2	37.5	0.00	(97.2)	2.0	2,055.3
Operating expenses	(88.1)	(140.4)	(1,703.5)	(82.1)	(33.8)	(0.5)	93.9	(7.6)	(1,962.0)
incl. depreciation and amortisation	(56.0)	(14.8)	(0.0)	(3.1)	(3.0)	-	(1.1)	(7.6)	(85.6)
Gross profit	12.8	67.3	1.6	17.1	3.7	(0.5)	(3.3)	(5.6)	93.3
Gross margin	12.7%	32.4%	0.1%	17.2%	9.9%	'n/a'	'n/a'	'n/a'	4.5%
Administrative expenses	(2.7)	(5.1)	(7.2)	(3.8)	(1.2)	(0.3)	(4.8)	-	(25.0)
Net other income/expenses	3.2	(0.8)	0.6	0.00	0.6	(103.0)	0.8	-	(98.5)
incl. impairment losses						(102.9)			(102.9)
Operating profit	**13.3**	**61.5**	**(4.9)**	**13.3**	**3.1**	**(103.7)**	**(7.3)**	**(5.6)**	**(30.2)**
EBITDA	**69.3**	**76.3**	**(4.9)**	**16.4**	**6.1**	**(0.9)**	**(6.2)**	**2.0**	**158.2**
EBITDA margin	68.6%	36.7%	'n/a'	16.5%	16.3%	'n/a'	'n/a'	'n/a'	7.7%
Elimination of purchase price allocation effect							-	(2.0)	(2.0)
Elimination of the effect of sale of Zakrzów CHP Plant						(0.8)			(0.8)
Adjusted EBITDA	**69.3**	**76.3**	**(4.9)**	**16.4**	**6.1**	**(1.7)**	**(6.2)**	**-**	**155.3**
Adjusted EBITDA margin	68.6%	36.7%	'n/a'	16.5%	16.3%	'n/a'	'n/a'	'n/a'	7.6%
Net finance income	(40.3)	(4.7)	(1.1)	(1.2)	(0.6)	(0.0)	6.9	-	(41.1)
Profit/(loss) before tax	**(27.0)**	**56.7**	**(6.0)**	**12.1**	**2.5**	**(103.7)**	**(0.4)**	**(5.6)**	**(71.3)**
Income tax									(2.9)
Net profit/(loss) for period									**(74.2)**
Elimination of purchase price allocation effect									4.5
Elimination of unrealised exchange differences effect									0.5
Elimination of the effect of loan valuation using AMC method									1.7
Elimination of impairment losses									96.5
Effect of sale of Zakrzów CHP Plant									(5.3)
Adjusted net profit									**23.7**
Adjusted EBITDA yoy	**(14.0)**	**(12.4)**	**14.1**	**(3.4)**	**(4.8)**	**1.1**	**0.1**	**-**	**(19.2)**

Q3 2017 (PLNm)	Wind power	Conventional energy	Trading	Distribution	Biomass	Development	Unallocated management costs	Purchase price allocation	TOTAL
Revenue	27.3	74.2	537.5	20.8	7.2	0.0	0.7	0.7	668.4
Operating expenses	(31.5)	(48.9)	(527.8)	(17.0)	(7.4)	(0.1)	(1.6)	(2.5)	(632.1)
incl. depreciation and amortisation	(14.1)	(5.3)	(0.0)	(1.1)	(0.9)	-	(0.2)	(2.5)	(24.1)
Gross profit	**0.5**	**25.3**	**9.7**	**3.8**	**(0.1)**	**(0.1)**	**(0.9)**	**(1.9)**	**36.3**
Gross margin	1.8%	34.1%	'n/a'	18.4%	'n/a'	'n/a'	'n/a'	'n/a'	5.4%
Administrative expenses	(0.8)	(1.5)	(2.3)	(1.6)	(0.3)	(0.1)	(1.2)	-	(7.7)
Net other income/expenses	1.0	(0.2)	0.1	1.7	(9.7)	(89.1)	0.0	-	(96.3)
Operating profit	**0.7**	**23.6**	**7.5**	**3.9**	**(10.2)**	**(89.3)**	**(2.1)**	**(1.9)**	**(67.7)**
EBITDA	**14.8**	**28.9**	**7.5**	**5.0**	**(0.5)**	**(0.0)**	**(1.9)**	**0.7**	**55.5**
EBITDA margin	54.2%	39.0%	1.4%	24.1%	7.2%	'n/a'	'n/a'	'n/a'	8.3%
Elimination of purchase price allocation effect	-	-	-	-	-	-	-	(0.7)	(0.7)
Elimination of the effect of sale of Zakrzów CHP Plant	-	-	-	-	-	-	-	-	-
Adjusted EBITDA	**14.8**	**28.9**	**7.5**	**5.0**	**0.5**	**(0.0)**	**(1.9)**	**-**	**54.9**
Adjusted EBITDA margin	54.2%	39.0%	1.4%	24.1%	7.2%	'n/a'	'n/a'	'n/a'	8.2%
Net finance income (costs)	(13.8)	(0.5)	(0.6)	(0.5)	(0.1)	(0.0)	-	-	(14.0)
Profit/(loss) before tax	(13.1)	23.1	6.9	(3.5)	(10.3)	(89.3)	(0.5)	(1.9)	(81.6)
Income tax									(3.9)
Net profit/(loss) for period									**(85.5)**
Elimination of purchase price allocation effect									1.5
Elimination of unrealised exchange differences effect									0.1
Elimination of the effect of loan valuation using AMC method									0.7
Elimination of impairment loss related to biomass business									9.8
Elimination of impairment loss related to development business									89.3
Elimination of the effect of sale of Zakrzów CHP Plant									-
Adjusted net profit									**15.8**

Q3 2016 (PLNm)	Wind power	Conventional energy	Trading	Distribution	Biomass	Development	Unallocated Group management costs	Purchase price allocation	TOTAL
Revenue	19.6	65.6	659.5	33.9	10.0	0.0	(100.4)	0.6	688.8
Operating expenses	(31.5)	(42.0)	(659.9)	(28.9)	(9.5)	(0.1)	99.7	(4.3)	(676.6)
Incl. depreciation and amortisation	(19.6)	(5.0)	(0.0)	(1.0)	(1.0)	-	1.6	(4.4)	(29.4)
Gross profit	**(11.8)**	**23.6**	**(0.4)**	**(4.9)**	**0.5**	**(0.1)**	**(0.7)**	**(3.7)**	**12.3**
Gross profit margin	'n/a'	35.9%	-0.1%	14.6%	4.8%	'n/a'	0.7%	'n/a'	1.8%
Administrative expenses	0.9	(1.5)	(2.4)	(1.4)	0.1	0.3	(1.5)	-	(5.5)
Net other income/expenses	1.1	(0.2)	0.4	(0.1)	0.2	(48.7)	(0.1)	-	(47.3)
Incl. impairment losses	-	-	-	-	-	(48.6)	-	-	(48.6)
Operating profit	**(9.8)**	**21.9**	**(2.4)**	**3.5**	**0.8**	**(48.5)**	**(2.3)**	**(3.7)**	**(40.6)**
EBITDA	**9.7**	**26.9**	**(2.4)**	**4.5**	**1.8**	**0.1**	**(3.9)**	**0.7**	**37.5**
EBITDA margin	49.7%	41.0%	'n/a'	13.3%	17.5%	'n/a'	'n/a'	'n/a'	5.4%
Elimination of the effect of sale of Zakrzów CHP Plant	-	-	-	-	-	-	0.8		-
Elimination of purchase price allocation effect	-	-	-	-	-	(0.8)	-	1.4	0.5
Adjusted EBITDA	**9.7**	**26.9**	**(2.4)**	**4.5**	**1.8**	**(0.7)**	**(3.0)**	**-**	**36.8**
Adjusted EBITDA margin	49.7%	41.0%	'n/a'	13.3%	17.5%	'n/a'	'n/a'	'n/a'	5.3%
Net finance income	(13.8)	(1.5)	(0.4)	(0.5)	(0.2)	0.00	1.7	-	(14.6)
Profit/(loss) before tax	**(23.6)**	**20.4**	**2.8**	**3.0**	**0.6**	**(48.5)**	**(0.6)**	**(3.7)**	**(55.1)**
Income tax	-	-	-	-	-	-	-	-	6.0
Net profit/(loss) for period									**(49.2)**
Elimination of purchase price allocation effect									1.5
Elimination of unrealised exchange differences effect									(0.6)
Elimination of the effect of loan valuation using AMC method									0.7
Elimination of impairment losses									42.3
Effect of sale of Zakrzów CHP Plant									-
Adjusted net profit									**(5.3)**
Adjusted EBITDA yoy	**5.1**	**2.1**	**9.9**	**0.5**	**(1.2)**	**0.7**	**1.2**	**-**	**18.1**

2. The Group's organisational structure



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

B. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30TH 2017

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at September 30th 2017

Assets

	Sep 30 2017	Dec 31 2016
I. Non-current assets	**2,077,840**	**2,270,868**
1. Property, plant and equipment	1,814,243	1,999,706
2. Intangible assets	32,880	39,468
3. Goodwill related to subordinated entities	184,613	184,625
4. Financial assets	15,843	12,324
5. Long-term receivables	4,614	4,840
6. Deferred tax asset	25,603	29,855
7. Prepayments and accrued income	44	50
II. Current assets	**583,768**	**703,656**
1 Inventories	33,744	41,484
2. Trade receivables	109,327	149,494
3. Current tax asset	1,521	6,079
4. Other short-term receivables	33,202	20,126
5. Prepayments and accrued income	6,516	6,068
6. Current financial assets	75,482	99,543
7. Cash and cash equivalents	323,976	380,862
Total assets	**2,661,608**	**2,974,524**

