ENERGA SA

Financial Statements prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union, for the year ended 31 December 2017

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Financial statements for the year ended 31 December 2017 (in millions of PLN)

STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Sales revenues		80	68
Cost of sales	**9.1**	(78)	(51)
Gross profit on sales		**2**	**17**
Other operating income		10	12
General and administrative expenses		(72)	(81)
Other operating expenses		(18)	(15)
Dividend income		203	874
Other financial income	**9.3**	225	224
Financial costs	**9.4**	(271)	(266)
Profit before tax		**79**	**765**
Income tax	**10.1, 10.2**	28	19
Net profit		**107**	**784**
Earnings per share (in PLN)			
Earnings per share (basic and diluted)	**18**	0.26	1.89

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Net profit		**107**	**784**
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedges	**23.8**	(48)	38
Deferred tax		9	(7)
Net other comprehensive income		**(39)**	**31**
Total comprehensive income		**68**	**815**

Financial statements for the year ended 31 December 2017 (in millions of PLN)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2017	As at 31 December 2016
ASSETS			
Non-current assets			
Intangible assets	**12**	13	24
Shares in subsidiaries, associates and joint ventures	**11**	7,149	6,780
Bonds	**23.5.1**	3,805	3,959
Deferred tax assets	**10.4**	19	5
Derivative financial instruments	**23.8**	33	147
Other non-current assets	**14**	149	158
		11,168	**11,073**
Current assets			
Cash pooling receivables		553	577
Trade receivables and other current financial receivables	**15**	99	52
Bonds	**23.5.1**	444	1,243
Current tax receivables		19	102
Cash and cash equivalents	**13**	3,013	1,295
Other current assets	**16**	96	38
		4,224	**3,307**
TOTAL ASSETS		**15,392**	**14,380**

Financial statements for the year ended 31 December 2017 (in millions of PLN)

STATEMENT OF FINANCIAL POSITION (cont.)

	Note	As at 31 December 2017	As at 31 December 2016
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Share capital	**17.1**	4,522	4,522
Reserve capital	**17.4**	1,018	1,018
Supplementary capital	**17.5**	1,433	728
Cash flow hedge reserve	**23.8**	2	41
Retained earnings	**17.6**	151	828
Total equity		**7,126**	**7,137**
Non-current liabilities			
Loans and borrowings	**23.5.2**	5,087	4,673
Bonds issued	**23.5.2**	2,043	1,000
Non-current provisions		-	1
Deferred income and non-current grants	**21**	79	94
Derivative financial instruments	**23.8**	78	-
		7,287	**5,768**
Current liabilities			
Cash pooling liabilities		477	1,009
Trade and other financial liabilities	**20.1**	23	19
Current loans and borrowings	**23.5.2**	326	290
Bonds issued	**23.5.2**	30	20
Deferred income and grants	**21**	19	23
Accruals		8	12
Other current liabilities	**20.2**	96	102
		979	**1,475**
Total liabilities		**8,266**	**7,243**
TOTAL EQUITY AND LIABILITIES		**15,392**	**14,380**

31 December 2017 (PLN m)

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings	Total equity
As at 1 January 2017		**4,522**	**1,018**	**728**	**41**	**828**	**7,137**
Cash flow hedges	**23.8**	-	-	-	(39)	-	(39)
Net profit for the period		-	-	-	-	107	107
Total comprehensive income for the period		**-**	**-**	**-**	**(39)**	**107**	**68**
Retained earnings distribution		-	-	705	-	(705)	-
Dividends	**19**	-	-	-	-	(79)	(79)
As at 31 December 2017		**4,522**	**1,018**	**1,433**	**2**	**151**	**7,126**
As at 1 January 2016		**4,522**	**447**	**661**	**10**	**885**	**6,525**
Cash flow hedges	**23.8**	-	-	-	31	-	**31**
Net profit for the period		-	-	-	-	784	**784**
Total comprehensive income for the period		**-**	**-**	**-**	**31**	**784**	**815**
Retained earnings distribution		-	571	67	-	(638)	**-**
Dividends	**19**	-	-	-	-	(203)	**(203)**
As at 31 December 2016		**4,522**	**1,018**	**728**	**41**	**828**	**7,137**

31 December 2017 (in millions of PLN)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities			
Profit before tax		**79**	**765**
Adjustments for:			
Foreign currency (gains)/losses		(6)	9
Loss on investing activities		8	8
Amortization and depreciation	**9.1**	5	5
Net interest and dividends	**25**	(96)	(839)
Changes in working capital:			
Change in receivables		(22)	(22)
Change in liabilities excluding loans, borrowings and bonds		75	290
Change in prepayments and accruals		(17)	(17)
		26	**199**
Income tax paid		**(25)**	**(221)**
Net cash from operating activities		**1**	**(22)**
Cash flows from investing activities			
Disposal of property, plant and equipment and intangible assets		-	7
Purchase of property, plant and equipment and intangible assets		(7)	(74)
Sale of investment property		11	-
Proceeds from bond redemption by subsidiaries		1,227	889
Purchase of bonds issued by subsidiaries		(517)	(850)
Acquisition of shares in subsidiaries and associates		(211)	(521)
Sale of shares in subsidiaries		43	-
Sale of participation units in the ENERGA Trading SFIO fund		-	306
Cash pooling expenditures		(507)	-
Dividends received		203	874
Interest received		146	106
Loan granted		(10)	-
Other		8	15
Net cash from investing activities		**386**	**752**
Cash flows from financing activities			
Debt securities issued		1,061	-
Proceeds from loans and borrowings		846	626
Repayment of loans		(285)	(564)
Cash pooling proceeds		-	432
Dividends paid to shareholders		(79)	(203)
Interest paid		(208)	(203)
Net cash from financing activities		**1,335**	**88**
Net increase in cash and cash equivalents		**1,722**	**818**
Cash and cash equivalents at the beginning of the period		**1,293**	**475**
Cash and cash equivalents at the end of the period	**13**	**3,015**	**1,293**

ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY INFORMATION

1. General information

Company information:

a) Name:	ENERGA Spółka Akcyjna
b) Legal form:	Spółka Akcyjna (joint stock company)
c) Registered office:	80-309 Gdańsk, al. Grunwaldzka 472
d) Registry court:	District Court Gdańsk-Północ, 7th Commercial Division of the National Court Register in Gdańsk, under number KRS 0000271591.
e) Core business:	holding activity
f) Company's duration:	unspecified

ENERGA SA was established on 6 December 2006 by the State Treasury, ENERGA-OPERATOR SA (previously Koncern Energetyczny ENERGA SA) and ENERGA Elektrownie Ostrołęka SA (previously Zespół Elektrowni Ostrołęka SA).

As at 31 December 2017, the Company was controlled by the State Treasury. Since December 2013, the Company's shares have been publicly traded.

The core business of ENERGA SA is holding activity. The Company acts as a parent in the ENERGA SA Group and accordingly it prepares consolidated financial statements of the Group.

The annual consolidated financial statements of the Group was prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS") endorsed in the European Union ("EU"). In order to achieve full understanding of the financial position and results of the Company as the parent entity in the Group, these financial statements should be read in conjunction with the annual consolidated financial statements for the period ended 31 December 2017. These statements are available on the Company's website.

2. Composition of the Company's Management Board

On the date of these financial statements, the composition of the Company's Management Board was as follows:

- Alicja Klimiuk – Acting 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.

The following changes in the composition of the 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.
- In connection with the resignation of Mr. Daniel Obajtek as President of the ENERGA SA Management Board on 5 February 2018, on 6 February 2018 the Management Board adopted a resolution and the Company's Supervisory Board approved the decision to appoint Ms. Alicja Klimiuk as Acting President of the Management Board.

3. Approval of the financial statements

These financial statements and the consolidated financial statements of the ENERGA SA Group were approved for publication by the Company's Management Board on 14 March 2018.

4. Basis for preparation of the financial statements

These 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 financial statements have been prepared based on the assumption that ENERGA SA would continue as a going concern in the foreseeable future. As at the date of these financial statements there is no evidence indicating significant uncertainty as to the ability of the Company to continue its business activities as a going concern.

4.1. Statement of compliance

These financial statements have been prepared in accordance with the IFRS endorsed in the EU.

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

4.2. Functional and presentation currency

The functional currency of the Company and other Polish subsidiaries and the presentation currency of these financial statements is the Polish zloty and all the numbers are given in millions of Polish zloty ("PLN m") unless stated otherwise.

5. Material items subject to judgment and estimates

In the process of applying the accounting policies, one of the most important factors next to accounting estimates was the professional judgment of the management, which affected the amounts stated in the consolidated financial statements, including the notes. The assumptions adopted for the purposes of those estimates are based on the best knowledge of the Management Board regarding the current and future actions and events in individual areas. Detailed information on the assumptions is presented in the relevant notes in these financial statements.

The key assumptions for the future and other main sources of uncertainty occurring as at the end of the reporting period, which entail a significant risk of considerable adjustment of the carrying amount of assets and liabilities in the next financial year, are presented below.

Impairment of assets

No less frequently than at the end of every reporting period, the Company determines whether there is any evidence of impairment of any non-current asset. If such evidence is found or when an annual impairment test must be carried out, the Company estimates the recoverable amount of such asset. The amount of the impairment loss on investments in subsidiaries, associates and joint ventures is presented in Note 11, while the impairment loss on other financial assets in Note 23.6.

Deferred tax asset

Deferred tax assets are measured using the tax rates that will be applied at the moment when the asset is utilized, based on the tax regulations in force at the end of the reporting period. ENERGA SA recognizes a deferred tax asset based on the assumption that tax profit would be recorded in the future, allowing the Group to use the asset. This assumption may prove to be unjustified if tax results deteriorate in the future. The calculation of deferred tax is presented in Note 10.4, while information on the ENERGA Tax Group is provided in Note 10.3.

Fair value of financial instruments

The fair value of financial instruments, for which no active markets exist, is measured by using appropriate valuation techniques. The Company uses professional judgment when selecting such adequate methods and assumptions. The method used to determine fair value of individual financial instruments is presented in Note 23.4.

6. Changes in estimates

During the periods covered by these financial statements, no changes were made in the scope or methods used in determining significant estimates. The changes in the amounts of the estimates resulted from events that occurred during the reporting period.

