Energa

ENERGA SA
Group

Condensed interim consolidated financial statements prepared in accordance with IAS 34 for the six-month period ended 31 June 2017

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Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	3-month period ended 30 June 2017 (unaudited)	6-month period ended 30 June 2017 (unaudited)	3-month period ended 30 June 2016 (unaudited)	6-month period ended 30 June 2016 (unaudited)
Continuing operations				
Revenue	**2,487**	**5,197**	**2,316**	**4,937**
Cost of sales	(2,074)	(4,251)	(2,197)	(4,430)
Gross profit on sales	**413**	**946**	**119**	**507**
Other operating income	59	96	38	53
Selling and distribution expenses	(82)	(172)	(78)	(162)
General and administrative expenses	(77)	(162)	(84)	(164)
Other operating expenses	(13)	(53)	(30)	(163)
Financial income	(4)	76	31	42
Financial costs	(76)	(140)	(93)	(166)
Share in profit/(loss) of the entities measured by the equity method	(2)	8	(41)	(41)
Profit or loss before tax	**218**	**599**	**(138)**	**(94)**
Income tax	(43)	(111)	11	(22)
Net profit or loss for the period	**175**	**488**	**(127)**	**(116)**
Attributable to:				
Equity holders of the Parent Company	174	484	(127)	(119)
Non-controlling interest	1	4	-	3
Earnings or loss per share (in PLN)				
- basic	**0.42**	**1.17**	**(0.31)**	**(0.29)**
- diluted	**0.42**	**1.17**	**(0.31)**	**(0.29)**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3-month period ended 30 June 2017 (unaudited)	6-month period ended 30 June 2017 (unaudited)	3-month period ended 30 June 2016 (unaudited)	6-month period ended 30 June 2016 (unaudited)
Net profit for the period	**175**	**488**	**(127)**	**(116)**
Items that will never be reclassified to profit or loss	***(17)***	***(14)***	***-***	***20***
Actuarial gains and losses on defined benefit plans	(22)	(18)	-	25
Deferred tax	5	4	-	(5)
Items that are or may be reclassified subsequently to profit or loss	***(30)***	***(43)***	***18***	***19***
Foreign exchange differences from translation of foreign entities	1	(4)	4	4
Cash flow hedges	(38)	(48)	18	20
Deferred tax	7	9	(4)	(5)
Net other comprehensive income	**(47)**	**(57)**	**18**	**39**
Total comprehensive income	**128**	**431**	**(109)**	**(77)**
Attributable to:				
Equity holders of the Parent Company	127	427	(109)	(80)
Non-controlling interest	1	4	-	3

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2017 (unaudited)	As at 31 December 2016
ASSETS		
Non-current assets		
Property, plant and equipment	12,921	13,053
Intangible assets	376	383
Goodwill	26	26
Investments in associates and joint ventures measured by the equity method	763	390
Deferred tax assets	375	396
Other non-current financial assets	101	166
Other non-current assets	104	101
	14,666	**14,515**
Current assets		
Inventories	538	472
Current tax receivables	6	111
Trade receivables	1,844	1,947
Portfolio of financial assets	2	2
Other current financial assets	219	15
Cash and cash equivalents	2,241	1,471
Other current assets	293	198
	5,143	**4,216**
TOTAL ASSETS	**19,809**	**18,731**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	As at 30 June 2017 (unaudited)	As at 31 December 2016
EQUITY AND LIABILITIES		
Equity		
Share capital	4,522	4,522
Foreign exchange differences from translation of a foreign entity	-	4
Reserve capital	1,018	1,018
Supplementary capital	1,433	728
Cash flow hedge reserve	2	41
Retained earnings	2,154	2,464
Equity attributable to equity holders of the Parent Company	**9,129**	**8,777**
Non-controlling interest	**44**	**40**
	9,173	**8,817**
Non-current liabilities		
Loans and borrowings	2,900	3,086
Bonds issued	3,666	2,639
Non-current provisions	611	578
Deferred tax liabilities	586	593
Deferred income and non-current grants	507	515
Other non-current financial liabilities	36	6
	8,306	**7,417**
Current liabilities		
Trade payables	645	811
Current loans and borrowings	345	334
Bonds issued	48	78
Current income tax liability	11	3
Deferred income and grants	132	170
Short-term provisions	616	711
Other financial liabilities	174	157
Other current liabilities	359	233
	2,330	**2,497**
Total liabilities	**10,636**	**9,914**
TOTAL EQUITY AND LIABILITIES	**19,809**	**18,731**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Parent Company								
	Share capital	Foreign exchange differences from translation of a foreign entity	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2017	**4,522**	**4**	**1,018**	**728**	**41**	**2,464**	**8,777**	**40**	**8,817**
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	(14)	**(14)**	-	**(14)**
Foreign exchange differences from translation of foreign entities	-	(4)	-	-	-	-	**(4)**	-	**(4)**
Cash flow hedges	-	-	-	-	(39)	-	**(39)**	-	**(39)**
Net profit for the period	-	-	-	-	-	484	**484**	4	**488**
Total comprehensive income for the period	**-**	**(4)**	**-**	**-**	**(39)**	**470**	**427**	**4**	**431**
Retained earnings distribution	-	-	-	705	-	(705)	**-**	**-**	**-**
Dividends	-	-	-	-	-	(79)	**(79)**	**-**	**(79)**
Changes in shares held	-	-	-	-	-	4	**4**	-	**4**
As at 30 June 2017 (unaudited)	**4,522**	**-**	**1,018**	**1,433**	**2**	**2,154**	**9,129**	**44**	**9,173**
As at 1 January 2016	**4,522**	**-**	**447**	**661**	**6**	**3,134**	**8,770**	**44**	**8,814**
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	20	**20**	-	**20**
Foreign exchange differences from translation of foreign entities	-	4	-	-	-	-	**4**	-	**4**
Cash flow hedges	-	-	-	-	15	-	**15**	-	**15**
Net loss for the period	-	**-**	-	-	-	(119)	**(119)**	3	**(116)**
Total comprehensive income for the period	**-**	**4**	**-**	**-**	**15**	**(99)**	**(80)**	**3**	**(77)**
Retained earnings distribution	-	-	571	67	-	(638)	**-**	-	**-**
Dividends	-	-	-	-	-	(203)	**(203)**	-	**(203)**
As at 30 June 2016 (unaudited)	**4,522**	**4**	**1,018**	**728**	**21**	**2,194**	**8,487**	**47**	**8,534**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	6-month period ended 30 June 2017 (unaudited)	6-month period ended 30 June 2016 (unaudited)
Cash flows from operating activities		
Profit/(loss) before tax	**599**	**(94)**
Adjustments for:		
Share in (profit)/loss of the entities measured by the equity method	(8)	41
Foreign currency (gains)/losses	(13)	10
Amortization and depreciation	488	467
Net interest and dividends	95	121
(Profit)/loss on investing activities, including goodwill impairment allowance	(86)	565
Changes in working capital:		
Change in receivables	172	(58)
Change in inventories	(66)	(145)
Change in liabilities excluding loans and borrowings	(41)	(183)
Change in prepayments and accruals	(233)	(207)
Change in provisions	(84)	122
	823	**639**
Income tax	**29**	**(95)**
Net cash from operating activities	**852**	**544**
Cash flows from investing activities		
Disposal of property, plant and equipment and intangible assets	5	4
Purchase of property, plant and equipment and intangible assets	(585)	(827)
Establishment of deposits above 3m	(127)	-
Sale of participation units in the ENERGA Trading fund	-	320
Disposal of subsidiary	24	-
Investments in associates and joint ventures measured by the equity method	(217)	(364)
Other	(6)	3
Net cash from investing activities	**(906)**	**(864)**
Cash flows from financing activities		
Proceeds from debt incurred	1,252	350
Repayment of debt incurred	(169)	(113)
Redemption of debt securities	(126)	(577)
Interest paid	(127)	(141)
Other	(1)	(7)
Net cash from financing activities	**829**	**(488)**
Net increase/(decrease) in cash and cash equivalents	**775**	**(808)**
Cash and cash equivalents at the beginning of the period	**1,464**	**1,658**
Cash and cash equivalents at the end of the period	**2,239**	**850**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY INFORMATION

