ENERGA SA
Group

Condensed interim consolidated financial statements prepared in accordance with IAS 34 for the nine-month period ended 30 September 2017

TABLE OF CONTENTS

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	3-month period ended 30 September 2017 (unaudited)	9-month period ended 30 September 2017 (unaudited)	3-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2016 (unaudited)
Continuing operations				
Sales revenues	**2,520**	**7,717**	**2,436**	**7,373**
Cost of sales	(2,183)	(6,434)	(1,957)	(6,387)
Gross profit on sales	**337**	**1,283**	**479**	**986**
Other operating income	48	144	28	81
Selling and distribution expenses	(84)	(256)	(81)	(243)
General and administrative expenses	(76)	(238)	(76)	(240)
Other operating expenses	(54)	(107)	(37)	(200)
Financial income	(3)	73	5	47
Financial costs	(82)	(222)	(56)	(222)
Share in profit/(loss) of the entities measured by the equity method	9	17	(19)	(60)
Profit or loss before tax	**95**	**694**	**243**	**149**
Income tax	(24)	(135)	(53)	(75)
Net profit or loss for the period	**71**	**559**	**190**	**74**
Attributable to:				
Equity holders of the Parent Company	68	552	190	71
Non-controlling interest	3	7	-	3
Earnings or loss per share (in PLN)				
- basic	**0.16**	**1.33**	**0.46**	**0.17**
- diluted	**0.16**	**1.33**	**0.46**	**0.17**

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3-month period ended 30 September 2017 (unaudited)	9-month period ended 30 September 2017 (unaudited)	3-month period ended 30 eptember 2016 (unaudited)	9-month period ended 30 September 2016 (unaudited)
Net profit for the period	**71**	**559**	**190**	**74**
Items that will never be reclassified to profit or loss	***1***	***(13)***	***-***	***20***
Actuarial gains and losses on defined benefit plans	2	(16)	(1)	24
Deferred tax	(1)	3	1	(4)
Items that are or may be reclassified subsequently to profit or loss	***(3)***	***(46)***	***8***	***27***
Foreign exchange differences from translation of foreign entities	1	(3)	(2)	2
Cash flow hedges	(5)	(53)	11	31
Deferred tax	1	10	(1)	(6)
Net other comprehensive income	**(2)**	**(59)**	**8**	**47**
Total comprehensive income	**69**	**500**	**198**	**121**
Attributable to:				
Equity holders of the Parent Company	66	493	198	118
Non-controlling interest	3	7	-	3

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 September 2017 (unaudited)	As at 31 December 2016
ASSETS		
Non-current assets		
Property, plant and equipment	12,875	13,053
Intangible assets	364	383
Goodwill	15	26
Investments in associates and joint ventures measured by the equity method	771	390
Deferred tax assets	345	396
Other non-current financial assets	134	166
Other non-current assets	104	101
	14,608	**14,515**
Current assets		
Inventories	252	472
Current tax receivables	40	111
Trade receivables	1,691	1,947
Portfolio of financial assets	-	2
Other current financial assets	205	15
Cash and cash equivalents	3,437	1,471
Other current assets	268	198
	5,893	**4,216**
TOTAL ASSETS	**20,501**	**18,731**

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	As at 30 September 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	1	4
Reserve capital	1,018	1,018
Supplementary capital	1,433	728
Cash flow hedge reserve	(2)	41
Retained earnings	2,222	2,464
Equity attributable to equity holders of the Parent Company	**9,194**	**8,777**
Non-controlling interest	**47**	**40**
	9,241	**8,817**
Non-current liabilities		
Loans and borrowings	2,813	3,086
Bonds issued	4,706	2,639
Non-current provisions	573	578
Deferred tax liabilities	588	593
Deferred income and non-current grants	504	515
Other non-current financial liabilities	24	6
	9,208	**7,417**
Current liabilities		
Trade payables	663	811
Current loans and borrowings	347	334
Bonds issued	74	78
Current income tax liability	3	3
Deferred income and grants	143	170
Short-term provisions	376	711
Other financial liabilities	166	157
Other current liabilities	280	233
	2,052	**2,497**
Total liabilities	**11,260**	**9,914**
TOTAL EQUITY AND LIABILITIES	**20,501**	**18,731**