7. New standards and interpretations

7.1. Standards and interpretations adopted for the first time in 2017

The following amendments to the existing standards published by the IASB and endorsed in the EU came into force in 2017:

- Amendments to IAS 7 “Statement of Cash Flows” – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2017),
- 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),
- Improvements to IFRSs (2014-2016 cycle) – Amendments to IFRS 12 (applicable to annual periods beginning on or after 1 January 2017).

These amendments to the standards have had no significant impact on the Company's accounting policies applied so far.

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

When approving these financial statements, the Company did not apply the following standards, amendments to standards and interpretations that were published and endorsed in the EU but have not yet become effective:

- IFRS 9 “Financial Instruments” (applicable to annual periods beginning on or after 1 January 2018),
- IFRS 15 “Revenue from Contracts with Customers” (applicable to annual periods beginning on or after 1 January 2018),
- IFRS 16 “Leases” (applicable to annual periods beginning on or after 1 January 2019),
- 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),
- Clarifications to IFRS 15 “Revenue from Contracts with Customers” (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).

The Company estimates that the above amendments to standards would have had no material influence on the financial statements, had they been applied by the Company as at the end of this reporting period.

7. New standards and interpretations (cont.)

7.3. 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 IASB, 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 17 “Insurance Contracts” (applicable to annual periods beginning on or after 1 January 2021).
- Amendments to IFRS 9 “Financial Instruments” – Prepayment Features with Negative Compensation (applicable to annual periods beginning on or after 1 January 2019),
- 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 19 "Employee benefits" - changes to a defined benefit plan (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).
- 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),
- Amendments to various standards “Annual Improvements to IFRS (2015-2017 cycle)” – changes introduced during the annual cycle of improvements to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) aimed mainly at removing inconsistencies agreeing on the wording (applicable to annual periods beginning on or after 1 January 2019),
- IFRIC 22 interpretation: “Foreign Currency Transactions and Advance Consideration” (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).

Also, in the event that the above-mentioned standards are implemented, the Company does not anticipate the related changes to have a significant impact on its statements.

8. Significant accounting policies

The key accounting policies used by the Company are presented below. These policies are applied on a continuous basis, except for the changes caused by amendments in IFRS EU, if such changes are identified in note 7.1.

8.1. Conversion of items in foreign currencies

Transactions denominated in currencies other than the Polish zloty are converted upon initial recognition into Polish zloty using the exchange rate applicable on the date of the transaction. At the end of the reporting period:

- cash is converted using the closing exchange (it is assumed that the closing exchange rate is the average exchange rate set for the currency by the National Bank of Poland for the day),
- non-cash items measured at historical cost in a foreign currency are converted using the exchange rate in effect on the initial transaction date (exchange rate of the company's bank), and
- non-cash items measured at fair value in a foreign currency are converted using the exchange rate from the date the fair value is determined.

Exchange differences resulting from this conversion are recognized respectively as financial income (cost) items or, in the cases identified in the accounting principles (policies), they are capitalized as assets.

8.2. Intangible assets

The Company classifies as intangible assets any identifiable non-pecuniary asset components devoid of physical form. On initial recognition, an intangible asset is measured at the purchase price or production cost. The purchase price of an intangible asset includes:

- the purchase price including import duties, non-deductible taxes included in the price, less any granted discounts and rebates and
- expenditures directly connected with preparing the asset component for use according to its planned purpose

After initial recognition, intangible assets are carried at purchase price or production cost, less accumulated amortization and impairment losses. The Company assesses whether useful life of an intangible asset component is definite or indefinite and, if definite, estimates the duration of that period. Amortization begins in the month following the month in which the asset becomes ready for use.

8. Significant accounting policies (cont.)

Intangible assets with a limited useful life are subjected to impairment tests each time when there are prerequisites indicating their impairment. The amortization period and method are reviewed at least at the end of each financial year.

Gains or losses arising upon derecognition of intangible assets from the statement of financial position are measured at the difference between net sales revenues and the carrying amount of the asset and are posted to the statement of profit or loss upon derecognition from the statement of financial position.

The Company applies the following amortization rates for intangible assets with specific useful lives: 20%, 25%, 50% and 100%.

8.3. Shares in subsidiaries and associates

The Company carries investments in subsidiaries and associates at historical cost less impairment losses.

8.4. Impairment of non-financial assets and shares in subsidiaries and associates

No less frequently than at the end of every reporting period, the Company determines whether there is any evidence of impairment of any non-financial non-current asset or investment in subsidiaries and associates. If such evidence is found or when an annual impairment test must be carried out, the Company estimates the recoverable amount of such asset or cash generating unit to which such asset is allocated. Impairment occurs when the recoverable amount (i.e. the higher of fair value less cost to sell or value in use) is lower than the carrying amount of the tested asset or cash generating unit.

Impairment losses for assets used in the continuing activity are recognized in those cost categories, which correspond to the function of the impaired asset.

At the end of each reporting period, the Company estimates whether there is any evidence that the impairment loss applied in previous periods to such asset is redundant or whether it should be decreased. If such evidence exists, the Company estimates the recoverable amount of the asset.

The previously recognized impairment loss is reversed only when the estimated values used to determine the recoverable amount of the asset changed since the last impairment allowance was recognized.