1. General information

The ENERGA SA Group (the "Group") consists of **ENERGA Spółka Akcyjna** ("Parent Company", "Company") with its registered office in Gdańsk and its subsidiaries (see Note 2). The condensed interim consolidated financial statements of the ENERGA Group covers the six-month period ended 30 June 2017 and contains appropriate comparative data.
The Parent Company is entered in the Register of Entrepreneurs of the National Court Register held by the District Court Gdańsk-Północ, 7th Commercial Division of the National Court Register under number KRS 0000271591. The Parent Company's REGON statistical number is 220353024.

The primary activities of the Group are as follows:

1. distribution and sales of electricity and heat,
2. production of electricity and heat,
3. trading in electricity.

As at 30 June 2017, the Polish State Treasury is the Company's parent and ultimate controlling party of the ENERGA SA Group.

2. Composition of the Group and its changes

2.1. Composition of the Group at the end of the reporting period

As at 30 June 2017, the Group consists of ENERGA SA and the following subsidiaries:

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 June 2017	31 December 2016
	Distribution Segment				
1	ENERGA-OPERATOR SA	Gdańsk	distribution of electricity	100	100
2	ENERGA-OPERATOR Eksploatacja Elbląg Sp. z o.o.	Elbląg	grid operation	100	100
3	ENERGA-OPERATOR Eksploatacja Gdańsk Sp. z o.o.	Gdańsk	grid operation	100	100
4	ENERGA-OPERATOR Eksploatacja Kalisz Sp. z o.o.	Kalisz	grid operation	100	100
5	ENERGA-OPERATOR Eksploatacja Płock Sp. z o.o.	Płock	grid operation	100	100
6	ENERGA-OPERATOR Eksploatacja Słupsk Sp. z o.o.	Słupsk	grid operation	100	100
7	ENERGA-OPERATOR Eksploatacja Toruń Sp. z o.o.	Toruń	grid operation	100	100
8	ENERGA-OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.	Koszalin	technical customer service	100	100
9	Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.	Słupsk	contracting and design	100	100
10	Energetyka Kaliska – Usługi Techniczne Sp. z o.o.	Kalisz	contracting and design	100	100
11	ZEP - Centrum Wykonawstwa Specjalistycznego Sp. z o.o.	Płock	contracting and design	100	100
12	Zakład Budownictwa Energetycznego Sp. z o.o.	Koszalin	contracting and design	100	100
13	ENERGA-OPERATOR Logistyka Sp. z o.o.	Płock	logistics and supply	100	100
	Sales Segment				
14	ENERGA-OBRÓT SA	Gdańsk	trading in electricity	100	100
15	ENERGA Obsługa i Sprzedaż Sp. z o.o.	Gdańsk	customer service	100	100

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 June 2017	31 December 2016
16	ENERGA Oświetlenie Sp. z o.o.	Sopot	lighting services	100	100
17	ENERGA SLOVAKIA s.r.o.	Bratislava	trading in electricity	100	100
18	EOB PGK1 Sp. z o.o.	Gdańsk	financing services	100	100
19	EOB PGK2 Sp. z o.o.	Gdańsk	financing services	100	100
Generation Segment					
20	ENERGA Wytwarzanie SA	Gdańsk	production of energy	100	100
21	ENERGA Elektrownie Ostrołęka SA	Ostrołęka	production of energy	89.64	89.64
22	ENERGA Kogeneracja Sp. z o.o.	Elbląg	production of energy	100	100
23	ENERGA Ciepło Ostrołęka Sp. z o.o.	Ostrołęka	distribution of heat	100	100
24	ENERGA Serwis Sp. z o.o.	Ostrołęka	repairs and maintenance services	94.81	94.81
25	ENERGA Ciepło Kaliskie Sp. z o.o.	Kalisz	distribution of heat	91.24	91.24
26	ENERGA Invest SA	Gdańsk	investment project management	100	100
27	AEGIR 4 Sp. z o.o.	Gdańsk	production of energy	100	100
28	Elektrownia CCGT Gdańsk Sp. z o.o.	Gdańsk	production of energy	100	100
29	Elektrownia CCGT Grudziądz Sp. z o.o.	Grudziądz	production of energy	100	100
Others Segment					
30	ENERGA Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting, payroll and administrative services	100	100
31	ENERGA Finance AB (publ)	Stockholm	financing activity	100	100
32	ENERGA Informatyka i Technologie Sp. z o.o.	Gdańsk	information and communication technologies	100	100
33	RGK Sp. z o.o.	Gdańsk	financing services and property management	100	100
34	Enspirion Sp. z o.o.	Gdańsk	organization and management of development of innovative power projects	100	100
35	ENSA PGK1 Sp. z o.o.	Gdańsk	financing services	100	100
36	ENSA PGK2 Sp. z o.o.	Gdańsk	financing services	100	100
37	ENSA PGK3 Sp. z o.o.	Gdańsk	financing services	100	100
38	ENSA PGK4 Sp. z o.o.	Gdańsk	financing services	100	100
39	ENSA PGK5 Sp. z o.o.	Gdańsk	financing services	100	100

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 June 2017	31 December 2016
40	ENSA PGK6 Sp. z o.o.	Gdańsk	financing services	100	100
41	ENSA PGK7 Sp. z o.o.	Gdańsk	financing services	100	100
42	ENSA PGK8 Sp. z o.o.	Gdańsk	financing services	100	100

Additionally, as at 30 June 2017 the Group holds shares in joint ventures: Polska Grupa Górnicza Sp. z o.o. ("PGG"), Elektrownia Ostrołęka SA and in an associate – Polimex-Mostostal S.A. ("Polimex") (see description in note 2.2).

2.2. Changes in the composition of the Group in the reporting period

2.2.1. Polska Grupa Górnicza

On 31 March 2017, the subsidiary ENERGA Kogeneracja Sp. z o.o. signed an investment agreement ("Agreement") defining the terms and conditions of the financial investment in Polska Grupa Górnicza Sp. z o.o. ("PGG").