Condensed interim consolidated financial statements as at and for the nine-month period ended 30 September 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	-	-	-	-	-	(13)	**(13)**	-	**(13)**
Foreign exchange differences from translation of foreign entities	-	(3)	-	-	-	-	**(3)**	-	**(3)**
Cash flow hedges	-	-	-	-	(43)	-	**(43)**	-	**(43)**
Net profit for the period	-	-	-	-	-	552	**552**	7	**559**
Total comprehensive income for the period	**-**	**(3)**	**-**	**-**	**(43)**	**539**	**493**	**7**	**500**
Retained earnings distribution	-	-	-	705	-	(705)	**-**	**-**	**-**
Dividends	-	-	-	-	-	(79)	**(79)**	**-**	**(79)**
Changes in shares held	-	-	-	-	-	3	**3**	-	**3**
As at 30 September 2017 (unaudited)	**4,522**	**1**	**1,018**	**1,433**	**(2)**	**2,222**	**9,194**	**47**	**9,241**
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	-	2	-	-	-	-	**2**	-	**2**
Cash flow hedges	-	-	-	-	25	-	**25**	-	**25**
Net profit for the period	-	-	-	-	-	71	**71**	3	**74**
Total comprehensive income for the period	**-**	**2**	**-**	**-**	**25**	**91**	**118**	**3**	**121**
Retained earnings distribution	-	-	571	67	-	(638)	**-**	**-**	**-**
Dividends	-	-	-	-	-	(203)	**(203)**	-	**(203)**
As at 30 September 2016 (unaudited)	**4,522**	**2**	**1,018**	**728**	**31**	**2,384**	**8,685**	**47**	**8,732**

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	9-month period ended 30 September 2017 (unaudited)	9-month period ended 30 September 2016 (unaudited)
Cash flows from operating activities		
Profit/(loss) before tax	**694**	**149**
Adjustments for:		
Share in (profit)/loss of the entities measured by the equity method	(17)	60
Foreign currency (gains)/losses	(35)	3
Amortization and depreciation	731	704
Net interest and dividends	219	183
(Profit)/loss on investing activities, including goodwill impairment allowance	17	459
Changes in working capital:		
Change in receivables	268	(104)
Change in inventories	219	(180)
Change in liabilities excluding loans and borrowings	(99)	(185)
Change in prepayments and accruals	(150)	(139)
Change in provisions	(359)	265
	1,488	**1,215**
Income tax	**(5)**	**(164)**
Net cash from operating activities	**1,483**	**1,051**
Cash flows from investing activities		
Disposal of property, plant and equipment and intangible assets	10	16
Purchase of property, plant and equipment and intangible assets	(862)	(1,152)
Establishment of deposits above 3m	(127)	-
Sale of participation units in the ENERGA Trading fund	2	320
Disposal of subsidiary	43	-
Investments in associates and joint ventures measured by the equity method	(217)	(364)
Other	(6)	3
Net cash from investing activities	**(1,157)**	**(1,177)**
Cash flows from financing activities		
Proceeds from debt incurred	2,313	350
Repayment of debt incurred	(257)	(521)
Redemption of debt securities	(232)	(578)
Dividends paid	-	(203)
Interest paid	(180)	(180)
Other	2	(7)
Net cash from financing activities	**1,646**	**(1,139)**
Net increase/(decrease) in cash and cash equivalents	**1,972**	**(1,265)**
Cash and cash equivalents at the beginning of the period	**1,464**	**1,658**
Cash and cash equivalents at the end of the period	**3,436**	**393**

Condensed interim consolidated financial statements as at and for the nine-month period ended 30 September 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 nine-month period ended 30 September 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 September 2017, the Polish State Treasury is the parent and ultimate controlling party of the Company and 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 September 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 September 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 nine-month period ended 30 September 2017 (in millions of PLN)

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 September 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 [1]	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	ENERGA Ochrona Sp. z o.o. (formerly ENSA PGK3 Sp. z o.o.) [2]	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 nine-month period ended 30 September 2017 (in millions of PLN)

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 September 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

[1] On 12 October 2017, an entry was registered in the National Court Register concerning the merger of ENSA PGK1 Sp. z o.o. (acquirer) with ENERGA Invest SA (acquiree); the company's current name is ENERGA Invest Sp. z o.o.
[2] On 27 October 2017 a change of the name of the company from ENSA PGK3 Sp. z o.o. to ENERGA Ochrona Sp. z o.o. was registered in the National Court Register.