8.5. Cash and cash equivalents

Cash and other cash assets include:

- cash on current bank accounts,
- other cash, including bank deposits with maturities no longer than 3 months.

The balance of cash and cash equivalents shown in the statement of cash flows consists of the aforementioned cash and other cash less outstanding current account overdrafts.

Cash is measured at par value.

8.6. Lease

The Company as a lessee

Financial lease agreements, which transfer to the Company essentially the entire risk and benefits derived from the possession of the leased item, are recognized in the statement of financial position as at the lease commencement date, at the lower of: fair value of the property, plant and equipment component which constitutes the leased item, or the present value of minimum leasing fees. Leasing fees are allocated between financial costs and reduction of principal lease debt balance, in the manner that allows us to receive a fixed interest rate on the outstanding debt. Financial costs are posted directly to the statement of profit or loss.

Property, plant and equipment used under financial lease agreements are depreciated for the shorter of the two periods: estimated useful life of the asset or the term of the lease, if there is no certainty that the lessee obtains the ownership title before the end of the term of lease.

Lease agreements under which the lessor retains essentially all the risks and all the benefits derived from possession of the leased item are classified as operating lease agreements. Leasing fees under operating lease contracts and the subsequent leasing installments are recognized as expenses in the statement of profit or loss using the straight-line method throughout the term of lease.

The Company as a lessor

In the case of financial leases, the Company recognizes lease receivables in its statement of financial position and in its accounting records as non-current or possibly current financial assets. They are measured at amortized cost, using the interest rate of the lease.

The Company divides the base fee into the principal part and the interest part. The interest part of the base fee is income from financial leases recognized in financial income.

The principal portion of the leasing fee in a given reporting period constitutes repayment of liabilities from the lessee. The fee is divided using the interest rate of the lease.

Leases where the Company retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease receivables are recognized on a straight-line basis during the lease period. The initial direct costs incurred in the course of negotiating operating lease agreements are added to the carrying amount of the leased asset and are recognized as cost during the term of the lease.

8. Significant accounting policies (cont.)

8.7. Other assets

In other assets, the Company recognizes accrued costs if the following conditions are satisfied:

- they result from past events – an expenditure incurred for the entity's operational objectives,
- their amount may be measured reliably,
- they will bring economic benefits to the entity in the future,
- they refer to future reporting periods.

Prepayments are recorded at the level of incurred and reliably measured expenses that refer to future periods and will bring future economic benefits to the entity.

Prepayments may be written off in proportion to the passage of time or benefits received. The time and manner of settlement is justified by the nature of the cost being settled, in keeping with the conservative valuation principle.

At the end of a reporting period, the Company reviews prepayments to find whether the degree of certainty that the entity will achieve economic benefits after the elapse of the reporting period is sufficient to recognize the item as an asset component.

Other assets also include receivables on account of settlements of the ENERGA Tax Group, receivables on account of public and legal settlements (except for settlements on account of corporate income tax, presented as a separate item in the statement of financial position), surplus of assets over liabilities of the Company Social Benefit Fund and advances paid for future purchases of property, plant and equipment and intangible assets. Advances are presented in line with the type of assets to which they refer – as non-current or current assets respectively. As non-pecuniary assets, advances are not discounted.

8.8. Equity

Equity is carried at par value, broken down into types and according to the principles set forth by the law and by the Company’s articles of association.

The retained earnings/accumulated losses item includes net result of the current year, results carried forward from previous years, as well as adjustments connected with the transition to IFRS EU.

8.9. Other liabilities

Other liabilities include in particular liabilities on account of settlements of the ENERGA Tax Group, liabilities to the tax office on account of value added tax and liabilities on account of received advance payments to be settled by deliveries of goods, services or property, plant and equipment. Advances are recognized in the amount received and other liabilities are recognized in the amount of the required payment.

8.10. Deferred income and grants

Deferred income is recorded in keeping with the conservative valuation principle. Deferred income includes:

- government grants recognized while measuring preferential loans,
- cash received to finance a purchase or production of property, plant and equipment, and development works. These are settled by gradually increasing other operating income by an amount corresponding to depreciation on these assets, in the part financed by the mentioned cash.

Grants recognized while measuring preferential loans

If the Company receives a loan or borrowing on preferential terms then, on initial recognition, such financial instrument is measured at fair value equal to the value of discounted cash flows, using market interest rates for similar instruments. The difference between the valuation amount calculated using this method and at amortized cost is recognized in the statement of financial position as a grant and amortized on a straight-line basis during the repayment period of the liability, charged to other operating income in the statement of profit or loss.

8.11. Cash pooling

Transactions within the cash pooling system are recognized as related party transactions where the company acting as an agent is the other party to the transaction (Company). Cash pooling receivables are presented as short-term financial assets in the loans and receivables category, while cash pooling liabilities are presented as short-term financial liabilities in the category of financial liabilities measured at amortized cost. The Company presents its cash pooling settlements separately as assets and liabilities, while interest is shown at net amounts. The Company presents its cash flows from the system on the net basis, as cash flows from investing or financing activities.