The parties to the Investment Agreement are ENERGA Kogeneracja, Enea S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., PGNiG TERMIKA S.A., Węglokoks S.A., Towarzystwo Finansowe Silesia sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych [Polish Corporates Mutual Fund – Private Assets Closed-End Mutual Fund] (hereinafter also jointly referred to as "Investors") and PGG.

The new Agreement amended and supplemented the terms and conditions of the investment made by the existing PGG shareholders as defined in the first investment agreement signed by the existing shareholders and the company on 28 April 2016.

The transaction assumes a recapitalization of PGG by the Investors (excluding Węglokoks S.A. and Fundusz Inwestycji Polskich Przedsiębiorstw) for the total amount of PLN 1 bn in three tranches.

Under the new agreement, the Group undertook to subscribe for new shares with the total par value of PLN 100 m in exchange for a cash contribution made in three tranches:

- in April 2017 – PLN 50 m (the increase has been effected),
- in June 2017 – PLN 20 m (the increase has been effected and is currently pending registration in the National Court Register)),
- in Q1 2018 – PLN 30 m.

At the end of the current reporting period, capital contribution in the total amount of PLN 70 m was made, which results in the subscription of 15.76% of PGG's share capital.

2.2.2. Polimex-Mostostal

On 18 January 2017, the Management Board of ENERGA SA along with Enea S.A., PGE S.A., PGNiG Technologie S.A. ("Investors") and Polimex-Mostostal S.A. signed an investment agreement under which the Investors undertook to make an equity investment in Polimex. ENERGA SA subscribed to 37.5 m newly-issued shares with the par value of PLN 2 each, for the total amount of PLN 75 m and 1.5 m Polimex shares from SPV Operator sp. z o.o. which are approved for trading on WSE in a block transaction for the total amount of PLN 5.8 m. As a result of this transaction, its stake in the Company reached approximately 16.5%.

The investment agreement allows the investors to influence Polimex's financial and operational policy. These powers are exercised through the Supervisory Board. According to the agreement, the Supervisory Board will consist of 3 members named by the Investors.

Moreover, the Investors signed a memorandum of agreement relating to the investment in Polimex ("Memorandum of Agreement"). The purpose of the Memorandum of Agreement is to ensure increased control over Polimex to the Investors, who jointly hold the majority of votes at Polimex's Shareholder Meeting (66%). The Memorandum of Agreement assumes, among others, that a joint position will be agreed upon by voting when the key decisions are made by the General Meeting and Supervisory Board of Polimex, including determination of the composition of Polimex's Management Board.

Because of the Investors' powers mentioned above that result in significant influence, the stake held in Polimex was classified as an associate measured by the equity method.

Polimex is an engineering and construction company, which is characterized by a broad range of services provided in the capacity of a general contractor. The Company's registered office is in Warsaw. Polimex is listed on the Warsaw Stock Exchange. As at 30 June 2017, the average price of a share of Polimex stock was PLN 6.53; accordingly the fair value of the block of shares held by the Group was PLN 255 m.

Preliminary settlement of the purchase transaction

Due to the fact that the purchase transaction took place during the current reporting period, works related to the allocation of the purchased shares have not been completed. As a result, these consolidated financial statements present only the preliminary values that correspond to the fair value of the identifiable assets, liabilities and contingent liabilities estimated by the Group on the basis of the information held. Final fair values will be determined within 12 months of the acquisition date with a fully retrospective impact of these changes.

2. Composition of the Group and its changes (cont.)

Preliminary settlement of the purchase transaction	
Group share in identifiable net assets	(132)
Purchase price of shares increased by transaction costs	82
Gain on bargain purchase	**50**

The bargain purchase gain was recognized in the statement of profit or loss as other operating income.

2.2.3. Ostrołęka Power Plant

On 8 December 2016, ENERGA SA, Enea S.A. and Elektrownia Ostrołęka SA signed an investment agreement regarding the execution of the new power unit construction project in Ostrołęka. The condition precedent for the transaction was obtaining an approval from the President of the Office of Competition and Consumer Protection for the concentration involving the purchase of 50% of shares in the special-purpose vehicle Elektrownia Ostrołęka SA by Enea S.A. On 11 January 2017, the President of UOKiK issued an unconditional approval for the concentration and consequently on 1 February 2017, ENERGA SA and Enea S.A. signed a share purchase agreement by Enea S.A.

Under the above agreements, ENERGA SA and Enea S.A. acquired joint control over Elektrownia Ostrołęka SA with its registered office in Ostrołęka; the company's purpose is building and operating a new coal-fired unit. Both parties will hold a 50% stake in Elektrownia Ostrołęka SA and the same number of votes at the General Meeting. The Management Board and the Supervisory Board will consist of the same number of representatives of both investors. Decisions on significant actions will require unanimous consent of both shareholders. Given the above, the investment was classified as a joint venture and is captured using the equity method.

Elektrownia Ostrołęka SA is a privately held company and therefore there are no market quotes for its share prices.

Also, as a result of this transaction the Group no longer controls Elektrownia Ostrołęka SA and therefore profit of PLN 6 m was recognized in financial income.

On 13 April 2017, the company's share capital was increased by PLN 19 m; the new shares were subscribed, half each, i.e. PLN 9.5 m each, by ENERGA SA and Enea S.A. and covered by a cash contribution.

3. Composition of the Parent Company's Management Board

As at the date of these condensed interim financial statements, the Management Board of the Parent Company was as follows:

- Daniel Obajtek – President of the Management Board,
- Jacek Kościelniak – Vice-President of the Management Board for Financial Matters,
- Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
- Alicja Klimiuk – Vice-President of the Management Board for Operational Matters.

In the current reporting period, the following changes occurred in the composition of the Parent Company's Management Board:

- On 17 January 2017, the Company's Supervisory Board adopted a resolution to dismiss from their functions Mr. Dariusz Kaśków, the previous President of the Management Board, Mr. Mariusz Rędaszka, the Vice-President of the Management Board for Financial Matters and Mr. Przemysław Piesiewicz, the Vice-President of the Management Board for Development Strategy. At the same time, Mr. Jacek Kościelniak was delegated to act as the President of the Management Board.
- On 10 February 2017, the Company's Supervisory Board adopted a resolution to appoint the following to the Management Board: Mr. Daniel Obajtek (as President of the Management Board), Ms. Alicja Klimiuk (as Vice-President of the Management Board for Operational Matters) and Mr. Jacek Kościelniak (as Vice-President of the Management Board for Financial Matters).
- On 16 February 2017, the Company's Supervisory Board adopted a resolution to dismiss from the Company's Management Board Ms. Mariola Zmudzińska, who served as the Vice-President of the Management Board for Investor Relations.

4. Approval of the financial statements

These condensed interim consolidated financial statements were approved for publication by the Company's Management Board on 8 August 2017.

5. Basis for preparation of the financial statements

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives.

These condensed interim consolidated financial statements are presented in millions of Polish zloty ("PLN m") and have been prepared based on the assumption that the Group would continue as a going concern in the foreseeable future.

As at the date of these condensed interim financial statements there is no evidence indicating significant uncertainty as to the ability of the Group to continue its business activities as a going concern.