Additionally, as at 30 September 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 Sp. z o.o., 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 [Polish Corporates Mutual Fund], Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych [Private Assets Closed-End Mutual Fund] (hereinafter 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 Private Assets Closed-End Mutual Fund) 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),
- 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. At the session closing on 29 September 2017, the average strock price of Polimex was PLN 5.26; accordingly the fair value of the block of shares held by the Group was PLN 205 m.

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

Preliminary settlement of the purchase transaction

As the purchase transaction took place during the current reporting period, the work associated with allocating the price of shares purchased have not yet been completed. Therefore 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.

Tentative settlement of the acquisition	
Group's share in identifiable net assets	(132)
Share purchase price plus 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

On the date of these condensed interim financial statements, the composition of the Parent Company's Management Board 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.

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

- On 17 January 2017, the Company's Supervisory Board adopted a resolution to dismiss 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 to the Management Board: Mr. Daniel Obajtek (as President of the Management Board), Ms. Alicja Klimiuk (as Vice-President of the Management Board for Operations) 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 7 November 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.

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

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.

5.2. 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 endorse this transitional standard pending an appropriate standard,
- 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),

7. Significant accounting policies (cont.)

- 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),
- Amendments to IFRS 9 “Financial Instruments” – Prepayment Features with Negative Compensation (applicable to annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Detailed scope of application of the standard for long-term interests in associates and joint ventures (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 amortization and depreciation 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 September 2017 and the assets and liabilities as at 30 September 2017 by individual reporting segments, together with appropriate comparative information.

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

9. Operating segments (cont.)

Nine-month period ended 30 September 2017 (unaudited) or as at 30 September 2017 (unaudited)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external clients	3,238	3,837	640	2	**7,717**	-	**7,717**
Inter-segment sales	30	22	168	126	**346**	(346)	**-**
Total segment revenues	**3,268**	**3,859**	**808**	**128**	**8,063**	**(346)**	**7,717**
EBITDA	**1,341**	**24**	**267**	**(39)**	**1,593**	**50**	**1,643**
Amortization and depreciation	573	32	123	13	**741**	(10)	**731**
Impairment losses on non-financial non-current assets	-	-	86	-	**86**	-	**86**
Operating profit or loss	**768**	**(8)**	**58**	**(52)**	**766**	**60**	**826**
Net finance income/expense	(89)	7	(46)	184	**56**	(205)	**(149)**
Share in profit/(loss) of the entities measured by the equity method	-	-	-	-	**-**	17	**17**
Profit or loss before tax	**679**	**(1)**	**12**	**132**	**822**	**(128)**	**694**
Income tax	(137)	(6)	(8)	16	**(135)**	-	**(135)**
Net profit or loss	**542**	**(7)**	**4**	**148**	**687**	**(128)**	**559**
Assets and liabilities							
Cash and cash equivalents	9	34	3	3,391	**3,437**	-	**3,437**
Total assets	**13,008**	**2,090**	**3,934**	**16,212**	**35,244**	**(14,743)**	**20,501**
Financial liabilities	3,964	1	996	8,114	**13,075**	(5,135)	**7,940**
Total liabilities	**6,365**	**1,373**	**1,299**	**8,811**	**17,848**	**(6,588)**	**11,260**
Other segment information							
Capital expenditures	674	31	61	30	**796**	(2)	**794**

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

9. Operating segments (cont.)

Nine-month period ended 30 September 2016 (unaudited) or as at 31 December 2016	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external clients	3,045	3,767	556	5	**7,373**	-	**7,373**
Inter-segment sales	32	251	232	102	**617**	(617)	**-**
Total segment revenues	**3,077**	**4,018**	**788**	**107**	**7,990**	**(617)**	**7,373**
EBITDA	**1,310**	**63**	**195**	**(38)**	**1,530**	**(1)**	**1,529**
Amortization and depreciation	546	27	133	13	**719**	(15)	**704**
Impairment losses on non-financial non-current assets	-	-	441	-	**441**	-	**441**
Operating profit or loss	**764**	**36**	**(379)**	**(51)**	**370**	**14**	**384**
Net finance income/expense	(84)	3	55	856	**830**	(1 005)	**(175)**
Share in profit/(loss) of the entities measured by the equity method	-	-	-	-	**-**	(60)	**(60)**
Profit or loss before tax	**680**	**39**	**(324)**	**805**	**1,200**	**(1 051)**	**149**
Income tax	(128)	(11)	49	15	**(75)**	-	**(75)**
Net profit or loss	**552**	**28**	**(275)**	**820**	**1,125**	**(1 051)**	**74**
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	875	76	184	78	**1,213**	(98)	**1,115**