8.12. Financial instruments

8.12.1. Financial assets

The Company identifies the following categories of financial assets:

- Financial assets held to maturity
- Financial assets at fair value through profit or loss,
- Loans granted and receivables,
- Assets available for sale.

8. Significant accounting policies (cont.)

Financial assets held to maturity

Assets held to maturity include financial assets with specified or determinable payments and a set maturity date, which the Company intends and is able to hold until such time. Financial assets held to maturity are measured at amortized cost using the effective interest rate method. The Company does not hold any assets classified in this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss must meet one of the following conditions:

a) they are classified as 'held for trading'. Financial assets are classified as held for trading if:

- they have been purchased primarily for sale in the near future,
- they are part of the portfolio of specified financial instruments managed together where there is high probability that gains would be achieved in the short term, or
- they are derivatives, except for derivatives under hedge accounting,

b) they have been classified as such upon purchase. Upon purchase, a financial asset may be classified as measured at fair value, with any changes in value recognized through profit or loss (except for equity securities whose prices are not quoted on an active market and whose fair value cannot be measured reliably) if the following criteria are satisfied:

- such classification eliminates or materially reduces inconsistencies in treatment, when both measurement and the rules for recognizing losses or gains are subject to other regulations; or
- assets are part of a group of financial assets managed and measured based on their fair value in accordance with a documented risk management strategy; or
- such financial assets contain embedded derivatives, which should be recognized separately.

The Company's financial assets at fair value through profit or loss include in particular other derivatives, including options to purchase shares in Polimex-Mostostal SA (call options).

Financial assets in this category are initially recognized at fair value. After initial recognition, measurement is done at fair value and any gains/losses are posted to profit or loss.

Loans and receivables

Loans granted and receivables include financial assets with determined or determinable payments, not listed on an active market, which are not classified as derivative instruments. Loans and receivables are initially measured at fair value plus transaction costs and after initial recognition they are measured at amortized cost.

This category includes trade receivables, purchased bonds, capital contributions, cash pooling receivables and other receivables constituting financial assets.

Assets available for sale

All the remaining financial assets are assets available for sale. Assets available for sale are measured at fair value at the end of each reporting period. The fair value of investments with no listed market price is determined in reference to the current market value of another instrument with generally the same features or based on the expected cash flows from the asset comprising the investment (discounted cash flow valuation). The Company does not hold any assets classified in this category.

Financial asset sales transactions are recognized as at the settlement date.

8.12.2. Impairment of financial assets

At the end of each reporting period, the Company evaluates whether there exists objective evidence of impairment of a financial asset or a group of financial assets. Such important objective evidence considered by the Company includes primarily: serious financial difficulties of the debtor, litigation against the debtor, significant or persisting decline of fair value below the purchase price, material adverse change in the economic, legal or market environment of the issuer of the financial instrument.

Assets recognized at amortized cost

If there exists objective evidence that a loss has been incurred on impairment of loans granted and receivables measured at amortized cost then the Company recognizes an impairment loss equal to the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses on defaulted receivables, which have not yet been incurred), discounted using the initial effective interest rate (i.e. one determined on initial recognition). The amount of loss is recognized in the statement of profit or loss.

If impairment loss is reduced in the next period and the reduction may be objectively tied to an event occurring after the impairment loss was recognized then the previous impairment loss is reversed. A reversal of an impairment loss is recognized in the statement of profit or loss, provided however that the carrying amount of the asset on the reversal date must not exceed its amortized cost.

8. Significant accounting policies (cont.)

Financial assets available for sale

If there exists objective evidence that a financial asset available for sale has been impaired then the amount equal to the difference between the purchase price of that asset (less any principal repayments and, in the case of financial assets measured at amortized cost using the effective interest rate method, also amortization) and its present fair value, less any impairment losses previously recognized for this asset in the statement of profit or loss, is derecognized from equity and transferred to the statement of profit or loss. If the fair value of a debt instrument available for sale increases in the following period and the increase can be objectively tied to an event following the recognition of the impairment loss in the statement of profit or loss, the amount of the reversed charge is recognized in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale cannot be reversed in the statement of profit or loss.

8.12.3. Financial liabilities

At ENERGA SA, the only financial liabilities are those classified as held at amortized cost and measured at fair value.

Financial liabilities held at amortized cost include primarily trade liabilities, bank loans, borrowings and debt securities and cash pooling liabilities. On initial recognition, they are recognized at fair value less costs of with obtaining them. After initial recognition, they are measured at amortized cost using the effective interest rate method.

When calculating amortized cost, the cost of obtaining the loan or borrowing must be taken into account, as well as any discounts and bonuses obtained in connection with the liability.

Revenues and costs are recognized in the statement of profit or loss upon derecognition of the liability from the statement of financial position and also as a result of a settlement using the effective interest rate method.

The Company derecognizes a financial liability from its statement of financial position if the liability has expired, i.e. when the obligation defined in the respective agreement has been performed, has been canceled or has expired.