Equity and liabilities

	Sep 30 2017	Dec 31 2016
I. Equity	**1,184,343**	**1,267,426**
Equity attributable to owners of the parent	1,183,417	1,266,524
1. Share capital	90,887	90,887
2. Share premium	680,777	765,810
3. Capital reserve from valuation of options	13,207	13,207
4. Other capital reserves	400,847	399,659
5. Retained earnings	81,312	107,808
6. Net loss	(84,263)	(111,529)
7. Translation differences	650	682
Non-controlling interests	**926**	902
II. Non-current liabilities	**938,618**	**1,015,946**
1. Bank and other borrowings	747,438	820,398
2. Deferred tax liability	68,515	65,694
3. Provisions	23,577	25,625
4. Accruals and deferred income	56,583	58,883
5. Other liabilities	42,505	45,346
III. Current liabilities	**538,647**	**691,152**
1. Bank and other borrowings	289,387	296,255
2. Trade payables	124,465	156,172
3. Income tax payable	1,008	958
4. Other liabilities	104,868	219,571
5. Provisions	3,159	2,947
6. Prepayments and accrued income	15,760	15,249
Total equity and liabilities	**2,661,608**	**2,974,524**

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the nine months ended September 30th 2017

		restated	audited	unaudited
	For 9 months ended		For 3 months ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Revenue	2,010,923	2,156,254	668,410	789,760
Cost of sales	(1,930,091)	(2,062,941)	(632,071)	(777,019)
Gross profit	**80,832**	**93,313**	**36,339**	**12,741**
Other income	9,442	6,893	2,799	1,873
Distribution costs	(505)	(538)	(113)	(127)
Administrative expenses	(23817)	(25,016)	(7,685)	(6,030)
Other expenses	(99,904)	(104,893)	(98,999)	(49,023)
Finance income	6,115	6,986	1,115	1,317
Finance costs	(47,356)	(48,045)	(15,083)	(15,875)
Profit/(loss) before tax	**(75,193)**	**(71,300)**	**(81,627)**	**(55,124)**
Income tax	(9,046)	(2,901)	(3,859)	5,970
Net profit/(loss)	**(84,239)**	**(74,201)**	**(85,486)**	**(49,154)**
Net profit/(loss) attributable to:	**(84,239)**	**(74,201)**	**(85,486)**	**(49,154)**
Owners of the parent	(84,263)	(74,158)	(85,510)	(49,156)
Non-controlling interests	24	(43)	24	2
Earnings/(loss) per share:				
- diluted earnings for period attributable to owners of the parent	-1.85	-1.63	-1.88	-1.08
- diluted earnings per share from continuing operations, attributable to owners of the parent	-1.85	-1.63	-1.88	-1.08

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the nine months ended September 30th 2017

			unaudited	unaudited
	For 9 months ended		For 3 months ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Net profit/(loss) for period	**(84,239)**	**(74,201)**	**(85,486)**	**(49,154)**
Other comprehensive income that may be reclassified to profit or loss once specific conditions are met				
- Cash-flow hedges	1,188	1,921	462	1,200
- Translation differences	(32)	175	10	(389)
Net other comprehensive income	1,156	2,096	472	811
COMPREHENSIVE INCOME FOR PERIOD	**(83,083)**	**(72,105)**	**(85,014)**	**(48,343)**
Comprehensive income for period:	(83,083)	(72,105)	(85,014)	(48,343)
Owners of the parent	(83,107)	(72,062)	(85,038)	(48,345)
Non-controlling interests	24	(43)	24	2

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended September 30th 2017

	For 9 months ended	
	Sep 30 2017	Sep 30 2016
A. Cash flows from operating activities		
I. Profit/(loss) before tax	**(75,193)**	**(71,300)**
II. Total adjustments	**156,116**	**202,417**
1. Depreciation and amortisation	73,070	85,551
2. Foreign exchange/(gains) losses	(912)	629
3. Interest and profit distributions (dividends)	42,793	36,103
4. Gain/(loss) on investing activities	100,221	90,912
5. Income tax	2,358	(13,123)
6. Change in provisions	(1,837)	(2,201)
7. Change in inventories	8,385	8,806
8. Change in receivables	47,825	120,935
9. Change in current liabilities (net of borrowings)	(113,759)	(120,711)
10. Change in accruals and deferrals	(2,417)	(4687)
11. Other adjustments	389	203
III. Net cash from operating activities (I+/-II)	**80,923**	**131,117**
B. Cash flows from investing activities		
I. Cash receipts	**7,116**	**5,142**
1.Disposal of intangible assets and property, plant and equipment	77	1,551
2. Proceeds from financial assets, including:	156	-
a) repayment of long-term loans advanced	156	-
3. Cash from disposal of a subsidiary	-	3,591
4. Other cash provided by investing activities	6,883	-
II. Cash payments	**21,746**	**75,336**
1. Acquisition of property, plant and equipment	21,724	74,937
2. Payments for financial assets, including:	22	399
a) acquisition of financial assets	22	82
b) Long-term loans advanced	-	317
III. Net cash from investing activities (I-II)	**(14,630)**	**(70,194)**
C. Cash flows from financing activities		
I. Cash receipts	**18,147**	**81,146**
1. Proceeds from borrowings	18,147	81,146
II. Cash payments	**141,359**	**162,170**
1. Dividends and other distributions to owners	-	22,722
2. Repayment of borrowings	99,069	99,873
3. Payment of finance lease liabilities	592	1,263
4. Interest	40,149	38,121
5. Other cash payments related to financing activities	1,549	191
III. Net cash from financing activities (I-II)	**(123,212)**	**(81,024)**
D. Total net cash flows (A.III +/- B.III +/- C.III)	**(56,919)**	**(20,101)**
E. Net increase/decrease in cash, including:	**(56,886)**	**(20,057)**
- effect of exchange rate fluctuations on cash held	**33**	**44**
F. Cash at beginning of period	**380,862**	**362,096**
G. Cash at end of period, including:	**323,976**	**342,039**
- restricted cash	62,165	102,428

External financing sources - bank borrowings (statement of cash flows)	For the nine months ended	
	Sep 30 2017	Sep 30 2016
item C.I.1 Proceeds from borrowings	18,147	81,146
item C.II.1 Repayment of borrowings	(99,069)	(99,873)
change in external financing sources, including:	**(80,922)**	**(18,727)**
net increase in investment facilities	(107,269	20,347
net increase/decrease in VAT financing facility	-	(32,011)
net increase/decrease in overdraft facility	26,347	(7,063)

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine months ended September 30th 2017

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net loss	Translation differences	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1st 2017	**90,887**	**765,810**	**13,207**	**399,659**	**(3,721)**	**-**	**682**	**1,266,524**	**902**	**1,267,426**
Total comprehensive income for period										
- Net profit/(loss) for period	-	-	-	-	-	(84,263)	-	(84,263)	24	(84,239)
- Other comprehensive income for period	-	-	-	1,188	-	-	(32)	1,156	-	1,156
Transactions with owners of the parent recognised directly in equity										
- Allocation of profit	-	(85,033)	-	-	85,033	-	-	-	-	-
As at Sep 30th 2017	**90,887**	**680,777**	**13,207**	**400,847**	**81,312**	**(84,263)**	**650**	**1,183,417**	**926**	**1,184,343**

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Retained earnings	Net loss	Translation differences	Equity attributable to owners of the parent	Non-controlling interests	Total equity
As at Jan 1st 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/(loss) for period	-	-	-	-	-	(74,158)	-	(74,158)	(43)	(74,201)
- Other comprehensive income for period	-	-	-	1,921	-		175	2,096	-	2,096
Transactions with owners of the parent recognised directly in equity										
- Allocation of profit	-	(20,324)	-	41,213	(20,889)	-	-	-	-	-
- Payment of dividends	-	-	-	(22,723)	-	-	-	(22,723)	-	(22,723)
As at Sep 30th 2016	**90,887**	**765,810**	**13,207**	**398,480**	**106,831**	**(74,158)**	**456**	**1,301,513**	**910**	**1,302,423**

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ADDITIONAL INFORMATION

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 IFRSs and may be computed differently by other entities.

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

The Group defines EBITDA as profit before tax less finance income plus finance costs, plus depreciation and amortisation, plus impairment losses on non-financial non-current assets, which are not directly attributable to its operations. If circumstances arise enabling the Group to reverse an impairment loss on non-financial non-current assets not directly attributable to its operations, this will be reflected in the calculation of EBITDA.