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 735 m (PLN 1,041 m in the corresponding period of 2016);
- sold and scrapped property, plant and equipment with a total carrying value of PLN 19 m (PLN 25 m in the corresponding period of 2016);
- recognized impairment losses on property, plant and equipment in the amount of PLN 75 m (PLN 434 m in the corresponding period of 2016) and did not reversed impairmnet losses on property, plant and equipment (in the corresponding period of 2016 the Group reversed impairment losses in the amount of PLN 110 m);
- recognized impairment losses on goodwill in the amount of PLN 11 m (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 Q3 2017, assessment was made whether there is any indication that the recoverable amount of property, plant and equipment and goodwill may be impaired. In connection with changes occurring in its market and regulatory environment in Q3 2017, including the declining prices of certificates of origin of energy, persisting low prices for electricity in forward and SPOT contracts, persisting higher coal prices and introduction of an amendment of the Renewable Energy Sources Act, certain indications have been identified that may result in a decline of the recoverable amount of property, plant and equipment of Group companies and impairment tests were conducted.

The impairment tests for cash generating units ("CGUs") were performed using the income method, determining the value in use based on the discounted value of estimated cash flows from operating activities, taking into account, among others, the following assumptions:

- price forecasts have been adopted for electricity, coal, CO_2 allowances and for certificates of origin, based on a report on the Polish market prepared for the Group by an independent agency; the forecast was prepared with the timeframe until 2065;
- assumptions adopted for costless CO_2 emission allowances for 2015-2021 as specified in the Regulation of the Council of Ministers of 31 March 2014 (Item 439) and 8 April 2014 (Item 472),
- assumptions made for capital expenditures at the levels allowing for maintenance of the production capacity of the existing non-current assets after replacement investments, including capital expenditures to adjust industrial emission levels to the requirements of Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions and the Commission Implementing Decision (EU) 2017/1442 establishing best available techniques (BAT) conclusions, which was published on 17 August 2017,
- support maintained for production of energy from the existing renewable sources in accordance with the Renewable Energy Sources Act of 20 February 2015, as amended (Journal of Laws, 2017 No. 0, Item 1148),
- support system maintained for high-efficient cogeneration throughout the forecast period,
- maintenance of the Operating Reserve in the period until 2020 and support to be received under the Capacity Market from 2021 to the end of the projection period,
- the length of forecasts for the individual CGUs has been adopted in such a way to ensure that the cash flow used to calculate residual value was as similar as possible to the cash flows expected in the coming years.

Wind Farms (CGU Karcino, CGU Karścino, CGU Bystra, CGU Myślino, CGU Parsówek)

The impairment tests for the wind farms were conducted as at 31 August 2017. The value in use was calculated on the basis of financial projections for the full useful life period of the wind farms, that is 25 years. The standard projection period of 5 years was extended to 25 years enabling a more reliable valuation of the units, the useful life of which is known and predictable. The discount rates set on the basis of the pre-tax weighted-average cost of capital (WACC), used for the calculation, fell within the range from 6.42% to 7.03% (on average 5.87% after tax). Based on the results of the tests, it was determined that impairment losses must be recognized on the wind farms in the amount of PLN 71 m (mainly for technical machinery and equipment). The recoverable amount was set at PLN 524 m. The tests conducted on CGU Myślino have also shown the necessity to write down the entire goodwill that was recognized following the acquisition of the wind farm in 2012, in the amount of PLN 11 m.

Photovoltaic farms (CGU PV Delta, PV Czernikowo)

The impairment tests for the photovoltaic farms were conducted as at 31 August 2017. The value in use was calculated on the basis of financial projections for the full useful life period of the farms, that is 25 years. The standard projection period of 5 years was extended to 25 years enabling a more reliable valuation of the units, the useful life of which is known and predictable. The discount rates set on the basis of the pre-tax weighted-average cost of capital (WACC), used for the calculation, fell within the range from 6.28% to 7.36% (on average 5.87% after tax).