8.12.4. Hedge accounting

Hedging derivatives and hedge accounting

The Company may decide to designate selected derivatives as hedges under cash flow hedge accounting under any identified hedge relationship. The Company allows the use of cash flow hedge accounting only if the following criteria are met, i.e.:

- At the inception of the hedge the Company formally designates and documents the hedging relationship and the risk management objective as well as strategy for undertaking the hedge. The documentation includes the identification of the hedge instrument, the hedged position, the nature of risk and the method for a current assessment of the effectiveness of the hedge in offsetting the risk of changes in cash flows associated with the hedged risk;
- the hedge is expected to be highly effective in offsetting changes in cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- a planned transaction, which is the subject of a hedge must be highly probable and must be exposed to variations in cash flows that could ultimately affect the statement of profit or loss.
- effectiveness of the hedge can be reliably assessed, i.e. cash flows related to the hedged position resulting from the hedged risk and the fair value of the hedge can be reliably measured;
- the hedge is assessed on an ongoing basis and determined to have been highly effective throughout the reporting periods for which the hedge was designated.

Applicable accounting principles for derivatives designated as hedges under cash flow hedge accounting

Changes in the fair value measurement of derivative financial instruments designated as cash flow hedges are recognized in other comprehensive income and captured on a cumulative basis in the cash flow hedge reserve in proportion thereof that is an effective hedge, whereas any ineffective portion of the hedge is posted to the statement of profit or loss.

The accumulated amounts of hedging instrument revaluation to fair value, previously recognized in the cash flow hedge reserve, are transferred through other comprehensive income to the statement of profit or loss in the period or periods in which the hedged position affects the statement of profit or loss.

The Company ceases to use the cash flow hedge accounting principles in the event of one or more of the following events:

- The hedging instrument expires or is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy). In this case, the cumulative gain or loss on the hedging instrument, which is posted to other comprehensive income and accumulated in equity in the period, in which the hedge was effective, remains recognized separately in equity until the planned transaction occurs;
- the hedge no longer meets the hedge accounting criteria. In this case, the cumulative gain or loss on the hedging instrument, which is posted to other comprehensive income and accumulated in equity in the period, in which the hedge was effective, remains recognized separately in equity until the planned transaction occurs;
- the planned transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument, which is posted to other comprehensive income and accumulated in equity in the period, in which the hedge was effective, is posted to the statement of profit or loss. A planned transaction, which is no longer highly probable, may still be expected;
- The Company cancels any hedging relationship. For hedges of planned transactions, the cumulative gain or loss on the hedging instrument, which is posted to other comprehensive income and accumulated in equity in the period when the hedge was effective remains recognized in a separate equity item until the planned transaction occurs or is no longer expected to occur. If the transaction is no longer expected to occur, the cumulative gain or loss accumulated in equity is posted to the statement of profit or loss.

8. Significant accounting policies (cont.)

Presentation

In connection with the use of cash flow hedge accounting, the Company applies the following presentation:

- the effective portion of any change in the valuation of hedges is posted to other comprehensive income and accumulated in revaluation reserve,
- interest on hedges is presented in the same item of the statement of profit or loss, which presents interest result on the hedged position,
- any revaluation of hedges transferred from other comprehensive income is presented in the same line of the statement of profit or loss in which the revaluation of the hedged position is presented in the same period in which the hedged item affects the financial result,
- the ineffective portion of changes in the valuation of hedging instruments is recognized in financial income/costs.

8.13. Revenues

Revenues are carried at fair value of the received remuneration (payment received or due), after deducting discounts, rebates and VAT.

Revenues are recognized when the significant risks and benefits stemming from ownership title to products have been surrendered to the buyer and when the amount of revenues may be measured reliably and incurred costs may be reliably estimated.

The time of sale is recognized as the date of delivery of a given performance in accordance with the purchase-sale agreement (receipt of the service).

Revenues from the sale of products comprise revenues from the sale of services, including in particular revenues from the sale of the rights to use the ENERGA brand and revenues on account of the participation of subsidiaries in brand promotion expenses.

Rental revenues (operating leases) are recognized using the straight-line method for the entire term of lease, in relation to active agreements.

8.14. Costs

Operating expenses consist of the following:

- cost of sales incurred in the reporting period, adjusted for a change in products and adjusted for the cost of manufacturing products for own needs,
- general and administrative expenses

8.15. Other operating income and expenses

Other operating income and expenses include in particular items associated with:

- disposals of property, plant and equipment, intangible assets and investment property,
- recognition and reversal of provisions, except for provisions tied to financial operations or recognized in operating expenses,
- giving or receiving assets, including cash, free of charge, also as a donation,
- including compensations and other revenues and costs not associated with ordinary activity.

8.16. Financial income and costs

Financial income and costs include in particular income and costs associated with:

- disposal of financial assets,
  restatement of financial instruments, excluding financial assets available for sale, for which the effects of restatement are recognized in other comprehensive income,
- revenues from profit-sharing in other entities,
- interest,
- change in provision resulting from the approaching date of incurring the cost (unwinding discount effect),
- other items related to financing activity.

Interest income and interest expense are recognized gradually as they accrue (taking the effective interest rate method into account) in relation to the net carrying amount of the financial instrument and taking the materiality principle into account.

Dividends are recognized when the title to receive them is determined.

The Company nets income and costs from exchange differences.

31 December 2017 (in millions of PLN)

8. Significant accounting policies (cont.)

8.17. Earnings per share

Earnings per share for each period are calculated by dividing the net profit allocated to shareholders of the Parent Company for the period by the weighted average number of shares in the reporting period. In the case of a split or reverse split of shares, the number of shares after the split or reverse split is applied to the calculation retrospectively.