EBITDA and adjusted EBITDA

			unaudited	unaudited
	For 9 months ended		For 3 months ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Loss before tax	(75,193)	(71,300)	(81,627)	(55,124)
Finance income	(6,115)	(6,986)	(1,115)	(1,317)
Finance costs	47,356	48,045	15,083	15,875
Depreciation and amortisation	73,070	85,551	24,143	29,369
Impairment loss on development projects	89,287	102,861	89,287	48,648
Impairment loss related to biomass business	9,773	-	9,773	-
EBITDA	**138,178**	**158,171**	**55,544**	**37,451**
Purchase price allocation:				
Valuation of long-term contracts	(2,043)	(2,043)	(681)	(681)
Effect of sale of Zakrzów CHP Plant	-	(813)	-	-
Adjusted EBITDA	**136,135**	**155,315**	**54,863**	**36,770**

Adjusted net profit attributable to owners of the parent

			unaudited	unaudited
	For 9 months ended		For 3 months ended	
	Sep 30 2017	Sep 30 2017	Sep 30 2017	Sep 30 2017
NET PROFIT/(LOSS) attributable to owners of the parent	**(84,263)**	**(74,158)**	**(85,510)**	**(49,156)**
Unrealised foreign exchange (gains)/losses	(740)	494	89	(617)
(Income)/costs from valuation of long-term bank borrowings	2,061	1,720	681	715
Impairment loss on development projects	89,287	96,517	89,287	42,304
Impairment loss related to biomass business	9,773	-	9,773	-
Effect of sale of Zakrzów CHP Plant	-	5,285)	-	-
Purchase price allocation:				
Depreciation and amortisation	7,596	7,596	2,532	2,532
Valuation of long-term contracts	(2,043)	(2,043)	(681)	(681)
Tax	(1,053)	(1053)	(351)	(351)
Adjusted NET PROFIT/(LOSS) attributable to owners of the parent	**20,618**	**23,788**	**15,820**	**(5,254)**

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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 nine months ended September 30th 2017 and contain comparative data for the nine months ended September 30th 2016 and as at December 31st 2016. The statement of profit or loss and the notes to the statement of profit or loss cover the period of nine months ended September 30th 2017, as well as comparative data for the period of nine months ended September 30th 2016.

These interim condensed consolidated financial statements have been prepared on the assumption that the Company and the Group will continue as going concerns in the foreseeable future, that is for at least 12 months after the reporting period, i.e. September 30th 2017.

1.3 Approval of the financial statements

These interim condensed consolidated financial statements were authorised for issue by the Parent's Management Board on November 8th 2017.

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 nine months from January 1st to September 30th 2017, a comparative period from January 1st to September 30th 2016, as well as data as at December 31st 2016 presented in the statement of financial position. These interim condensed financial statements for the nine months ended September 30th 2017 have not been reviewed by an independent auditor, whereas the comparative data for the financial year ended December 31st 2016 have been audited.

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

- financial derivatives, measured at fair value,

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

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

These interim condensed consolidated financial statements do not include all the information and disclosures required in the case of full-year consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31st 2016. 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 2016.

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the annual periods ended December 31st 2017 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:

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

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

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

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 9 months ended September 30th 2017	Wind power	Conventional energy	Energy trading and sale	Distribution	Biomass	Development and implementation	Unallocated Group management costs*)	Purchase price allocation:	Total
Revenue from sales to external customers	92,517	208,132	1,618,769	63,971	23,145	5	2,341	2,043	2,010,923
Gross profit/(loss)	**9,951**	**52,435**	**16,012**	**12,577**	**(1396)**	**(214)**	**(2,980)**	**(5,553)**	**80,832**
Administrative expenses	(2,627)	(4,459)	(7,007)	(4,634)	(883)	(285)	(3,922)	-	(23,817)
Interest income/(expense)	(35,992)	(1381)	(907)	(1,260)	(181)	43	2,046	-	(37,632)
Finance income/(costs) from unrealised exchange gains/losses	817	(12)	115	-	(1)	(5)	-	-	914
Other finance income/(costs)	(4138)	(316)	(1,213)	(107)	(172)	(40)	1,463	-	(4,253)
Other income/(expenses)	5,340	(187)	206	1,815	(8,953)	(89,323)	135	-	(90,967)
Profit/(loss) before tax	**(26,649)**	**46,080**	**7,206**	**8,391**	**(11,586)**	**(89,824)**	**(3,258)**	**(5,553)**	**(75,193)**
Income tax	-	-	-	-	-	-	(10,099)	1,053	(9,046)
Net profit/(loss)	-	-	-	-	-	-	-		(84,239)
EBITDA **)	55,339	63,856	9,236	13,001	1,347	(535)	(6,109)	2,043	138,178
Segment assets	1,386,946	286,298	209,141	136,434	56,628	204,437	1,917	-	2,281,801
Unallocated assets	-	-	-	-	-	-	357,835	21,972	379,807
Total assets	**1,386,946**	**286,298**	**209,141**	**136,434**	**56,628**	**204,437**	**359,752**	**21,972**	**2,661,608**

*) Head office costs unallocated to other segments
**) EBITDA is defined on page 16.

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For 9 months ended September 30th 2016	Wind power	Conventional energy	Energy trading and sale	Distribution	Biomass	Development and implementation	Unallocated Group management costs*)	Purchase price allocation:	Total
Revenue from sales to external customers	100,932	207,729	1,705,160	99,158	37,509	6	3,717	2,043	2,156,254
Gross profit/(loss)	**12,829**	**67,327**	**1,642**	**17,096**	**3,730**	**(466)**	**(3,292)**	**(5,553)**	**93,313**
Administrative expenses	(2,749)	(5,054)	(7,157)	(3,809)	(1,192)	(255)	(4,800)	-	(25,016)
Interest income/(expense)	(34,777)	(4,318)	(167)	(1,147)	(262)	114	2,304	-	(38,253)
Finance income/(costs) from unrealised exchange gains/losses	(497)	(43)	-	-	2	(72)	-	-	(610)
Other finance income/(costs)	(5,021)	(381)	(934)	(93)	(333)	(67)	4,633	-	(2,196)
Other income/(expenses)	3,244	(795)	617	12	579	(102,991)	796		(98,538)
Profit/(loss) before tax	**(26,971)**	**56,736**	**(5,999)**	**12,059**	**2,524**	**(103,737)**	**(359)**	**(5,553)**	**(71,300)**
Income tax	-	-	-	-	-	-	(3,954)	1,053	(2,901)
Net profit/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**(74,201)**		**(74,201)**
							-		-
EBITDA **)	69,289	76,250	(4,870)	16,392	6,105	(851)	(6,187)	2,043	158 11
Segment assets	1,495,619	327,571	197,040	134,869	73,390	170,694	2,124		2,401,307
Unallocated assets	-	-	-	-	-	-	504,787	32,096	536,883
Total assets	**1,495,619**	**327,571**	**197,040**	**134,869**	**73,390**	**170,694**	**506,911**	**32,096**	**2,938,190**

*) Head office costs unallocated to other segments

**) EBITDA is defined on page 16.

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3. Other notes

3.1 Revenue

	For 9 months ended		For 3 months ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
- revenue from sale and distribution of electricity	1,635,931	1,803,448	543,341	674,767
- revenue from certificates of origin	41,517	20,067	16,835	(2,421)
- revenue from carbon dioxide emission allowances	318	2,375	(56)	-
- revenue from sale of heat	14,851	18,450	3,837	4,186
- revenue from consulting and advisory services	2,128	2,332	589	324
Income from lease and operator services	1,298	606	239	172
- revenue from sale of merchandise	2,847	2,638	187	136
- revenue from sale of pellets	20,282	34,846	7,054	9,837
- rental income	178	1,106	85	200
- income from compensation for stranded costs and cost of gas	88,888	86,105	39,102	30,476
- net revenue from sale and distribution of gas	196,230	182,810	54,274	71,734
- other	6,455	1,471	2,923	349
Total revenue	**2,010,923**	**2,156,254**	**668,410**	**789,760**

3.2 Operating expenses, by nature of expense

	For 9 months ended		For 3 months ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
- depreciation and amortisation expense	73,070	85,551	24,143	29,369
- raw materials and consumables used	139,895	132,582	43,092	38,399
- services	41,343	41,539	13,337	12,893
- taxes and charges	19,918	12,798	6,617	3,822
- salaries and wages	23,839	28,009	8,062	9,703
- social security and other benefits	3,570	3,782	984	1,015
- other operating expenses	2,383	2,647	750	829
Total expenses by nature	**304,018**	**306,908**	**97,025**	**96,030**
- cost of merchandise and materials sold (+)	1,650,395	1,781,587	542,844	687,146
- distribution costs (-)	(505)	(538)	(113)	(127)
- administrative expenses (-)	(23,817)	(25,016)	(7,685)	(6,030)
Total cost of sales	**1,930,091**	**2,062,941**	**632,071**	**777,019**

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3.3 Other income

	For 9 months ended		For 3 months ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
- reversal of impairment losses and write-downs, including:	71	814	30	-
- impairment losses on receivables	71	469	30	-
- inventory write-downs	-	345	-	-
- provisions reversed, including:	72	1,166	72	-
- provision for site restoration	-	1,166	-	-
- other provisions	72	-	72	-
- other, including:	9,299	4,913	2,697	1,873
- compensation and additional charges	4,348	245	1,744	231
- settlement of grants	2,449	3,209	800	1,069
Gain on disposal of non-financial non-current assets	462	534	3	(89)
- reinvoicing	6	6	-	6
- other	2,034	919	150	656
Total other income	**9,442**	**6,893**	**2,799**	**1,873**

3.4 Other expenses

	For 9 months ended		For 3 months ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
- impairment losses and write-downs, including:	99,086	104,482	98,858	48,810
- impairment losses on receivables	12	10,123	(44)	78
- inventory write-downs	240	-	240	-
- impairment losses on property, plant and equipment	98,834	94,359	98,662	48,732
- other, including:	818	411	141	213
- penalties, fines, compensation	2	1	-	1
- assigned compensation	-	-	-	(3)
- other development costs	129	168	34	34
- loss on disposal of non-financial non-current assets	460	2	80	-
- other	227	240	27	181
Total other expenses	**99,904**	**104,893**	**98,999**	**49,023**

Most impairment losses were recognised with respect to the following projects under development: Elektrownia Północ (PLN 80.7m), Farma Wiatrowa Grabowo (PLN 8.4m), and Grupa PEP Biomasa Energetyczna Południe Sp. z o.o. (PLN 9.8m).