5.1. Statement of compliance

These condensed interim consolidated financial statements of ENERGA SA Group have been prepared in accordance with the International Accounting Standard 34 "Interim financial reporting" as adopted by the European Union. They do not include all the information required for a complete set of financial statements compliant with the International Financial Reporting Standards ("IFRS"). However, selected notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2016.

5. Basis for preparation of the financial statements (cont.)

5.2. Functional and presentation currency

The functional currency of the parent company and other Polish companies covered by these condensed interim consolidated financial statements and the presentation currency of these condensed interim consolidated financial statements is the Polish zloty, except for ENERGA SLOVAKIA s.r.o. and ENERGA Finance AB (publ) where the functional currency of their financial statements is euro. For the purpose of these financial statements, the underlying accounts of the above-mentioned companies have been translated into PLN as follows: data in the statement of financial position, except equity - exchange rates at the reporting date; equity - exchange rates at the date of transaction and data in the statement of profit or loss - at the weighted average exchange rate for the financial period. Exchange differences from translation were captured in other comprehensive income.

6. Material items subject to judgment and estimates

In the current reporting period no changes were made in the methods used to make material estimations. Changes of estimates resulted from events that occurred during the reporting period.

The preparation of the condensed interim consolidated financial statements in accordance with the International Accounting Standard 34 "Interim financial reporting" as adopted by the European Union ("EU") requires the Management Board to adopt certain assumptions and estimates that affect the amounts reported in these condensed interim consolidated financial statements and notes thereto. The assumptions and estimates are based on the Management Board's best knowledge of current and future activities and events. However actual results may differ from those anticipated.

7. Significant accounting policies

The accounting policies of the Group are applied on a continuous basis.

7.1. Standards and interpretations already published and endorsed in the EU, which have not come into effect

The following standards and interpretations have already been published and endorsed in the EU, but have not yet come into effect:

- IFRS 15 "Revenue from Contracts with Customers" (applicable to annual periods beginning on or after 1 January 2018),
- IFRS 9 "Financial Instruments" (applicable to annual periods beginning on or after 1 January 2018).

New standards IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" introduce significant changes as compared to the currently applicable standards. Following a tentative analysis, the Group anticipates that the changes will affect, among others, the calculation methodology for impairment losses on financial assets and may change the time of recognition of the fees for connection to the distribution network.

7.2. Standards and interpretations adopted by the IASB but not yet endorsed in the EU

IFRS as endorsed in the EU do not currently differ from the regulations adopted by the International Accounting Standards Board, with the exception of the following standards, amendments to standards and interpretations, which as at the date of approving these financial statements have not yet been adopted for application:

- IFRS 14 "Regulatory Deferral Accounts" (applicable to annual periods beginning on or after 1 January 2016), The European Commission has decided not to approve this temporary standard pending the final one,
- IFRS 16 "Leases" (applicable to annual periods beginning on or after 1 January 2019),
- IFRS 17 "Insurance Contracts" (applicable to annual periods beginning on or after 1 January 2021).
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sales or contributions of assets between an investor and its associate/joint venture (no effective date specified),
- Amendments to IAS 12 "Income Taxes" – Detailed regulation of the recognition of deferred tax assets for unrealised losses (applicable to annual periods beginning on or after 1 January 2017).
- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2017),
- Clarifications to IFRS 15 "Revenue from Contracts with Customers" (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" – Applying changes introduced by IFRS 9 "Financial Instruments" (applicable to annual periods beginning on or after 1 January 2018),
- Improvements to IFRSs (2014-2016 cycle) – Amendments to IFRS 1, IAS 28 (applicable to annual periods beginning on or after 1 January 2018) and IFRS 12 (applicable to annual periods beginning on or after 1 January 2017).
- IFRIC 22 interpretation: "Foreign Currency Transactions and Advance Consideration" (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property to other asset groups (applicable to annual periods beginning on or after 1 January 2018),
- Interpretation IFRIC 23 "Uncertainty over Income Tax Treatments" (applicable to annual periods beginning on or after 1 January 2019).

The new standard IFRS 16 "Leases" changes the rules for recognizing agreements that satisfy the definition of a lease. From the Group's point of view, the main change is the requirement to recognize the right to use an asset and a financial liability in the lessee's statement of financial position – both in the case of agreements that meet the criteria of finance leases and operating leases. This change will increase the value of assets and liabilities.

The Group does not expect the remaining amendments to IFRSs mentioned above to have a material influence on its financial statements.

8. Explanations regarding the seasonality and cyclicality of operations in the period under review

Sales and distribution of electricity and heat during the year are subject to seasonal fluctuations. The volume of energy sold and distributed, and consequently revenue, rise during the winter months and fall in the summer months. This is dependent on the ambient temperature and length of the day. The extent of fluctuations is determined by low temperatures and shorter days in winter and higher temperatures and longer days in summer. The seasonal nature of electric energy sales and distribution applies to a greater extent to small individual customers than to industrial sector clients.

NOTES ON OPERATING SEGMENTS

9. Operating segments

The Group presents segment information in accordance with IFRS 8 Operating Segments for the current and for comparative reporting periods. The Group is organized and managed within operating segments, which are divided according to the types of products offered. The Group's disclosures are made for the following operating segments:

- Distribution – distribution of electricity by ENERGA-OPERATOR SA (Distribution System Operator), as well as operations directly associated with the distribution operations conducted by other Group companies;
- Generation – production of electricity from conventional and renewable sources, production and distribution of heat and maintenance and repair activity, related directly to the production of energy;
- Sales - trading in electricity (wholesale trading and retail sales) and lighting services.
- Other - shared services centers in the accounting, HR and salary, administration and ITC areas as well as financing activity and real estate management areas. The Parent Company has also been classified as belonging to the other segment.

The key measures used by the ENERGA SA Management Board to assess the performance of the segments is net profit and EBITDA, i.e. operating profit /(loss) (calculated as the profit /(loss) before tax adjusted by the share of profit/(loss) of an entity measured by the equity method, financial income and financial costs) plus depreciation and amortization and impairment losses on non-financial non-current assets.

The rules applied to the determination of segment results and measure the segment's assets and liabilities are consistent with the rules used to prepare the consolidated financial statements. The share in the result of the entities measured by the equity method is recognized in consolidation eliminations and adjustments.

Transactions between segments are settled on market terms.

The Group does not present information by geographic segments since its operations conducted for international clients and its international assets do not have a significant impact on the Group's results.

The tables below show the allocation of revenues and expenses for the period from 1 January to 30 June 2017 and the assets and liabilities as at 30 June 2017 by individual reporting segments, together with appropriate comparative information.