NOTES TO STATEMENT OF PROFIT OR LOSS

9. Revenues and expenses

9.1. Costs by nature

	Year ended 31 December 2017	Year ended 31 December 2016
Amortization and depreciation of property, plant and equipment, intangible assets	5	5
Impairment losses for intangible assets	25	-
Consumption of materials and energy	2	1
External services	62	57
Taxes and fees	(4)*	3
Employee benefit expenses	22	27
Other costs by nature	38	39
TOTAL	**150**	**132**
including:		
Cost of sales	78	51
General and administrative expenses	72	81

* including adjustment of VAT declarations for previous years in the amount of PLN -9 million

9.2. Employee benefit expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Wages and salaries	17	21
Social security contributions	2	3
Other employee benefit expenses	3	3
TOTAL	**22**	**27**

9.3. Other financial income

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income	195	216
Measurement of derivative instruments (IRS)	-	8
Measurement of other derivative instruments	17	-
Foreign exchange differences	13	-
TOTAL	**225**	**224**

9.4. Financial costs

	Year ended 31 December 2017	Year ended 31 December 2016
Interest expenses	269	243
Revaluation of financial assets	-	8
Measurement of derivative instruments (IRS)	-	8
Foreign exchange differences	-	6
Other financial costs	2	1
TOTAL	**271**	**266**

31 December 2017 (in millions of PLN)

10. Income tax

10.1. Tax liabilities

The key components of the tax liability for the years ended 31 December 2017 and 31 December 2016 are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Statement of profit or loss		
Current income tax	23	31
Deferred tax	5	(12)
Tax gain recognized in the statement of profit or loss	**28**	**19**
Statement of comprehensive income		
Deferred tax	9	(7)
Tax gain/expense recognized in other comprehensive income	**9**	**(7)**

10.2. Reconciliation of effective tax rate

Reconciliation of income tax calculated on the financial result before tax using the statutory tax rate to income tax calculated according to the Company's effective tax rate is as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before tax on continuing operations	**79**	**765**
Tax at Poland's statutory rate of 19%	**(15)**	**(145)**
Tax impact of permanently non-taxable income and non tax-deductible expenses:	43	164
- on dividends received	39	166
- other	4	(2)
Tax at the effective tax rate	**28**	**19**
Tax gain recognized in the statement of profit or loss	28	19

Current tax liability is calculated on the basis of the applicable tax regulations. Application of those regulations causes differences between the tax profit (loss) and accounting net profit (loss) because of non-taxable revenues and non-deductible expenses and items of income or expense which are never taxable. Tax liabilities are calculated on the basis of tax rates applicable in the given financial year. A 19% tax rate was used in 2016 and 2017. Current regulations do not provide for differentiated tax rates for future periods.

10.3. ENERGA Tax Group

Up until 31 December 2017, a tax group agreement of 27 January 2015 was in force, by the power of which ENERGA SA and its related parties: ENERGA-OPERATOR SA, ENERGA-OBRÓT SA, ENERGA Wytwarzanie SA, ENERGA Informatyka I Technologie Sp. z o.o., ENERGA Centrum Usług Wspólnych Sp. z o.o., RGK Sp. z o.o., ENSA PGK1 Sp. z o.o., ENSA PGK2 Sp. z o.o., ENSA PGK3 Sp. z o.o., ENSA PGK4 Sp. z o.o., ENSA PGK5 Sp. z o.o., ENSA PGK6 Sp. z o.o., ENSA PGK7 Sp. z o.o., ENSA PGK8 Sp. z o.o., EOB PGK1 Sp. z o.o. and EOB PGK2 Sp. z o.o. comprised a tax group under the name of ENERGA Tax Group (PGK ENERGA). The agreement was registered by the Head of the Pomorski Tax Authority on 27 February 2015. ENERGA SA was selected as the company representing the ENERGA Tax Group in respect to the duties arising from the Corporate Income Tax Act and the Tax Ordinance Act.

The launch date of ENERGA Tax Group's activity was 1 May 2015. The agreement was concluded for 3 fiscal years, that is until 31 December 2017.

On 25 September 2017, ENERGA SA and its related parties: ENERGA-OPERATOR SA, ENERGA-OBRÓT SA, ENERGA Wytwarzanie SA, ENERGA Informatyka i Technologie Sp. z o.o., ENERGA Centrum Usług Wspólnych Sp. z o.o., ENERGA-OPERATOR Logistyka Sp. z o.o., ENERGA Oświetlenie Sp. z o.o., Enspirion Sp. z o.o., ENSA PGK1 Sp. z o.o. (current name: ENERGA Invest Sp. z o.o.), ENSA PGK3 Sp. z o.o. (current name: ENERGA Ochrona Sp. z o.o.), ENSA PGK8 Sp. z o.o., EOB PGK1 Sp. z o.o., EOB PGK2 Sp. z o.o. (current name: Centrum Badawczo-Rozwojowe im. M. Faradaya Sp. z o.o.) entered into a new tax group agreement under the name of PGK ENERGA 2018. The agreement was concluded for 3 fiscal years, that is until 31 December 2020.