3.5 Finance income

	For 9 months ended		For 3 months ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
- income from interest on deposits and loans	5,092	3,583	1,594	1,297
- interest on finance leases	104	114	34	37
- foreign exchange gains, including:	886	30	(515)	(25)
- unrealised	843	(27)	(469)	(70)
- realised	43	57	(46)	45
- valuation of financial liabilities	1	17	-	-
- disposal of shares in a subsidiary	-	3,206	-	-
- other	32	36	2	8
Total finance income	**6,115**	**6,986**	**1,115**	**1,317**

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3.6 Finance costs

	For 9 months ended		For 3 months ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
- interest expense	42,828	41,950	13,858	14,869
- foreign exchange losses, including:	426	758	(145)	(804)
- unrealised	(71)	583	(360)	(831)
- realised	497	175	215	27
- fees and commissions	1,443	3,014	500	1,037
- valuation of financial liabilities*)	2,545	2,141	840	883
- other	114	182	30	(110)
Total finance costs	**47,356**	**48,045**	**15,083**	**15,875**

*) Related to bank borrowings measured at amortised cost.

3.7 Cash flows

Restricted cash	For 9 months ended	
	Sep 30 2017	Sep 30 2017
- cash for credit facility repayments	25,549	29,099
- cash for the settlement of compensation for stranded costs	32,037	67,642
- cash for long- and medium-term overhauls	4,484	2,037
- other restricted cash	95	3,650
Total	**62,165**	**102,428**

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

	For 9 months ended	
Inventories:	Sep 30 2017	Sep 30 2017
- change in inventories in the statement of financial position	7,740	8,713
- recognition of inventories under non-current assets	645	200
- deconsolidation of sold subsidiary	-	(107)
Change in inventories in the statement of cash flows	**8,385**	**8,806**

	For 9 months ended	
Receivables:	Sep 30 2017	Sep 30 2017
- change in short-term and long-term receivables, net, in the statement of financial position	27,317	87,465
- change in investment receivables	121	-
- deconsolidation of sold subsidiary	-	(1,710)
- change in financial receivables	20,387	35,180
Change in receivables in the statement of cash flows	**47,825**	**120,935**

	For 9 months ended	
Liabilities:	Sep 30 2017	Sep 30 2017
- change in liabilities, net of borrowings, in the statement of financial position	(149,251)	(131,541)
- change in finance lease liabilities	482	1,186
- change in investment commitments	33,433	4,768
- deconsolidation of sold subsidiary	-	1,441
- change in financial liabilities	1,577	3,435
Change in liabilities in the statement of cash flows	**(113,759)**	**(120,711)**

	For 9 months ended	
Prepayments and accrued income	Sep 30 2017	Sep 30 2017
- change in accruals and deferrals in the statement of financial position	(2,231)	(1,041)
- commissions on bank borrowings	(186)	(4,542)
- deconsolidation of sold subsidiary	-	54
- property, plant and equipment under construction, not invoiced	-	842

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Change in accruals and deferrals in the statement of cash flows	**(2,417)**	**(4,687)**

3.8 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 above-mentioned transaction amounted to PLN 184m and was attributable to the following cash-generating units (segments):
(i) PLN 75m – development segment – comprising Polenergia Bałtyk I, Polenergia Bałtyk II and Polenergia Bałtyk III;
(ii) PLN 40m – conventional energy segment − comprising Polenergia Elektrociepłownia Nowa Sarzyna;
(iii) PLN 25m – distribution segment – comprising Polenergia Dystrybucja and Polenergia Kogeneracja;
(iv) PLN 44m − trading segment − comprising Polenergia Obrót.

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:

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

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

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

Moreover, the wind conditions, which determine the output of wind farms, are uneven during the year: in autumn and winter they are significantly better than in spring and summer. The wind farm sites were selected by the issuer based on professional wind measurements confirmed by independent and reputable experts. That said, there can be no assurance that the actual wind conditions will not be different than those used in the Group's models for specific investment projects.

5. Interest-bearing borrowings

On August 10th 2017, Polenergia Dystrybucja Sp. z o.o. drew PLN 4,696.6 thousand under tranche C of the investment credit facility with ING BANK ŚLĄSKI S.A., made available under an annex to the credit facility agreement of November 30th 2016. The total amount of the tranche is PLN 18,270 thousand, and the available balance is PLN 11,309.7 thousand.

On September 28th 2017, Grupa PEP-Biomasa Energetyczna Południe Sp. z o.o. repaid in full the investment credit facility provided to it under the credit facility agreement concluded with MBANK S.A. on December 23rd 2009.

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6. Changes in accounting estimates

a) Effective tax rate

	For 9 months ended	
	Sep 30 2017	Sep 30 2017
Tax expense recognised in profit or loss, including:	**9,046**	**2,901**
Current income tax	2,250	5,822
Deferred tax	6,796	(2,921)
Loss before tax	**(75,193)**	**(71,300)**
Tax expense at the effective rate of 19% (2016: 19%)	(14,287)	(13,547)
Adjustments to current income tax from previous years	(5)	(557)
Non-tax-deductible costs:	**23,338**	**17,005**
- permanent differences	213	675
- tax assets on account of tax losses in Special Economic Zone	367	(403)
- tax asset on account of other tax losses	22,758	16,773
Tax recognised in profit or loss	**9,046**	**2,901**

b) Change in provisions

Change in short- and long-term provisions

	Sep 30 2017	Dec 31 2016
Provisions at beginning of period	**28,572**	**6,423**
- provisions recognised	257	24,660
- provisions reversed	(2,093)	(2,511)
Provisions at end of period	**26,736**	**28,572**

(PLN '000)

c) Trade and other receivables

In the period ended September 30th 2017, impairment losses on uncollectible trade receivables went up to PLN 2,314 thousand.

	30.09.2017	31.12.2016
At beginning of period	**2,281**	**7,779**
- Increase	90	382
- Use	(108)	(173)
- Reversal	51	(5,707)
At end of period	**2,314**	**2,281**

Below is an analysis of trade receivables that were past due as at September 30th 2017, but not impaired.

			Past due but recoverable				
	Total	Not past due	Less than 30 days	30–60 days	60–90 days	90–120 days	Over 120 days
30.09.2017	109,327	105,126	2,586	245	528	176	666
31.12.2016	149,494	145,445	2,637	251	88	68	1,005

Receivables past due more than 120 days relate mainly to the distribution business, which is characterised by a large number of customers 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 breakdown 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 third quarter ended September 30th 2017.

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

No dividend was paid in the period of nine months ended September 30th 2017.

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

The total amount of contract sureties provided by Kulczyk Investments to Polenergia Obrót S.A. fell to EUR 4,000 thousand as at September 30th 2017.

10. Proceedings pending before common courts of law, arbitration courts or public administration authorities

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 a 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. (the defendant) of contracts 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. In addition, the company pursues a claim for damages in respect of the sale of green certificates obtained by Amon Sp. z o.o for part of the period covered by the claim for declaration of invalidity of termination notices, on market terms. In this regard, the claims of Amon Sp. z o.o. may increase. The litigation value has been determined as the contracts' estimated value until the end of their original term (i.e. until 2027) and the value of the claim for damages, and amounts to PLN 381,671 thousand. In the Company's opinion, the claim is well-founded and should be granted by the Court.

Talia Sp. z o.o. is a 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. (the defendant) of contracts 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. In addition, the company pursues a claim for damages in respect of the sale of green certificates obtained by Talia sp. z o.o. for part of the period covered by the claim for declaration of invalidity of termination notices, on market terms. In this regard, the claims of Talia Sp. z o.o. may increase. The litigation value has been determined as the contracts' estimated value until the end of their original term (i.e. until 2027) and the value of the claim for damages, and amounts to PLN 253,097 thousand. In the Company'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 proceedings 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

Eolos Polska Sp. z o.o. filed for joint and several payment by the Company's subsidiaries, Certyfikaty Sp. z o.o. and Polenergia Obrót S.A., of contractual penalties and amounts due totalling PLN 20.2m under alleged breach of contracts which expired on January 5th 2016. It should be noted that in the statement of claim the plaintiff indicated that its claim could be higher due to the fact that the claimed contractual penalties would increase in subsequent years. Accordingly, in March 2017 Eolos Polska Sp.

z o.o. sent a payment notice to Certyfikaty Sp. z o.o. and Polenergia Obrót S.A., raising an additional claim for payment of PLN 7,672 thousand. The subsidiaries denied the claim in its entirety, as well as the grounds for the payment notice. The Company has received information that Eolos Sp. z o.o. has extended its claim to include the amount requested in the payment notice, but relevant pleading has not yet been served on the defendants. Moreover, Polenergia Obrót S.A. maintains that the allegation of Polenergia Obrót's joint responsibility for Certyfikaty Sp. z o.o.'s liabilities is groundless.