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

9. Operating segments (cont.)

Six-month period ended 30 June 2017 (unaudited) or as at 30 June 2017 (unaudited)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external clients	2,195	2,599	403	-	**5,197**	-	**5,197**
Inter-segment sales	24	18	128	81	**251**	(251)	**-**
Total segment revenues	**2,219**	**2,617**	**531**	**81**	**5,448**	**(251)**	**5,197**
EBITDA	**930**	**11**	**177**	**(26)**	**1,092**	**51**	**1,143**
Amortization and depreciation	382	22	82	9	**495**	(7)	**488**
Impairment losses on non-financial non-current assets	-	-	-	-	**-**	-	**-**
Operating profit or loss	**548**	**(11)**	**95**	**(35)**	**597**	**58**	**655**
Net finance income/expense	(59)	2	(33)	224	**134**	(198)	**(64)**
Share in profit/(loss) of the entities measured by the equity method	-	-	-	-	**-**	8	**8**
Profit or loss before tax	**489**	**(9)**	**62**	**189**	**731**	**(132)**	**599**
Income tax	(98)	(1)	(16)	5	**(110)**	(1)	**(111)**
Net profit or loss	**391**	**(10)**	**46**	**194**	**621**	**(133)**	**488**
Assets and liabilities							
Cash and cash equivalents	4	36	3	2,198	**2,241**	-	**2,241**
Total assets	**12,944**	**2,694**	**3,967**	**15,010**	**34,615**	**(14,806)**	**19,809**
Financial liabilities	4,063	3	1,000	7,012	**12,078**	(5,119)	**6,959**
Total liabilities	**6,453**	**1,980**	**1,301**	**7,582**	**17,316**	**(6,680)**	**10,636**
Other segment information							
Capital expenditures	434	21	46	30	**531**	(3)	**528**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

9. Operating segments (cont.)

Six-month period ended 30 June 2016 (unaudited) or as at 31 December 2016	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external clients	2,070	2,489	373	5	**4,937**	-	**4,937**
Inter-segment sales	24	176	169	65	**434**	(434)	**-**
Total segment revenues	**2,094**	**2,665**	**542**	**70**	**5,371**	**(434)**	**4,937**
EBITDA	**920**	**27**	**168**	**(22)**	**1,093**	**(3)**	**1,090**
Amortization and depreciation	361	18	90	9	**478**	(11)	**467**
Impairment losses on non-financial non-current assets	-	-	552	-	**552**	-	**552**
Operating profit or loss	**559**	**9**	**(474)**	**(31)**	**63**	**8**	**71**
Net finance income/expense	(51)	2	(40)	856	**767**	(891)	**(124)**
Share in profit/(loss) of the entities measured by the equity method	-	-	-	-	**-**	(41)	**(41)**
Profit or loss before tax	**508**	**11**	**(514)**	**825**	**830**	**(924)**	**(94)**
Income tax	(93)	(3)	65	8	**(23)**	1	**(22)**
Net profit or loss	**415**	**8**	**(449)**	**833**	**807**	**(923)**	**(116)**
Assets and liabilities							
Cash and cash equivalents	4	42	2	1,423	**1,471**	-	**1,471**
Total assets	**13,393**	**2,803**	**4,163**	**14,639**	**34,998**	**(16,267)**	**18,731**
Financial liabilities	4,825	5	1,057	6,017	**11,904**	(5,767)	**6,137**
Total liabilities	**7,072**	**2,069**	**1,590**	**7,280**	**18,011**	**(8,097)**	**9,914**
Other segment information							
Capital expenditures	581	13	141	61	**796**	(10)	**786**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10. Property, plant and equipment and goodwill

In the current reporting period, the Group:

- incurred expenditures towards property, plant and equipment in the amount of PLN 483 m (PLN 722 m in the corresponding period of 2016);
- sold and scrapped property, plant and equipment with a total carrying value of PLN 11 m (PLN 14 m in the corresponding period of 2016);
- did not find it necessary to recognize impairment losses on property, plant and equipment (in the corresponding period of 2016 the Group recognized impairment losses in the amount of PLN 435 m);
- did not find it necessary to recognize impairment losses on goodwill (in the corresponding period of 2016 the Group recognized impairment losses in the amount of PLN 117 m);
- reduced the amount of property, plant and equipment by PLN 174 m in connection with the loss of control over a subsidiary Elektrownia Ostrołęka SA (see description in Note 2.2.3).

11. Impairment tests for property, plant and equipment and goodwill

In the first half of 2017, assessment was made whether there is any indication that the recoverable amount of property, plant and equipment and goodwill may be impaired. As a result of the analyses, no indications were found that could result in a decline of the recoverable amount of ENERGA SA Group's property, plant and equipment and consequently it was determined that no impairment tests must be carried out.

12. Cash and cash equivalents

Cash in the bank earns interest at variable interest rates negotiated with banks, the level of which depends on the interest rate applicable to overnight bank deposits. Short-term deposits are made for different periods, from one day to three months, depending on the Group's current cash requirements and earn interest at interest rates negotiated individually with banks.

The balance of cash and cash equivalents presented in the statement of cash flows comprises the following items:

	As at 30 June 2017 (unaudited)	As at 30 June 2016 (unaudited)
Cash at bank and in hand	1,544	173
Short-term deposits up to 3 months	697	687
Total cash and cash equivalents presented in the statement of financial position	**2,241**	**860**
Unrealized foreign exchange differences and interest	-	(2)
Current account overdraft	(2)	(8)
Total cash and cash equivalents presented in the statement of cash flows	**2,239**	**850**
including restricted cash	*27*	-

13. Earnings per share

There were no diluting instruments in the Parent Company and therefore diluted earnings per share are equal to basic earnings per share. The data used to calculate earnings per share are presented below.

	6-month period ended 30 June 2017 (unaudited)	6-month period ended 30 June 2016 (unaudited)
Net profit or loss on continuing operations attributable to equity holders of the Parent Company	484	(119)
Net profit or loss attributable to common equity holders of the Parent Company	**484**	**(119)**
Number of shares at the end of the reporting period (millions)	414	414
Number of shares used to calculate earnings per share (millions)	414	414
Earnings or loss per share on continuing operations (basic and diluted) (in PLN)	**1.17**	**(0.29)**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

14. Dividends

On 26 June 2017, the Annual General Meeting adopted a resolution to distribute the 2016 profit, out of which PLN 79 m, i.e. PLN 0.19 per share, was allocated to a dividend for the Company's shareholders. According to the resolution, the dividend payment date was set for 9 October 2017.

15. Provisions

15.1. Provisions for employee benefits

The Group recognizes provisions for post-employment benefits and jubilee bonuses in amounts calculated using actuarial methods. The amount of provisions recognized in these financial statements derives from the projection of provisions as at 30 June 2017, carried out by an independent actuary. The projection was based on the main assumptions used to measure provisions as at 31 December 2016, except the updated discount rate and the basis for calculating the charge for the Company Social Benefit Fund. The discount rate applied for the projections of the provisions as at 30 June 2017 was assumed at 3.16% (31 December 2016: 3.29%).