Based on the results of the tests, it was found that no impairment losses needed to be recognized on the photovoltaic farms.

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

11. Impairment tests for property, plant and equipment and goodwill (cont.)

Combined Heat and Power Plant Elbląg with BB20 installation ("CGU CHP Elbląg")

The impairment test for CGU CHP Elbląg (including the BB20 installation) was conducted as at 31 August 2017. The value in use was calculated on the basis of financial projections for the period of September 2017 - December 2031 and residual value. The standard projection period of 5 years was extended until 2031 because of the fact that green certificates are applied in this period to the BB20 unit and significant renovation expenditures are incurred. The year 2031 is the first representative period, which may be used to calculate the residual value. The discount rate set on the basis of the pre-tax weighted-average cost of capital (WACC), used for the calculation, was 6.77% (6.41% after tax). 2.0% growth rate was used to extrapolate the cash flow forecasts beyond 2031.

Based on the results of the tests, no need was found to recognize impairment losses on CGU CHP Elbląg.

Elektrociepłownia Kalisz (CGU CHP Kalisz)

The impairment test for CGU CHP Kalisz was conducted as at 31 August 2017. The value in use was calculated on the basis of financial projections for the period of September 2017 - December 2023 and residual value. The discount rate set on the basis of the pre-tax weighted-average cost of capital (WACC), used for the calculation, was 8.45% (6.41% after tax). The growth rate used to extrapolate cash flow projections beyond the period covered by detailed planning was adopted at the level of 2.0% which does not exceed the average long-term inflation growth rates in Poland.

Based on the results of the tests, no need was found to recognize impairment losses on CGU CHP Kalisz.

Ostrołęka B Power Plant ("CGU Ostrołęka B")

For Power Plant B in Ostrołęka, indications of impairment have been recognized in the form of persistently low electricity prices in forward and SPOT contracts and high prices of coal. Because of the work pending on changing the operational model of the Power Plant and the investment decisions that are important for its operation and the need to revise long-term projections, it has been determined that a reliable evaluation of the Power Plant's recoverable amount requires further analysis. The impairment test of CGU Ostrołęka B will be completed in Q4 2017.

Sensitivity analysis

The estimated impact of the change of selected parameters on the overall valuation of the above-mentioned assets is presented below. The sensitivity analyses show that the factors with the highest impact on the estimated value in use of the above CGUs are: electricity prices, discount rates and legislative changes in the Renewable Energy Sources Act. In case of their negative change, impairment losses may have to be recognized for the total amount specified below.

The sensitivity analysis takes into account the change of the factors over the entire forecast period.

Parameter	Amount and direction of change	Impact on overall appraisal value of tested CGUs [PLN m]		Change in impairment loss amount [PLN m]
		Increase in value	Decrease in value	
Amendment to the Renewable Energy Sources Act changing the basis of the property tax	Effective date of the act	123.9		123.9
Discount rates	[+ 0.5 p.p.]		(64.1)	(26.3)
	[- 0.5 p.p.]	76.4		18.5
Electricity prices	[+ 1%]	19.2		7.9
	[- 1%]		(19.2)	(8.0)

If market conditions change, there is a risk that test results will be different in the future.

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

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 September 2017 (unaudited)	As at 30 September 2016 (unaudited)
Cash at bank and in hand	1,724	289
Short-term deposits up to 3 months	1,713	108
Total cash and cash equivalents presented in the statement of financial position	**3,437**	**397**
Unrealized foreign exchange differences and interest	(1)	3
Current account overdraft	-	(7)
Total cash and cash equivalents presented in the statement of cash flows	**3,436**	**393**
including restricted cash	*28*	-

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.

	9-month period ended 30 September 2017 (unaudited)	9-month period ended 30 September 2016 (unaudited)
Net profit or loss on continuing operations attributable to equity holders of the Parent Company	552	71
Net profit or loss attributable to common equity holders of the Parent Company	**552**	**71**
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)	**1.33**	**0.17**

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. By the date of these statements, the entire declared amount has been paid out, including PLN 28 m on account of shares with voting preference.

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

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 September 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 used to project the provisions as at 30 September 2017 was assumed at 3.25% (3.29% as at 31 December 2016).