The Company's subsidiary, Grupa PEP – Biomasa Energetyczna Północ Sp. z o.o. is seeking a total of PLN 40 thousand from its trading partners, as a refund of advance payments. The proceedings are pending. Moreover, the subsidiary is seeking payment of receivables of approximately PLN 420,000. The other party has expressed an intention to settle the case. The company is waiting for a settlement offer from the defendant.

Due to the nature of its business which involves supplying electricity to end consumers, the Company's subsidiary Polenergia Dystrybucja Sp. z o.o. is enforcing claims against a number of customers in relation to sale and distribution of electricity, for a total amount of approximately PLN 400 thousand. Polenergia Dystrybucja Sp. z o.o. is also seeking payment of approximately PLN 550 thousand from its trading partner in connection with settlements for electricity delivered to Polenergia Dystrybucja Sp. z o.o. for resale.

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

Moreover, the Company's subsidiary Polenergia Elektrownia Północ Sp. z o.o. is in dispute with the other party to a preliminary property sale agreement, seeking to oblige that party to execute the final sale agreement. Polenergia Elektrownia Północ Sp. z o.o. also initiated proceedings against the same person for payment of a penalty for breach of contract. The amount in dispute is PLN 100 thousand. The Supreme Court upheld the cassation complaint filed by Polenergia Elektrownia Północ Sp. z o.o., reversing the judgment of the Court of Appeals in Gdańsk, and remanded the case for reconsideration.

The Company's subsidiary Energopep Sp. z o.o. Sp. k. has brought a claim for the payment of PLN 100 thousand against a member of a contractor's management board for a delay in filing for bankruptcy. The case was resolved by the court of first instance in favour of the subsidiary. The Company awaits the outcome of the appeal filed by the defendant with the Court of Appeals in Poznań.

The Company's subsidiary PPG Pipeline Projtgesellschaft mbH ("PPG") filed an arbitration claim against a trading partner for the payment of EUR 115 thousand as a refund of the unused portion of the payment made towards project maintenance costs, which is due on the grounds that PPG Pipeline Projektgesellschaft GmbH resolved not to exercise an option to buy shares in Inwestycyjna Spółka Energetyczna-IRB Sp. z o.o. The case has not yet been heard by the court.

Having declared the decisions determining the amounts due for the exclusion of arable land which is to accommodate wind farms and access roads from agricultural production invalid (totalling PLN 1,705 thousand to be paid by Amon Sp. z o.o. and PLN 831 thousand to be paid by Talia Sp. z o.o.), the Złotoryja County Head, is in the process of reconsidering the cases.

On October 18th 2017, Amon Sp. z o.o. received a decision from the Energy Minister stating that PLN 92 thousand is to be refunded in respect of the grant awarded to the company under Agreement No. POIS.09.04.00-00-109/09-01. The amount is to be refunded together with interest calculated as for tax arrears and accrued from the date on which the funds were disbursed. The company filed an appeal against the decision with the Minister of Development, which suspends the implementation of the decision.

Polenergia-Farma Wiatrowa Bądecz Sp. z o.o. filed complaints seeking to declare invalid the Supreme Administrative Court's judgments of August 1st 2017 revoking the environmental decisions issued by the Mayor of Wysoka Town and Municipality for the Bądecz I WF project involving the construction of a wind farm (up to 11 turbines) with internal auxiliary infrastructure and the Bądecz II WF project for the construction of a wind farm (up to three turbines) with internal auxiliary infrastructure.

For more information on the administrative and administrative court proceedings related to private letter rulings on tax issues obtained by companies operating the wind farms, see Section 9.7 in Part C (*Other information to the consolidated quarterly report*).

11. Significant related-party transactions

As at September 30th 2017, the Group did not have any associates involved in material related-party transactions.
In the nine months ended September 30th 2017, the following material related-party transactions took place:

Sep 30 2017	Revenue	Costs	Receivables	Liabilities
Kulczyk Investments	-	296	-	105
Kulczyk Holding	-	289	-	-
Krucza Inwestycje KREH 1 Sp. z o.o. S.K.	-	1,547	-	3
Polenergia Holding Sarl	246	-	20	-
Polenergia Usługi Sp. z o.o.	92	-	-	-
Polskie Biogazownie Energy Zalesie Sp. z o.o.	-	448	-	-
Ciech Sarzyna S.A.	14,676	1,457	2,481	150
Polenergia International Sarl	787	-	789	-
Grupa PEP-Obrót 2 Sp. z o.o.	1,045	-	1,038	-
Total	**16,846**	**4,037**	**4,328**	**258**

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 September 30th 2017, the Group did not issue any external guarantees.

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

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

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 materially affect 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 prices of natural gas and biomass and their availability,
- financial condition of the Company's customers,
- ability to obtain financing for the planned projects,
- EUR/PLN exchange rate and WIBOR/EURIBOR interest rates.

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 which is to secure financial resources to finance the

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Group's operations. The Group also holds other financial instruments, such as trade payables and receivables arising in connection with its activities.

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

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

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

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

Period ended Sep 30 2017	Increase/decrease (percentage points)	Effect on pre-tax profit/loss over three consecutive months (PLN '000)
1M WIBOR	1%	(2,073)
1M EURIBOR	1%	(64)
1M WIBOR	-1%	2,073
1M EURIBOR	-1%	64

Period ended Sep 30 2016	Increase/decrease (percentage points)	Effect on pre-tax profit/loss over three consecutive months (PLN '000)
1M WIBOR	1%	(2,201)
1M EURIBOR	1%	(79)
1M WIBOR	-1%	2,201
1M EURIBOR	-1%	79

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 September 30th 2017, the position was valued at EUR 5.9m. It is not hedged against changes in currency exchange rates.

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

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

	Exchange rate increase/decrease	Effect on profit/loss
Sep 30 2017 – EUR	+ PLN 0.01/EUR	(59)
	- PLN 0.01/EUR	59
Sep 30 2016 – EUR	+ PLN 0.01/EUR	(74)
	- PLN 0.01/EUR	74

In the period ended September 30th 2017, the Group realised finance income of PLN 914 thousand from unrealised exchange differences.

In September 30th–December 31st 2017, movements in the PLN/EUR exchange rate may affect the amount of unrealised exchange differences. The result on unrealised exchange differences as at December 31st 2017 will mainly depend on the difference between the PLN/EUR exchange rates on December 31st 2017 and September 30th 2017, with the appreciation/depreciation of the Polish złoty against the euro having a positive/negative effect on the net profit of ca. PLN 59 thousand for each PLN 0.01 of the difference relative to the exchange rate as at September 30th 2017.

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.

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

Given the current market environment, possible consequences of the Act on Wind Farm Projects and situation prevailing on the market of green certificates, there is a risk that the Group may default on the covenants with respect to certain project. The Group monitors the debt levels and compliance with covenants at individual companies, remaining in contact with the financing institutions.

Cash at banks is held with well-rated banks.

There is no concentration of credit risk, because the Group deals with several reputable banks.

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

15.4 Liquidity risk

The table below presents the Group's financial liabilities by maturity as at September 30th 2017 and December 31st 2016, based on undiscounted contractual payments.

Sep 30 2017	up to 3 months	from 3 to 12 months	from 1 year to 5 years	over 5 years	Total
Interest-bearing borrowings	50,582	342	460,197	544,513	**1,397,316**
Other liabilities	103,819	1,050	20,458	-	**125,327**
Trade payables	124,465	-	-	-	**124,465**

Dec 31 2016	up to 3 months	from 3 to 12 months	from 1 year to 5 years	over 5 years	Total
Interest-bearing borrowings	50,206	361,658	467,558	618,887	**1,498,309**
Other liabilities	226,290	1,284	7,462	-	**235,036**
Trade payables	156,168	-	4	-	**156,172**

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Dipol

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

Amon/Talia

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

GSR / Mycielin

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

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

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 September 30th 2017 and in the year ended December 31st 2016, 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.

	Sep 30 2017	Dec 31 2016
Interest-bearing borrowings	1,036,825	1,116,653
Less cash and cash equivalents	(323,976)	(380,862)
Net debt	**712,849**	**735,791**
Equity	1,184,343	1,267,426
Total equity	**1,184,343**	**1,267,426**
Equity and net debt	**1,897,192**	**2,003,217**
Leverage ratio	38%	37%

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 these interim condensed consolidated financial statements, i.e. November 8th 2017, no events had occurred which should have been but were not disclosed in the accounting records for the reporting period.