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	Restructuring	TOTAL
As at 1 January 2017	**118**	**166**	**69**	**213**	**1**	**567**
Current service cost	3	1	1	6	-	11
Actuarial gains and losses	4	9	5	8	-	26
Benefits paid	(2)	(5)	(1)	(5)	-	(13)
Interest costs	2	3	1	3	-	9
Reversed	-	-	-	-	(1)	(1)
As at 30 June 2017 (unaudited), of which:	**125**	**174**	**75**	**225**	**-**	**599**
Short-term	**9**	**10**	**4**	**22**	**-**	**45**
Long-term	**116**	**164**	**71**	**203**	**-**	**554**

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	Restructuring	TOTAL
As at 1 January 2016	**120**	**223**	**59**	**261**	**2**	**665**
Current service cost	3	1	-	7	-	11
Actuarial gains and losses	(6)	(16)	(3)	(8)	-	(33)
Benefits paid	(2)	(5)	(1)	(7)	-	(15)
Interest costs	2	4	1	4	-	11
Used	-	-	-	-	(1)	(1)
As at 30 June 2016 (unaudited), of which:	**117**	**207**	**56**	**257**	**1**	**638**
Short-term	**4**	**11**	**3**	**19**	**1**	**38**
Long-term	**113**	**196**	**53**	**238**	**-**	**600**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

15. Provisions (cont.)

15.2. Other provisions

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Obligation to redeem certificates	Other provisions	TOTAL
As at 1 January 2017	**131**	**50**	**41**	**405**	**95**	**722**
Interest costs	-	1	-	-	-	**1**
Recognized	8	5	18	362	40	**433**
Reversed	(9)	-	(1)	(10)	(2)	**(22)**
Used	(22)	-	(43)	(399)	(42)	**(506)**
Reclassified	11	-	-	-	(11)	**-**
As at 30 June 2017 (unaudited), of which:	**119**	**56**	**15**	**358**	**80**	**628**
Short-term	**119**	**-**	**15**	**358**	**79**	**571**
Long-term	**-**	**56**	**-**	**-**	**1**	**57**

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Obligation to redeem certificates	Other provisions	TOTAL
As at 1 January 2016	**97**	**38**	**33**	**247**	**55**	**470**
Interest costs	-	1	-	-	-	**1**
Recognized	7	17	19	393	37	**473**
Reversed	(7)	(2)	-	-	(1)	**(10)**
Used	(2)	-	(36)	(250)	(37)	**(325)**
As at 30 June 2016 (unaudited), of which:	**95**	**54**	**16**	**390**	**54**	**609**
Short-term	**95**	**-**	**16**	**390**	**54**	**555**
Long-term	**-**	**54**	**-**	**-**	**-**	**54**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

NOTES ON FINANCIAL INSTRUMENTS

16. Financial instruments

16.1. Carrying value of financial instruments by category and class

As at 30 June 2017 (unaudited)	Financial assets at fair value through profit or loss	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IAS 39	TOTAL
Assets							
Trade receivables	-	1,844	-	-	-	-	**1,844**
Portfolio of financial assets	2	-	-	-	-	-	**2**
Cash and cash equivalents	-	-	2,241	-	-	-	**2,241**
Other financial assets	46	233	-	-	41	-	**320**
Bonds, treasury bills and other debt instruments	-	15	-	-	-	-	**15**
Derivative financial instruments	46	-	-	-	41	-	**87**
Deposits	-	127	-	-	-	-	**127**
Other	-	91	-	-	-	-	**91**
TOTAL	**48**	**2,077**	**2,241**	**-**	**41**	**-**	**4,407**
Liabilities							
Loans and borrowings	-	-	-	3,245	-	-	**3,245**
Preferential loans and borrowings	-	-	-	1,630	-	-	**1,630**
Loans and borrowings	-	-	-	1,613	-	-	**1,613**
Current account overdraft	-	-	-	2	-	-	**2**
Bonds issued	-	-	-	3,714	-	-	**3,714**
Trade payables	-	-	-	645	-	-	**645**
Other financial liabilities	-	-	-	167	31	12	**210**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	-	72	-	-	**72**
Derivative financial instruments	-	-	-	-	31	-	**31**
Dividend liabilities	-	-	-	80	-	-	**80**
Other	-	-	-	15	-	12	**27**
TOTAL	**-**	**-**	**-**	**7,771**	**31**	**12**	**7,814**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

16. Financial instruments (cont.)

As at 31 December 2016	Financial assets at fair value through profit or loss	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IAS 39	TOTAL
Assets							
Trade receivables	-	1,947	-	-	-	-	**1,947**
Portfolio of financial assets	2	-	-	-	-	-	**2**
Cash and cash equivalents	-	-	1,471	-	-	-	**1,471**
Other financial assets	-	34	-	-	147	-	**181**
Bonds, treasury bills and other debt instruments	-	17	-	-	-	-	**17**
Derivative financial instruments	-	-	-	-	147	-	**147**
Other	-	17	-	-	-	-	**17**
TOTAL	**2**	**1,981**	**1,471**	**-**	**147**	**-**	**3,601**
Liabilities							
Loans and borrowings	-	-	-	3,420	-	-	**3,420**
Preferential loans and borrowings	-	-	-	1,488	-	-	**1,488**
Loans and borrowings	-	-	-	1,928	-	-	**1,928**
Current account overdraft	-	-	-	4	-	-	**4**
Bonds issued	-	-	-	2,717	-	-	**2,717**
Trade payables	-	-	-	811	-	-	**811**
Other financial liabilities	-	-	-	151	-	12	**163**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	-	132	-	-	**132**
Other	-	-	-	19	-	12	**31**
TOTAL	**-**	**-**	**-**	**7,099**	**-**	**12**	**7,111**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

16. Financial instruments (cont.)

16.2. Fair value of financial instruments

Financial instruments measured at fair value on an ongoing basis

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period.

The table below analyses fair value measurements for financial assets and financial liabilities categorised into three level hierarchy:

- level 1 – fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- level 2 – fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3 – fair value based on unobservable inputs for the asset or liability.

	30 June 2017 (unaudited) Level 2	31 December 2016 Level 2
Assets		
Portfolio of financial assets	2	2
Hedging derivatives (CCIRS I)	36	135
Hedging derivatives (CCIRS II)	2	8
Hedging derivatives (IRS)	3	4
Other derivatives	46	-
Liabilities		
Hedging derivatives (CCIRS III)	31	-

The Group measures participation units in the ENERGA Trading SFIO fund as the product of their quantity and the value of a single participation unit, as measured by the fund management company pursuant to the Mutual Funds Act of 27 May 2004.

Cross Currency Interest Rate Swaps (CCIRSs) and Interest Rate Swaps (IRSs) are measured at fair value by discounting future cash flows. The interest rates and the basis spread used in discounting are obtained from Bloomberg.

Other derivatives include options to purchase shares in Polimex-Mostostal SA. The options were purchased from Towarzystwo Finansowe Silesia Sp. z o.o. under the agreement of 18 January 2017 and refer to the purchase, in three tranches, a total of 9 million shares of Polimex-Mostostal SA, at the nominal price of PLN 2 per share. The option exercise dates were set at: 30 July 2020, 30 July 2021 and 30 July 2022. The fair value measurement of the call options to purchase shares of Polimex-Mostostal SA was carried out using the Black-Scholes model. The measurement considered the current price and historic volatility of the company's share prices. The risk-free rate was determined on the basis of the yield of treasury bonds with maturities similar to the option expiration date.

Financial instruments not measured at fair value on an ongoing basis

Except for the information given in the table below, the carrying amounts of financial assets and liabilities do not depart in a material way from their fair values.