	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	4	2	1	9	-	16
Past service cost	(3)	(2)	(27)	(4)	-	(36)
Actuarial gains and losses	3	8	5	11	-	27
Benefits paid	(3)	(5)	(2)	(16)	-	(26)
Interest costs	3	4	2	5	-	14
Reversed	-	-	-	-	(1)	(1)
As at 30 September 2017 (unaudited), of which:	**122**	**173**	**48**	**218**	**-**	**561**
Short-term	**9**	**10**	**3**	**22**	**-**	**44**
Long-term	**113**	**163**	**45**	**196**	**-**	**517**

	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	1	10	-	15
Actuarial gains and losses	(15)	(9)	-	(21)	-	(45)
Benefits paid	(3)	(5)	(2)	(16)	-	(26)
Interest costs	3	5	1	5	-	14
Used	-	-	-	-	(1)	(1)
As at 30 September 2016 (unaudited), of which:	**108**	**215**	**59**	**239**	**1**	**622**
Short-term	**5**	**10**	**3**	**18**	**1**	**37**
Long-term	**103**	**205**	**56**	**221**	**-**	**585**

Condensed interim consolidated financial statements as at and for the nine-month period ended 30 September 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	10	4	35	131	41	**221**
Reversed	(29)	-	(1)	(10)	(5)	**(45)**
Used	(24)	-	(43)	(400)	(44)	**(511)**
Reclassified	11	-	-	-	(11)	**-**
As at 30 September 2017 (unaudited), of which:	**99**	**55**	**32**	**126**	**76**	**388**
Short-term	**99**	**-**	**32**	**126**	**75**	**332**
Long-term	**-**	**55**	**-**	**-**	**1**	**56**

	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	13	21	31	539	40	**644**
Reversed	(12)	(1)	-	-	(1)	**(14)**
Used	(2)	-	(36)	(251)	(37)	**(326)**
As at 30 September 2016 (unaudited), of which:	**96**	**59**	**28**	**535**	**57**	**775**
Short-term	**96**	**-**	**28**	**535**	**57**	**716**
Long-term	**-**	**59**	**-**	**-**	**-**	**59**

Condensed interim consolidated financial statements as at and for the nine-month period ended 30 September 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 September 2017	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	-	1,691	-	-	-	-	**1,691**
Portfolio of financial assets	-	-	-	-	-	-	**-**
Cash and cash equivalents	-	-	3,437	-	-	-	**3,437**
Other financial assets	35	217	-	-	87	-	**339**
Bonds, treasury bills and other debt instruments	-	14	-	-	-	-	**14**
Derivative financial instruments	35	-	-	-	87	-	**122**
Deposits	-	129	-	-	-	-	**129**
Other	-	74	-	-	-	-	**74**
TOTAL	**35**	**1,908**	**3,437**	**-**	**87**	**-**	**5,467**
Liabilities							
Loans and borrowings	-	-	-	3,160	-	-	**3,160**
Preferential loans and borrowings	-	-	-	1,600	-	-	**1,600**
Loans and borrowings	-	-	-	1,560	-	-	**1,560**
Current account overdraft	-	-	-	-	-	-	**-**
Bonds issued	-	-	-	4,780	-	-	**4,780**
Trade payables	-	-	-	663	-	-	**663**
Other financial liabilities	-	-	-	160	19	11	**190**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	-	60	-	-	**60**
Derivative financial instruments	-	-	-	-	19	-	**19**
Dividend liabilities	-	-	-	80	-	-	**80**
Other	-	-	-	20	-	11	**31**
TOTAL	**-**	**-**	**-**	**8,763**	**19**	**11**	**8,793**

Condensed interim consolidated financial statements as at and for the nine-month period ended 30 September 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 nine-month period ended 30 September 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 September 2017 (unaudited)	31 December 2016
	Level 2	Level 2
Assets		
Portfolio of financial assets	-	2
Hedging derivatives (CCIRS I)	73	135
Hedging derivatives (CCIRS II)	5	8
Hedging derivatives (CCIRS IV)	7	
Hedging derivatives (IRS)	2	4
Other derivatives	35	-
Liabilities		
Hedging derivatives (CCIRS III)	19	-

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 and hybrid bonds	Carrying amount	Fair value Level 1	Fair value Level 2
As at 30 September 2017 (unaudited)	4,554	3,627	1,177
As at 31 December 2016	2,261	2,408	-

Fair value measurement of liabilities arising from the bonds issued in the Euro was estimated: in the case of Eurobonds on the basis of quotations from the Bloomberg system from 29 September 2017, which are determined based on transactions on the Luxembourg stock exchange and over-the-counter trading, while in the case of hybrid bonds based on the analysis of future cash flows discounted using the interest rates in effect as at 29 September 2017.