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C. OTHER INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT

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

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

Key financial and economic data [PLNm]	Jan 1–Sep 30 2017	2016	Change
Revenue	2,010.90	2,156.3	(145.4)
EBITDA	138.2	158.2	(20.0)
Adjusted EBITDA	136.1	155.3	(19.2)
Net profit/(loss)	-84.3	-74.2	(10.1)
Adjusted net profit after elimination of purchase price allocation effect, unrealised exchange differences, impairment losses, loan valuation and discount valuation.	20.6	23.8	(3.2)

In comparison with the corresponding period of 2016, Q3 2017 performance was driven by the following factors:

a) EBITDA (down by PLN 20.0m):

- Weaker performance of the conventional energy segment (down PLN 12.4m) following a revision (in Q1 2016) of the forecast prices of electricity, gas and CO2 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), a drop in stranded costs compensation income (lower costs of long-term overhauls in Q3 2017 relative to Q3 2016), partially offset by an upward adjustment to gas compensation for 2016 (higher CG ratio and lower cost of coal) recognised in Q3 2017;
- Weaker performance of the wind power segment (down PLN 14.0m) primarily as a result of a decline in the prices of green certificates in H1 2017, higher rates of property tax in 2017, and higher costs related mainly to unplanned repair work, offset by improved productivity and maintenance cost savings.
- Stronger performance of the trading segment (up PLN 14.1m) attributable to a positive trend in the prices of green certificates in Q3 2017 and improved performance of the electricity trading business;
- Deteriorated performance in the distribution segment (down PLN 3.4m) reflecting the reversal of a provision for settlements with a trading partner in 2016 and a lower distribution margin in 2017;
- Worse performance in the biomass segment (down PLN 4.8m) chiefly due to a lower sales volume and higher feedstock prices; this effect was partially offset by savings on technical maintenance costs, leases and local taxes. In addition, an impairment loss was recognised in connection with the discontinuation of operations by a subsidiary (see page 6 of this report for details);
- Lower expenses in the development segment (down PLN 0.4m) resulting from tighter cost and investment discipline;
- Lower (by PLN 0.1m) unallocated Group management costs;

b) Adjusted EBITDA (down by PLN 19.2m):

- Impact of EBITDA described above (down PLN 20.0m);
- Elimination of the effect of sale of Zakrzów CHP Plant in 2016 (PLN 0.8m yoy).

c) Net profit /(loss) (down by PLN 10.0m) driven by:

- EBITDA (down PLN 20m);

(PLN '000)

- Lower depreciation and amortisation excluding depreciation and amortisation related to purchase price allocation (down PLN 12.5m), primarily due to a change in the policy concerning the useful lives of wind farm projects (extension of the economic useful lives of turbines to 25 years after taking into account certain technical factors identified in the course of a dialogue with turbine manufacturers);
- Higher income tax resulting mainly from a decrease in deferred tax liability (down PLN 6.3m) related to the impairment loss on the gas pipeline construction project in Q3 2016. The liability was recognised in connection with the purchase price allocation following the contribution of the Neutron Group's assets to the Group in 2014;
- Impairment losses used on assets of Elektrownia Północ, Biomasa Południe and the Grabowo wind farm project, which increased by PLN 2.6m over the same period of the previous year;
- Lower finance income (down PLN 0.9m) due to the absence of the one-off event that occurred in Q3 2016, which was the sale of shares in a subsidiary (PLN 3.2m), partially offset by higher interest on deposits and foreign exchange gains;
- Lower finance costs (down PLN 0.7m) resulting from lower costs of commissions offset by higher interest expense.

d) Adjusted net profit /(loss) (down by PLN 3.1m) driven by:

- Lower net profit (down PLN 10m),
- Adjustments for the effect of unrealised exchange differences of PLN 1.2m, income from valuation of long-term bank borrowings of PLN 0.3m, and impairment losses/write-downs and sale of Zakrzów CHP plant of PLN 7.8m.

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

CONVENTIONAL ENERGY

NOWA SARZYNA CHP PLANT (ENS)

Since the beginning of 2017, the plant has operated as planned.

EBITDA of the conventional energy segment was lower year on year (down by a total of PLN 12.4m in the first nine months of 2017) due to a Q1 2016 revision of the forecast prices of electricity, natural gas and CO2 in 2016−2020, which led to a change in the allocation of stranded cost compensation income over the term of the compensation scheme (2008–2020), a drop in stranded costs compensation income (lower costs of long-term overhauls in Q3 2017 relative to Q3 2016), partially offset by an upward adjustment to gas compensation for 2016 (higher CG ratio and lower cost of coal) recognised in Q3 2017;

Mercury Power Plant

The operating result of the Mercury Power Plant for Q3 2017 and for the first nine months of 2017 improved year on year, reflecting a rise in electricity sales volumes resulting from increased supply of coking gas from WZK Victoria.

WIND POWER

The overall performance of the wind power segment declined on the previous year (Q1–Q3 EBITDA down PLN 14.0m), mainly due to lower prices of green certificates and higher property tax rates in 2017.

Below is presented detailed information on individual wind farms:

Puck Wind Farm

Both in Q3 and in the first nine months of 2017, electricity output was up year on year, which translated into higher revenue, offset by increased technical maintenance costs incurred on an unplanned gearbox replacement.

Łukaszów and Modlikowice Wind Farms

In Q3 2017 and in the first nine months of 2017, electricity output at these two wind farms was higher than that recorded in the corresponding periods of the previous year. Also, lower technical maintenance costs were partly offset by an increased property tax expense.

Gawłowice, Rajgród, and Skurpie Wind Farms

In Q3 and in the first nine months of 2017, operating performance of the Gawłowice, Rajgród, and Skurpie Wind Farms was higher than in 2016 due to higher generation volumes and lower technical maintenance costs. This effect was partially offset by a higher property tax expense (based on wind farm market valuation).

Mycielin Wind Farm

In Q3 2017 and in the first nine months of 2017, operating result of the Mycielin Wind Farm deteriorated year on year, mainly reflecting a property tax rise in 2017. The result was further hurt by a turbine failure leading to reduced production volumes, with output losses offset in accordance with a contract with Vestas.

DISTRIBUTION

In Q3 2017, Polenergia Dystrybucja and Polenergia Kogeneracja operated in line with the plan. EBITDA went slightly up year on year, mainly owing to a property tax refund. In the first nine months of 2017, the segment's performance deteriorated on the comparative period, driven by lower margins on the distribution of electricity and natural gas. Also, in Q1 2016 a provision for settlements with a trading partner was reversed.

ELECTRICITY SALES AND TRADING

The segment's operations went on without any disruptions. The segment's performance in Q3 2017 and in the first nine months of 2017 was significantly better than in the corresponding periods the year before. The improved performance was mainly attributable to higher prices of green certificates, which improved the return on the certificate portfolio. We also recorded improved performance in the electricity trading business.

BIOMASS

In the first nine months of 2017 and in Q3 2017 alone, the segment's performance deteriorated year on year (down PLN 4.8m and PLN 1.2m, respectively), which was attributable to lower sales volumes and higher feedstock prices, partially offset by lower technical maintenance costs and savings on local charges and leases.

Below is presented detailed information on individual companies.

Biomasa Energetyczna Północ

In the first nine months of the year, the production volume of pellets was lower than in the same period a year earlier. Additionally, due to declining volumes and average selling prices as well as higher feedstock prices, the plant's operating margin fell year on year, which was partly offset by lower technical maintenance costs.

In Q3 2017, the plant's performance improved year on year on higher production volumes, partly offset by higher feedstock prices.

Biomasa Energetyczna Południe

Pellet sales volumes fell markedly year on year in H1 and Q3 2017, reflecting expiry of the contract for the supply of pellets to EDF and failed efforts to secure new supply contracts. As a consequence, in Q3 2017 the company resolved to discontinue operations and recognised a PLN 9.8m impairment loss, as announced in Current Report No. 11/2017 of October 18th 2017. The impairment loss was a non-cash charge with no impact on EBITDA.

Biomasa Energetyczna Wschód

In H1 and Q3 2017, pellet sales volumes fell year on year. The adverse effect of the lower average selling prices, lower production volumes and higher feedstock prices was partly offset by lower cost of technical support.

DEVELOPMENT AND IMPLEMENTATION

Onshore wind farms

At present, the Company's portfolio includes projects with an aggregate capacity of approximately 227 MW which are in the final phase of development and for which building permits have been issued. Work is under way to prepare these projects for the auction process (pre-qualification).

As announced in Current Report No. 9/2017 of September 26th 2017, in Q3 2017 the Company decided to abandon the Grabowo Project and recognised an impairment loss reflecting an agreement reached by the Grabowo Wind Farm with respect to termination of the grid connection agreement, under which the company recovered a substantial part of the grid connection fee already paid and was released from the obligation to make further fee payments. At the same time, the Grabowo Wind Farm’s attempts to reduce the project’s maintenance costs (including lease payments) failed. Considering the relatively high costs of implementation of the Grabowo Project and potential cost savings from its abandonment, the Company determined that the implementation of the Grabowo Project was not economically viable.

The PLN 8.2m impairment loss was a non-cash charge, disclosed in the Company’s consolidated financial statements under other expenses. In line with the adopted definition, it was charged against the Group’s operating profit but had no impact on EBITDA.

Development of offshore wind farms

The Group plans to construct two offshore 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 offshore 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 offshore wind farm projects will be implemented with a partner that will acquire a 50% interest in the project after all necessary approvals and permits are secured (i.e. when the project is ready for construction). The Group may sell a 100% interest in the project to increase the amount of dividends paid to shareholders.

Development of the Elektrownia Północ Power Plant project

An impairment loss on fixed assets associated with the implementation of the Elektrownia Północ project was recognised in Q3 2017, as announced by the Company in Current Report No. 11/2017 of October 18th 2017. The impairment loss amounted to PLN 81m, and it was made based on analysis of the market environment and the project’s economics. The impairment loss was a non-cash charge with no impact on EBITDA.

With a view to divesting its rights or interest in the project, the Company will continue to maintain an appropriate development status of the project, particularly with respect to required approvals, in each case taking into account the economic viability of its actions.

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

As announced on July 6th 2016 in Current Report No. 21/2016, the Company does not intend to publish any performance forecasts for the coming years before the regulatory environment for renewable energy generation stabilises.