Liabilities arising from the issue of Eurobonds	Carrying amount	Fair value Level 1
As at 30 June 2017 (unaudited)	3,385	3,550
As at 31 December 2016	2,261	2,408

Fair value measurement of liabilities arising from the issue of Eurobonds was estimated on the basis of quotations from the Bloomberg system from 30 June 2017, which are determined based on transactions on the Luxembourg stock exchange and over-the-counter trading.

The Group also holds bonds bearing a floating interest rate, which are listed on a regulated market operated by BondSpot S.A. The market is not liquid and transactions on this market are very rare; consequently, the listed prices do not reflect the fair value of the bonds.

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

16. Financial instruments (cont.)

16.3. Financial liabilities

All of the Group's financial liabilities are classified as financial liabilities measured at amortized cost, except for hedging derivatives. This category of the Group's financial instruments includes primarily contracted loans and borrowings and issued bonds.

Loans and borrowings

	As at 30 June 2017 (unaudited)	As at 31 December 2016
Currency	PLN	
Reference rate	WIBOR, Rediscount rate	
Value of the loan/borrowing	**3,245**	**3,420**
Of which maturing in:		
up to 1 year (short-term)	345	334
1 to 2 years	366	357
2 to 3 years	380	372
3 to 5 years	776	776
over 5 years	1,378	1,581

As at 30 June 2017 and 31 December 2016, the amount of credit limits available to the Group was, respectively, PLN 4,155 m (78.9% used) and PLN 4,326 m (79.6% used).

Detailed information on contracted loans and borrowings is presented in Note 16.4.

Liabilities under bonds issued

	As at 30 June 2017 (unaudited)	As at 31 December 2016
Currency	PLN	
Reference rate	WIBOR	
Value of the issue	**329**	**456**
of which maturing in:		
up to 1 year (short-term)	12	14
2 to 3 years	317	442

	As at 30 June 2017 (unaudited)	As at 31 December 2016
Currency	EUR	
Reference rate	fixed	
Value of the issue		
in currency	801	511
in PLN	3,385	2,261
of which maturing in:		
up to 1 year (short-term)	36	64
2 to 3 years	2,099	-
3 to 5 years	-	2,197
over 5 years	1,250	-

Detailed information on bonds issued is provided in Note 16.4.

16.4. Available external financing

In Q1 2017, a subsidiary ENERGA Finance AB (publ) carried out a public subscription for the Eurobonds issued under the updated EMTN Program. It was EUR 300 m bond issue with the issue price of 98.892% and 10-year maturity. The 2.125% coupon will be payable annually. The Eurobonds are listed on the Luxembourg stock exchange. The funds raised through the bond issue will be applied to general corporate purposes.

In the current reporting period and as at the last day of the reporting period and as at the date of approving these financial statements for publication, there were no events of default on contractual obligations under the terms and conditions of any external funding acquired.

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

16. Financial instruments (cont.)

Financing institution	Type of liability	Purpose of financing	Date of the agreement	Financing limit	Available financing amount	Nominal debt as at 30 June 2017	Repayment date
European Investment Bank	Loan	ENERGA-OPERATOR SA Investment Program	16-12-2009	1,050	-	677	15-12-2025
European Investment Bank	Loan	ENERGA-OPERATOR SA Investment Program	10-07-2013	1,000	-	988	15-09-2031
European Bank for Reconstruction and Development	Loan	ENERGA-OPERATOR SA Investment Program	29-04-2010	1,076	-	695	18-12-2024
European Bank for Reconstruction and Development	Loan	ENERGA-OPERATOR SA Investment Program	26-06-2013	800	-	715	18-12-2024
Nordic Investment Bank	Loan	ENERGA-OPERATOR SA Investment Program	30-04-2010	200	-	108	15-06-2022
Bondholders	Eurobonds	General corporate purposes	19-03-2013	2,113*	-	2,113*	19-03-2020
Bondholders	Eurobonds	General corporate purposes	07-03-2017	1,268*	-	1,268*	07-03-2023
Bondholders	Domestic bonds	General corporate purposes	19-10-2012	1,000	-	316	19-10-2019
PKO Bank Polski SA	Credit limit	General corporate purposes	30-08-2011	2	-	2	31-12-2019
PKO Bank Polski SA	Credit limit	General corporate purposes	12-10-2011	300	300	-	07-06-2021
PKO Bank Polski SA	Bonds	ENERGA Elektrownie Ostrołęka SA Investment Program	30-05-2012	100	61	-	31-12-2022
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	122**	19***	19-09-2017
Bank PEKAO SA	Renewable loan	General corporate purposes	13-10-2011	500	500	-	29-05-2020
Bank PEKAO SA	Loan	ENERGA Elektrownie Ostrołęka SA Investment Program	30-05-2012	85	-	19	29-05-2022
Nordic Investment Bank	Loan	FW Myślino construction	23-10-2014	68	-	58	15-09-2026
NFOSiGW	Loan	ENERGA-Obrót SA Investment Program	25-03-2011	1	-	1	31-12-2020
WFOŚiWG	Loan	ENERGA Wytwarzanie SA Investment Program	23-12-2014	8	-	8	30-06-2021
WFOŚiWG	Loan	Elektrownia CCGT Gdańsk Sp. z o.o. Investment Program	27-06-2014	7	-	7	30-06-2024
TOTAL				**9,778**	**983**	**6,994**	

* liability under Eurobonds converted using the average NBP exchange rate of 30 June 2017
** value of the limits granted to the Group Companies on the basis of executed contracts (use of the global limit)
*** the limit amount has been used in the form of a guarantee (use of the guarantee limits provided under the executive contracts)

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

16. Financial instruments (cont.)

16.5. Cash flow hedge accounting

FX risk hedging

The special purpose vehicle ENERGA Finance AB (publ) and ENERGA SA have signed three loan agreements denominated in EUR for the total amount of EUR 699 m. In order to hedge currency risk under these loans, in 2013, in July 2014 and April 2017, the Group concluded cross-currency interest rate swap transactions with nominal values of EUR 400 m ("CCIRS I"), EUR 25 m ("CCIRS II") and EUR 200 m ("CCIRS III"), respectively.

As a hedged position under the above hedging relationships the Group designated the foreign currency risk arising from intra-group loans denominated in EUR. The foreign currency risk is hedged at the level of 89% of the total nominal amount of loans.

As the hedge the Group designated CCIRS transactions under which the Group receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN. Cash flows received by the Group correspond with the cash flows under the intra-group loans. The Group expects that the hedged cash flows will continue until June 2027.

Interest rate risk hedging

In January 2016, the Group concluded interest rate swap transactions to hedge the interest rate risk arising from the financing used under (see description in note 16.4):

- loan agreement concluded with EIB in 2013 – PLN 200 m;
- loan agreement concluded with EBRD in 2010 – PLN 200 m.

In August 2016, the Group additionally concluded IRS transactions with similar characteristics for the following:

- loan agreement concluded with EBRD in 2010 – PLN 150 m;
- loan agreement concluded with EBRD in 2013 – PLN 150 m;
- loan agreement concluded with EIB in 2013 – PLN 150 m.