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 nine-month period ended 30 September 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 September 2017 (unaudited)	As at 31 December 2016
Currency	PLN	
Reference rate	WIBOR, Rediscount rate	
Value of the loan/borrowing	**3,160**	**3,420**
of which maturing in:		
up to 1 year (short-term)	347	334
1 to 2 years	366	357
2 to 3 years	390	372
3 to 5 years	771	776
over 5 years	1,286	1,581

As at 30 September 2017 and 31 December 2016, the amount of credit limits available to the Group was PLN 4,175 m (76.3% used) and PLN 4,326 m (79.6% used) respectively.

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

Liabilities under bonds issued

	As at 30 September 2017 (unaudited)	As at 31 December 2016
Currency	PLN	
Reference rate	WIBOR	
Value of the issue	**226**	**456**
of which maturing in:		
up to 1 year (short-term)	12	14
2 to 3 years	214	442

	As at 30 September 2017 (unaudited)	As at 31 December 2016
Currency	EUR	
Reference rate	fixed	
Value of the issue		
in currency	1,057	511
in PLN	4,554	2,261
of which maturing in:		
up to 1 year (short-term)	62	64
2 to 3 years	2,140	-
3 to 5 years	-	2,197
over 5 years	2,352	-

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.

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

16. Financial instruments (cont.)

In Q3 2017, ENERGA SA, pursuant to agreements signed with the European Investment Bank ("EIB"), conducted a public subscription of EUR 250 m hybrid bond issue ("Bonds") in two tranches:

- EUR 125 m, maturing in 16 years, with the first financing period set for 6 years from the issue date,
- EUR 125 m, maturing in 20 years, with the first financing period set for 10 years from the issue date.

The issued Bonds are subordinated, unsecured, coupon bearer securities which have been subscribed for by EIB under the European Fund for Strategic Investments launched by EIB jointly with the European Commission to execute the so-called Juncker Plan. The Bonds earn interest at a fixed interest rate estimated according to the formula defined in the terms and conditions of issue.
The said financing will be slated for execution of an investment program in the Distribution segment, consisting in modernization and expansion of the ENERGA SA Group's distribution assets in 2017-2019.

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.

Financing institution	Type of liability	Purpose of financing	Date of the agreement	Financing limit	Available financing amount	Nominal debt as at 30.09.2017	Repayment date
European Investment Bank	Loan	ENERGA-OPERATOR SA Investment Program	16-12-2009	1,050	-	656	15-12-2025
European Investment Bank	Loan	ENERGA-OPERATOR SA Investment Program	10-07-2013	1,000	-	975	15-09-2031
European Bank for Reconstruction and Development	Loan	ENERGA-OPERATOR SA Investment Program	29-04-2010	1,076	-	671	18-12-2024
European Bank for Reconstruction and Development	Loan	ENERGA-OPERATOR SA Investment Program	26-06-2013	800	-	691	18-12-2024
Nordic Investment Bank	Loan	ENERGA-OPERATOR SA Investment Program	30-04-2010	200	-	103	15-06-2022
Bondholders	Eurobonds	General corporate purposes	19-03-2013	2 155*	-	2 155*	19-03-2020
Bondholders	Eurobonds	General corporate purposes	07-03-2017	1 293*	-	1 293*	07-03-2027
Bondholders	Domestic bonds	General corporate purposes	19-10-2012	1,000	-	210	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	58	-	31-12-2022
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	188	12**	19-09-2022
Bank PEKAO SA	Renewable loan	General corporate purposes	13-10-2011	500	500	-	29-05-2020

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

Financing institution	Type of liability	Purpose of financing	Date of the agreement	Financing limit	Available financing amount	Nominal debt as at 30.09.2017	Repayment date
Bank PEKAO SA	Loan	ENERGA Elektrownie Ostrołęka SA Investment Program	30-05-2012	85	-	18	29-05-2022
Nordic Investment Bank	Loan	FW Myślino construction	23-10-2014	68	-	57	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	7	-	7	30-06-2021
WFOŚiWG	Loan	Elektrownia CCGT Gdańsk Sp. z o.o. Investment Program	27-06-2014	7	-	7	30-06-2024
European Investment Bank	Hybrid bonds	ENERGA-OPERATOR SA Investment Program	04-09-2017	1,077***		1,077***	12-10-2037
TOTAL				**10,921**	**1,046**	**7,935**	

* liability under Eurobonds converted using the average NBP exchange rate of 29 September 2017

** the limit amount used in the form of a guarantee (utilization of guarantee limits awarded under execution agreements)

*** hybrid bonds liability of EUR 250 m converted using the average NBP exchange rate of 29 September 2017

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.