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	6,784,096	6,784,096	14.93%
	Total	**45,443,547**	**45,433**	**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 Q3 2017, ended September 30st 2017, there were no changes resulting from business combinations, acquisitions or disposals of Group entities, long-term investments, demergers, restructuring or discontinuation of operations.

7. General information

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

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

- production and distribution of electricity (PKD 40.10),
- production and distribution of heat (steam and hot water) (PKD 40.30),
- construction and civil engineering (PKD 45.21),
- construction installation activities (PKD 45.3),

(PLN '000)

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

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

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

As at September 30th 2017, the composition of the Parent's Management Board was as follows:

Jacek Głowacki	Vice President of the Management Board
Bartłomiej Dujczyński	Member of the Management Board
Michał Michalski	Member of the Management Board

As at September 30th 2017, the composition of the Parent's Supervisory Board was as follows:

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

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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:

- Energy Law with the secondary legislation;
- Act on Renewable Energy Sources, dated February 20th 2015; Dz.U.2015.478 of April 3rd 2015 (the "RES Act");
- LTC Act;
- Geological and Mining Law of June 9th 2011 (Dz.U.2016.1131 of July 28th 2016);
- Act on Marine Areas of the Republic of Poland and Maritime Administration, dated March 21st 1991 (Dz.U.2016.2145 of December 23rd 2016);
- Act on Trading in Greenhouse Gas Emission Allowances, dated June 12th 2015 (Dz.U.2017.568 of March 17th 2017);
- Act on the System of Managing Emissions of Greenhouse Gases and Other Substances, dated July 17th 2009 (Dz.U.2017.286 of February 17th 2017);
- Act on the System for Monitoring the Movement of Fuels by Road, dated March 9th 2017 (Dz.U.2017.708 of April 3rd 2017);
- Act on the Substances Depleting the Ozone Layer and Certain Fluorinated Greenhouse Gases, dated May 5th 2015 (Dz.U.2015.881 of June 25th 2015);
- Environmental Protection Law of April 27th 2001 (Dz.U.2017.519 of March 13th 2017);
- Act on Disclosure of Information on the Environment and Environmental Protection, Public Participation in Environmental Protection and on Environmental Impact Assessment, dated October 3rd 2008 (the "Environmental Impact Assessment Act") (Dz.U.2016.353 of March 16th 2016);
- Act on Prevention of Environmental Damage, dated April 13th 2007 (Dz.U.2014.1789 of December 12th 2014);
- Nature Conservation Act, dated April 16th 2004 (Dz.U.2016.2134 of December 23rd 2016);
- Act on Wind Farm Projects, dated May 20th 2016 (Dz.U.2016.961 of July 1st 2016);
- Act on Spatial Planning and Development, dated March 27th 2003 (Dz.U.2016.778 of June 4th 2016);
- Surveying and Mapping Law of May 17th 1989 (Dz.U.2016.1629 of October 6th 2016);
- Act on Protection of Agricultural and Forest Land, dated February 3rd 1995 (Dz.U.2017.1161 of June 19th 2017);
- Waste Act of December 14th 2012 (Dz.U.2016.1987 of December 9th 2016);
- Water Law of July 18th 2001 (Dz.U.2015.469 of April 1st 2015);
- Act on Cleaning and Waste Management in Municipalities, dated September 13th 1996 (Dz.U.2017.1289 of June 30th 2017);
- Act on the Collective Supply of Water and Collective Discharge of Wastewater, dated June 7th 2001 (Dz.U.2017.328 of February 23rd 2017).

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 energy 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 condition. 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 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, in line with the 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 applies only to the tariffs of those power sector companies whose business consisted in the transmission and distribution of electricity, as well as tariffs for electricity sold to customers who do not conduct business activities, mainly households (tariff group G).

The Group company whose business activity is electricity distribution and sale of electricity to households (Polenergia Dystrybucja) 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 does not apply to gas fuel trading on 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 the 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. **Right to free choice of suppliers and the right of access to the grid (TPA)**

9.2.4

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, grid connection agreements 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, and microinstallations, which are connected for free.

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.

A grid connection agreement for a RES unit should also specify a deadline for the first supply to the power grid of electricity generated by such RES unit, with the proviso that the deadline cannot be longer than 48 months, and in the case of RES units using offshore wind power – 120 months, from the agreement execution date. Failure to make the first supply to the power grid of electricity generated by such RES unit within the deadline specified in the grid connection agreement may result in termination of the agreement. For existing agreements, such deadlines are to be counted from the effective date of the Act on Renewable Energy Sources.

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.

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 commodity exchanges 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;

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- 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 the 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 up to 15% of the company’s revenue derived from licensed activities in the previous fiscal year.

9.2.9 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.

9.2.9 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 Laws applicable to renewable energy sources

9.3.1 Requirement to redeem certificates of origin and auction-based scheme

Energy companies specified in the RES Act (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 secondary legislation, 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 by way of certificates redemption is the payment of a relevant emission charge.

The emission charge per 1 MWh in a given calendar year is 125% of the annual weighted average price of property rights incorporated in certificates of origin other than certificates issued in respect of energy generated from agricultural biogas, as published by the Polish Power Exchange, but may not exceed PLN 300.03 per MWh.

An emission charge is the product of the unit emission charge 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 2017, the requirement to redeem certificates of origin for energy generated from agricultural biogas is 0.6% of electricity sales to end users and 15.4% in the case of certificates of origin for energy generated from other renewable energy sources. Pursuant to the Energy Minister's regulation of August 22nd 2017, the requirement to redeem certificates of origin for energy generated from agricultural biogas will be 0.5% of electricity sales to end users in 2018 and 2019, whereas the requirement to redeem certificates of origin for energy generated from other renewable energy sources will be 17.5% in 2018 and 18.5% in 2019.

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.

Under the RES Act, which entered into force on May 4th 2015 (except for the provisions concerning the support system for energy from renewable sources, which took effect on July 1st 2016), the system of green certificates is available for all wind farm projects placed in service 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.

9.3.2 Amendment to the RES Act

On July 28th 2017, a bill was passed amending the Renewable Energy Sources Act, which changed the rules for determining the amount of the emission charge. The amendment provides that the emission charge in a given calendar year will be 125% of the annual weighted average price of certificates of origin for the preceding year. According to estimates cited by the authors in the explanatory note to the amendment, the emission charge will be PLN 41.4 per MWh in 2018, PLN 51.75 PLN per MWh in 2019, and PLN 64.69 per MWh in 2020. In the explanatory note, the MPs stressed the need to solve the oversupply issue and expressed a belief that the proposed modification to the emission charge, combined with the redemption requirement raised to 19.5% as of 2020, would help to shift the certificates market from surplus to deficit by 2020. The amended Act was signed by the President on August 14th 2017 and entered into force on September 25th 2017. The Company is analysing its impact on the economic and legal situation of the wind power and trading business.

9.4 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.

9.5 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.

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. In accordance with the Environmental Protection Law and the Waste Act, a user of the natural environment is also required to maintain waste records, and if such user operates any installations containing more than 3 kg of SF6 gas, it is required to maintain relevant records for such installations and to have them serviced by companies certified to manage SF6.

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. of 2016, item 71). 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 implementing a coherent policy for 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 the performance of an assessment of the impact of a 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 actual 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 carrying out remedial measures 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 the 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 waste generation and management on the environment and human health, as well as measures aimed at containing the overall effect of consumption of resources and improving 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, waste generation 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 waste generators), as well as public administration bodies. Pursuant to the Act, any waste generator has the duty to manage the waste it generates. The waste generator or another waste owner may engage another entity (meeting specific requirements) the perform its waste management duties. By the Act of December 14th 2012, the requirement to obtain a permit for waste generation (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) has been transferred to the Environmental Protection Law, and this permit has become a sectoral permit (unless an integrated permit has been issued for the installation). As a rule, a permit is also required to conduct operations involving waste collection and 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 December 9th 2014 (Dz.U. item 1923).

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 CO2 emissions

Many industrial installations, especially power sector installations, emit pollutants (such as greenhouse gases), leading 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 June 12th 2015 (Dz.U. of 2017, item 568, as amended) and (ii) the Act on the System of Managing Emissions of Greenhouse Gases and Other Substances, dated July 17th 2009 (Dz.U. of 2017, item 286, 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 greenhouse gases assigned to a given installation or activity. Generally, the scheme covers emissions of greenhouse gases from those installations whose operations involve emission of such gases and which meet the threshold values established by reference 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 CO2 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 are 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 way 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 2013−2020.

9.7 Act on Wind Farm Projects

On July 15th 2016, the Act on Wind Farm Projects came into force.

Under the Act, the distance between a wind farm and residential buildings or a nature conservation area may not be shorter than ten times the height of the wind power plant, from the ground surface to its highest point (including the rotor and blades),

except for projects with respect to which, as at the date of the Act's entry into force, a building permit had been issued or building permit procedure had been initiated.

The Act further stipulates that wind power plants may only be built under such building permits within three years of the Act's entry into force. In which period an operation permit must be secured.

Considering the above provisions of the Act, the Company was unable to continue the development of a number of wind farm projects and had to recognise impairment losses in 2016. Furthermore, the said provisions may impede the implementation (construction) of other wind farm projects.

Given the very unclear wording of the Act, uncertainty arose as to the calculation of wind farm property tax. To resolve the uncertainty, the Group companies requested that the competent authorities (i.e. municipal authorities) issue interpretations concerning calculation of the property tax applicable from 2017, pointing to the necessity to calculate property tax in accordance with previously applicable rules. The Group received one positive and seven negative responses to these requests (two of which relate to the same project).