As hedged positions under hedging relationships, the Group designated the risk related to the WIBOR 3M interest rate arising from interest payments on the financial liabilities stated above in the period no longer than 2 years from the date of the hedging transactions. In the case of the PLN 150 m transaction pertaining to the 2013 EIB loan agreement, this is a four-year period.

As the hedge the Group designated the IRS transactions under which the Group receives floating-rate cash flows in PLN and pays fixed-rate cash flows in PLN. Interest cash flows received by the Group correspond with interest cash flows under the hedged financial liabilities. The Group expects that the hedged cash flows will continue until June 2020 and not longer.

Fair value of hedges

The fair value of hedges was:

	Value	Recognition in the statement of financial position
As at 30 June 2017 (unaudited)		
CCIRS I	36	Non-current assets – Other financial assets
CCIRS II	2	Non-current assets – Other financial assets
CCIRS III	31	Liabilities – Other financial liabilities
IRS	3	Non-current assets – Other financial assets
As at 31 December 2016		
CCIRS I	135	Non-current assets – Other financial assets
CCIRS II	8	Non-current assets – Other financial assets
IRS	4	Non-current assets – Other financial assets

Under cash flow hedge accounting, the cash flow hedge reserve (the effective portion of changes in the value of the hedge, less deferred tax) decreased in the reporting period by PLN 39 m.

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

16. Financial instruments (cont.)

The table below presents changes in the cash flow hedge reserve resulting from the hedge accounting in the reporting period:

Change in cash flow hedge reserve during the reporting period	6-month period ended 30 June 2017 (unaudited)	6-month period ended 30 June 2016 (unaudited)
At the beginning of the reporting period	**41**	**6**
Amount recognized in the cash flow hedge reserve in the period, equal to the change in the fair value of hedging instruments	(137)	88
Accrued interest transferred from the reserve to financial income/costs	1	1
Revaluation of hedging instruments transferred from the reserve to financial income/costs	88	(69)
Income tax on other comprehensive income	9	(5)
At the end of the reporting period	**2**	**21**

As at 30 June 2017, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

16.6. Collateral securing repayment of liabilities

At the end of the reporting period and as at 31 December 2016, there were no material assets securing repayment of liabilities or contingent liabilities.

OTHER NOTES

17. Investment commitments

At the end of the reporting period, the Group's commitments to incur expenditures for the purchase of property, plant and equipment and intangible non-current assets, which have not yet been included in the statement of financial position, were about PLN 6,788 m, of which:

- undertakings covered by the development plan of ENERGA-OPERATOR SA to satisfy the current and future demand for electricity in the years 2017-2022 (agreed upon with the President of the Energy Regulatory Office) – approx. PLN 6,525 m;
- undertakings executed in the Ostrołęka Power Plant (among others: modernization of power units, construction of an installation for denitrifying exhaust fumes) – approx. PLN 94 m;
- execution of the Przykona Wind Farm project – approx. PLN 136 m;
- gas-steam power plants in Grudziądz and Gdańsk – approx. PLN 33 m.

18. Information on related entities

Related party transactions are made based on market prices of goods, products or services delivered resulting from their manufacturing costs.

18.1. Transactions involving parties related to the State Treasury

The Group's controlling entity is the State Treasury. Accordingly, other parties related to the State Treasury are treated by the Group as related parties.

Transactions with parties related to the State Treasury were concluded in regular business dealings and pertained mainly to the purchase and sale of electricity and property rights, sale of electricity distribution services (including transit), settlements with the transmission system operator in the balancing market, for transmission services, system services and intervention work services and the purchase and transportation of fuel (mainly coal). The Group does not keep records that would allow it to aggregate the value of all transactions concluded with all state institutions and with subsidiaries of the State Treasury.

18.2. Transactions with associates and joint ventures

Sale of ENERGA SA Group companies to associates and joint ventures in the period ended 30 June 2017 was PLN 102 m. Purchases from those entities in the period ended 30 June 2017 were PLN 86 m (in the corresponding period of the previous year, the level of purchases from associates and joint ventures was PLN 5 m). The amount of receivables as at 30 June 2017 was PLN 78 m (as at 31 December 2016, the receivables amounted to PLN 5 m). The amount of liabilities as at 30 June 2017 was PLN 15 m, compared to PLN 2 m as at 31 December 2016. All of the above transactions were effected with Polska Grupa Górnicza Sp. z o.o.

18.3. Transactions with Parent Company's Management Board members

During the reporting period, the Parent Company did not conclude material transactions with Management Board members.

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2017 (in millions of PLN)

18. Information on related entities (cont.)

18.4. Compensation paid or due to key management and Supervisory Boards of Group companies

	6-month period ended 30 June 2017 (unaudited)	6-month period ended 30 June 2016 (unaudited)
Management Board of the parent company	4	3
Supervisory Board of the parent company	<1	<1
Management Boards of subsidiaries	15	17
Supervisory Boards of subsidiaries	1	<1
Other key management	10	8
TOTAL	**30**	**28**

19. Contingent assets and liabilities

19.1. Contingent liabilities

As at 30 June 2017, the Group recognizes contingent liabilities of PLN 225 m (PLN 255 m as at 31 December 2016), including mainly the contingent liabilities relating to disputes involving ENERGA Group companies, where a victory by the company is probable and no provision has been recognized for these cases.

The largest contingent liability item consists of disputes relating to power infrastructure of ENERGA-OPERATOR SA where it is located on private land. The Group recognizes provisions for reported legal claims. If there is uncertainty whether a claim amount or legal title to land is justified, the Group recognizes contingent liabilities. As at 30 June 2017, the estimated value of those claims recognized as contingent liabilities is PLN 183 m, compared with PLN 214 m on 31 December 2016. The amounts are estimated by the Group lawyers, who consider the risk of a situation in which liability arises below 50%.

19.2. Contingent assets

At the end of the reporting period and as at 31 December 2016, there were no material contingent assets.

20. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group

On 11 May 2017, the Company's Management Board adopted a resolution on ENERGA SA's resignation from the participation in the transaction to acquire Polish assets of EDF International SAS of EDF Investment II B.V. The decision followed in-depth analyses conducted in the Group, which supported a decision to focus ENERGA Group's investments and acquisitions on projects that would offer more synergies with its current asset base and area of competence; ones that would allow the Group to strengthen its balance sheet and improve its asset management efficiency.

21. Subsequent events

On 2 August 2017 the President signed the Water law act, which includes, among others, the additional charges for the economic use od water for energy purposes. The Group estimates that the new law will not have a material impact on its performance and there is no need to recognize additional impairment losses on the assets.

Signatures of ENERGA SA Management Board Members:

Daniel Obajtek ……………………………………….

President of the Management Board

Jacek Kościelniak ……………………………………….

Vice-President of the Management Board for Financial Matters

Grzegorz Ksepko ……………………………………….

Vice-President of the Management Board for Corporate Matters

Alicja Klimiuk ……………………………………….

Vice-President of the Management Board for Operational Matters

Persons responsible for the preparation of the statements:

Andrzej Kublik ……………………………………….

Director of the Finance Department

Karol Jacewicz ……………………………………….

Manager of the Financial Reporting Unit – Chief Accountant

Gdańsk, 8 August 2017