In September 2017, ENERGA SA issued hybrid bonds for the total amount of EUR 250 m. In order to hedge the currency risk under these bonds, the Company concluded CCIRS transactions (“CCIRS IV”).

As a hedged position under the above hedging relationships the Company designated the foreign currency risk arising from the issue of hybrid bonds denominated in EUR. The foreign currency risk is hedged at the level of 100% of the total nominal amount of the issued bonds.

As the hedge the Company designated CCIRS transactions under which the Company receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN. Cash flows received by the Company correspond with the cash flows under the bonds issued. The Company expects that the hedged cash flows will continue until September 2027.

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

16. Financial instruments (cont.)

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 September 2017 (unaudited)		
CCIRS I	73	Non-current assets – Other financial assets
CCIRS II	5	Non-current assets – Other financial assets
CCIRS III	19	Liabilities – Other financial liabilities
CCIRS IV	7	Non-current assets – Other financial assets
IRS	2	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 43 m.

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	9-month period ended 30 September 2017 (unaudited)	9-month period ended 30 September 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	(79)	58
Accrued interest transferred from the reserve to financial income/costs	1	(6)
Revaluation of hedging instruments transferred from the reserve to financial income/costs	25	(21)
Income tax on other comprehensive income	10	(6)
At the end of the reporting period	**(2)**	**31**

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

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

16. Financial instruments (cont.)

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 6,541 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. 6,286 m;
- undertakings executed in the Ostrołęka Power Plant (among others: modernization of power units, construction of a flue gas denitrifying installation) – approx. PLN 95 m;
- execution of the Przykona Wind Farm project – approx. PLN 138 m;
- gas-steam power plants in Grudziądz and Gdańsk – approx. PLN 22 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 September 2017 was PLN 126 m (in the corresponding period of the previous year, sales to associates and joint ventures was PLN 8 m). Additionally, in the current quarter of 2017, property, plant and equipment worth PLN 3 m was sold to Elektrownia Ostrołęka SA. Purchases from associates and joint ventures in the period ended 30 September 2017 were PLN 114 m (in the corresponding period of the previous year, the level of purchases from associates and joint ventures was PLN 13 m). The amount of receivables as at 30 September 2017 was PLN 46 m (as at 31 December 2016, the receivables amounted to PLN 5 m). The amount of liabilities as at 30 September 2017 was PLN 16 m, compared to PLN 2 m as at 31 December 2016. With the exception of sales where counterparts also include Elektrownia Ostrołęka SA (sales of PLN 1 m and the sale of property, plant and equipment as mentioned above), all other 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.

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

	9-month period ended 30 September 2017 (unaudited)	9-month period ended 30 September 2016 (unaudited)
Management Board of the parent company	3	4
Supervisory Board of the parent company	<1	<1
Management Boards of subsidiaries	21	24
Supervisory Boards of subsidiaries	2	1
Other key management	16	13
TOTAL	**42**	**42**

19. Contingent assets and liabilities

19.1. Contingent liabilities

As at 30 September 2017, the Group recognizes contingent liabilities of PLN 232 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 September 2017, the estimated value of those claims recognized as contingent liabilities is PLN 190 m, compared with PLN 214 m on 31 December 2016. The amounts are estimated by the Group's lawyers, who consider the risk of a situation in which liability arises to be 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 Management Board of ENERGA SA adopted a resolution on 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, which supported a decision to focus ENERGA SA 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

After the final day of the reporting period, there were no material events.

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:

Sylwia Kobyłkiewicz Director of the Finance Department	…………………………………………
Małgorzata Guzińska-Błońska Manager of the Financial Reporting Unit – Chief Accountant	…………………………………………

Gdańsk, 7 November 2017