According to the negative interpretations, as of 2017 the property tax on wind farms should be calculated based on new rules. In the Company's opinion, the legal rationale for the negative interpretations was flawed, based on which the Company filed appeals against them to Administrative Courts. The cases are being considered by the Supreme Administrative Court since cassation complaints have been filed against the unfavourable judgments of the Provincial Administrative Courts.

At the same time, as part of concurrent procedures, two projects received positive interpretations allowing the Group to use the current market value of a wind farm as the tax base, and four projects received negative interpretations. The competent Provincial Administrative Courts reversed the negative interpretations with respect to two projects and referred the cases for re-examination by the first-instance authority. An unfavourable decision has been issued in respect of one project, and it will be appealed to the Supreme Administrative Court. As for the other project, the case is pending before the Provincial Administrative Court.

Considering the rulings issued by the Provincial Administrative Courts to date, the Company estimates that should the most pessimistic scenario materialize for all the remaining (four) projects which did not receive any positive interpretation, the Group's operating expenses in 2017 would increase by about PLN 16m, though no final estimate can be given until late in 2017 or early in 2018 after all rulings from the Provincial Administrative Courts are obtained.

The Council of Ministers is working to amend the law, which would lead to the reintroduction of the property tax provisions effective before the previous amendment came into force, in line with the long-term assumption adopted by the Company. At the end of June 2017, a bill amending the RES Act and certain other acts was published on the website of the Government Legislation Centre. It clarifies the definition of a structure, reintroducing the previous wording of the definition from before January 1st 2017, where 'structure' was understood as the structural components of technical equipment.

D. QUARTERLY FINANCIAL INFORMATION OF POLENERGIA S.A.

INTERIM CONDENSED SEPARATE STATEMENT OF FINANCIAL POSITION
as at September 30th 2017

Assets

	Sep 30 2017	Dec 31 2016
I. Non-current assets	**961,169**	**1,055,369**
Property, plant and equipment	1,218	1,631
Intangible assets	508	734
Financial assets	947,737	1,042,709
Non-current receivables	2,628	2,854
Deferred tax assets	9,077	7,434
Prepayments and accrued income	1	7
II. Current assets	**214,818**	**227,227**
Inventories	10,362	10,362
Trade receivables	9,142	21,295
Other short-term receivables	1,542	315
Prepayments and accrued income	1,079	2,125
Current financial assets	26,889	25,866
Cash and cash equivalents	165,804	167,264
Total assets	**1,175,987**	**1,282,596**

Equity and liabilities

	Sep 30 2017	Dec 31 2016
I. Equity	**1,118,670**	**1,196,933**
Share capital	90,887	90,887
Share premium	680,405	765,438
Capital reserve from valuation of options	13,207	13,207
Other capital reserves	349,478	349,478
Merger reserve	89,782	89,782
Retained deficit	(26,826)	(26,826)
Net profit/(loss)	(78,263)	(85,033)
II. Non-current liabilities	**35,147**	**65,292**
Bank and other borrowings	27,000	57,000
Provisions	21	21
Other liabilities	8,126	8,271
III. Current liabilities	**22,170**	**20,371**
Bank and other borrowings	14,949	13,386
Trade payables	78	441
Other liabilities	802	1,090
Provisions	804	717
Prepayments and accrued income	5,537	4,737
Total equity and liabilities	**1,175,987**	**1,282,596**

(PLN ’000)

INTERIM CONDENSED SEPARATE STATEMENT OF PROFIT OR LOSS
for the nine months ended September 30th 2017

			unaudited	unaudited
	For 9 months ended		For 3 months ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Revenue	12,233	17,636	3,785	3,962
Revenue	**12,223**	**17,636**	**3,785**	**3,962**
Cost of sales	(11,445)	(14,863)	3,547	(3,143)
Gross profit/(loss)	**788**	**2,310**	**238**	**819**
Other income	-	1,948	-	(6)
Administrative expenses	(7206)	(7,893)	(2,197)	(4,157)
Other expenses	(68)	(2,846)	(2)	(59)
Finance income	59,279	37,325	6,359	19,200
including dividends	52,900	30,240	4,000	17,800
Finance costs	(132,699)	(58,333)	(105,789)	(4896)
Profit/(loss) before tax	**(79,906)**	**(27,026)**	**(101,391)**	**10,901**
Income tax	1,643	4,142	100	1,293
Net profit/(loss)	**(78,263)**	**(22,884)**	**(101,291)**	**12,194**

INTERIM CONDENSED SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the nine months ended September 30th 2017

			unaudited	unaudited
	For 9 months ended		For 3 months ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Net profit/(loss) for period	**(78,263)**	**(22,884)**	**(101,291)**	**12,194**
Other comprehensive income	-	-	-	-
Financial assets available for sale	-	-	-	-
Cash-flow hedges	-	-	-	-
Actuarial gains/(losses) from defined benefit plans	-	-	-	-
Income tax on other comprehensive income	-	-	-	-
COMPREHENSIVE INCOME FOR PERIOD	**(78,263)**	**(22,884)**	**(101,291)**	**12,194**

(PLN ’000)

INTERIM CONDENSED SEPARATE STATEMENT OF CHANGES IN EQUITY
for the nine months ended September 30th 2017

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Merger reserve	Retained earnings/(deficit)	Net loss	Total equity
As at Jan 1st 2017	**90,887**	**765,438**	**13,207**	**349,478**	**89,782**	**(111,859)**	**-**	**1,196,933**
Total comprehensive income for period								
Net loss for period	-	-	-	-	-	-	(78,263)	(78,263)
Allocation of profit/(loss)	-	(85,033)	-	-	-	85,033	-	-
As at Sep 30 2017	**90,887**	**680,405**	**13,207**	**349,478**	**89,782**	**(26,826)**	**(78,263)**	**1,118,670**

	Share capital	Share premium	Capital reserve from valuation of options	Other capital reserves	Merger reserve	Retained earnings/(deficit)	Net loss	Total equity
As at Jan 1 2016	**90 8887**	**786,134**	**13,207**	**372,199**	**-**	**(20,696)**	**-**	**1,241,731**
Total comprehensive income for period								
Net loss for period	-	-	-	-	-	-	(22,884)	(22,884)
Allocation of profit/(loss)	-	(20,696)	-	-	-	20,696	-	-
Payment of dividends	-	-	-	(22,721)	-	-	-	(22,721)
As at Sep 30 2016	**90,887**	**765,438**	**13,207**	**349,478**	**-**	**-**	**(22,884)**	**1,196,126**

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INTERIM CONDENSED SEPARATE STATEMENT OF CASH FLOWS
for the nine months ended September 30th 2017

	For 9 months ended	
	Sep 30 2017	Sep 30.2016
A. Cash flows from operating activities		
I. Profit/(loss) before tax	**(79,906)**	**(27,026)**
II. Total adjustments	**90,308**	**29,847**
Depreciation and amortisation	656	1,108
Foreign exchange losses	-	(5)
Interest and profit distributions (dividends)	(53,910)	(16,975)
Loss on investing activities	131,031	41,664
Change in provisions	87	(2,155)
Change in inventories	-	1,681
Change in receivables	11,152	9,998
Change in current liabilities (net of borrowings)	(560)	(3,628)
Change in accruals and deferrals	1,852	(1,841)
III. Net cash from operating activities (I+/-II)	**10,402**	**2,821**
B. Cash flows from investing activities		
I. Cash receipts	**24,301**	**118,865**
1. Disposal of intangible assets and property, plant and equipment	1	-
2. Disposals of investment property and intangible assets	-	1,514
3. Proceeds from financial assets, including:	24,300	117,351
- disposal of financial assets	-	3,921
dividends and other profit distributions	22,900	30,240
repayment of long-term loans advanced	1,156	-
- interest	244	-
- other cash provided by financial assets	-	83,190
II. Cash payments	**35,929**	**16,797**
1. Acquisition of intangible assets and property, plant and equipment	19	349
2. Payments for financial assets, including:	35,910	16,448
- acquisition of financial assets	10,910	16,131
- long-term loans advanced	25,000	317
III. Net cash from investing activities (I-II)	**(11,628)**	**102,068**
C. Cash flows from financing activities		
I. Cash receipts	**-**	**-**
II. Cash payments	**234**	**23,583**
1. Dividends and other distributions to owners	-	22,722
2. Payment of finance lease liabilities	234	861
III. Net cash from financing activities (I-II)	**(234)**	**(23,583)**
D. Total net cash flows (A.III +/- B.III +/- C.III)	**(1,460)**	**81,306**
E. Net increase/decrease in cash, including:	**(1,460)**	**81,310**
- effect of exchange rate fluctuations on cash held	-	4
F. Cash at beginning of period	**167,264**	**41,417**
G. Cash at end of period (F+/- E), including:	**165,804**	**122,727**
- restricted cash	58	79

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EXPENSES, BY NATURE OF EXPENSE

	For 9 months ended Sep 30 2017	Sep 30 2016
depreciation and amortisation expense	656	1,108
raw materials and consumables used	164	234
services	6,101	6,160
taxes and charges	264	77
salaries and wages	10,069	13,435
social security and other benefits	1,310	1,594
other	87	148
total expenses by nature	**18,651**	**22,756**
administrative expenses (-)	(7,206)	(7,893)
total cost of sales	**11,445**	**14,863**

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