In a tax group, income tax is calculated on income earned in the fiscal year equal to the surplus of aggregated income of all companies comprising the group over their aggregate losses.

The ENERGA Tax Group companies, which post tax profit transfer the appropriate income tax amount to ENERGA SA, which handles the settlements with the tax authority as the representative company. The ENERGA Tax Group companies that post tax losses obtain a tax gain in the amount, which was used to reduce the tax amount of the entire Tax Group. Settlements on account of the ENERGA Tax Group do not affect deferred tax but only the current tax liability.

Cash flows between ENERGA Tax Group companies are carried out during the year on dates preceding the payment of advances for income tax. Accordingly, at the end of the reporting period, ENERGA SA presents settlements with companies on account of Tax Group operations. The final settlement between Tax Group companies is conducted after the representing company files the annual tax returns.

31 December 2017 (in millions of PLN)

10. Income tax (cont.)

10.4. Deferred tax

The deferred tax results from the following items:

	As at 31 December 2017	As at 31 December 2016
Deferred tax assets before set-off	**61**	**69**
on the difference between the tax and carrying value of financial liabilities measured at amortized cost	25	20
on the difference between the tax and carrying value of property, plant and equipment and intangible assets	12	15
on the difference between the tax and carrying value of loans and receivables	1	1
on the difference between the tax and carrying value of liabilities measured at fair value through profit or loss	1	1
on foreign exchange differences	14	24
on deferred income	4	6
other	4	2
Set-off	***(42)***	***(64)***
TOTAL	**19**	**5**

	As at 31 December 2017	As at 31 December 2016
Deferred tax liability before set-off	**42**	**64**
on the difference between the tax and carrying value of loans and receivables	18	16
on the difference between the tax and carrying value of hedging instruments	1	29
on the difference between the tax and carrying value of financial assets excluded from the scope of IAS 39	16	18
other	7	1
Set-off	***(42)***	***(64)***
TOTAL	**-**	**-**

The Company did not include in its statement of financial position the deferred income tax asset on the value of outstanding tax losses incurred in 2012 - 2013 for the total amount of PLN 109 m.

Changes in deferred tax assets and liabilities are presented in the table below:

	Year ended 31 December 2017	Year ended 31 December 2016
Deferred tax assets		
Opening balance before set-off:	**69**	**49**
Increases:	**18**	**36**
recognized in profit or loss	18	36
Decreases:	**(26)**	**(16)**
recognized in profit or loss	(26)	(16)
Set-off	**(42)**	**(64)**
Closing balance	**19**	**5**
Deferred tax assets	**19**	**5**
Deferred tax liabilities		
Opening balance before set-off:	**64**	**25**
Increases:	**9**	**40**
recognized in profit or loss	9	33
recognized in other comprehensive income	-	7
Decreases:	**(31)**	**(1)**
recognized in profit or loss	(22)	(1)
recognized in other comprehensive income	(9)	-
Set-off	**(42)**	**(64)**
Closing balance	**-**	**-**
Deferred tax liabilities	**-**	**-**

31 December 2017 (in millions of PLN)

NOTES TO STATEMENT OF FINANCIAL POSITION

11. Shares in subsidiaries, associates and joint ventures

Name and legal form	Registered office	Value of shares in the books of ENERGA SA	Share of ENERGA SA in the share capital in all votes and in management (%)	Net financial result in 2017 PLN m	Equity (in milions of PLN)
Subsidiaries					
ENERGA-OPERATOR SA	Gdańsk	4,471	100.00	656	7,283
ENERGA Wytwarzanie SA	Gdańsk	1,051	100.00	37	977
ENERGA Kogeneracja Sp. z o.o.	Elbląg	621	64.59	(4)	875
ENERGA-OBRÓT SA	Gdańsk	330	100.00	41	486
ENERGA Oświetlenie Sp. z o.o.	Sopot	234	100.00	14	206
ENERGA Finance AB (publ)	Stockholm	103	100.00	(15)	89
ENERGA Invest Sp. z o.o.*	Gdańsk	68	100.00	(1)	33
ENERGA Informatyka i Technologie Sp. z o.o.	Gdańsk	37	100.00	10	50
ENERGA-OPERATOR Logistyka Sp. z o.o.	Płock	25	100.00	(5)	25
Enspirion Sp. z o.o.	Gdańsk	5	100.00	(7)	(5)
ENERGA Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	4	100.00	<1	9
ENERGA Serwis Sp. z o.o.	Ostrołęka	2	14.09	7	16
RGK Sp. z o.o.	Gdańsk	1	100.00	(3)	41
ENERGA Ochrona Sp. z o.o.	Gdańsk	1	100.00	(1)	1
Other companies	-	3	-	-	-
Associates					
Polimex-Mostostal SA	Warsaw	82	16.48	65**	456**
Joint ventures					
Elektrownia Ostrołęka Sp. z o.o.***	Ostrołęka	111	50.00	(2)	207
Total value of shares		**7,149**			

* on 12 October 2017, an entry was registered in the National Court Register concerning the merger of ENSA PGK1 Sp. z o.o. (surviving company) with ENERGA Invest SA (acquired company); the company's current name is ENERGA Invest Sp. z o.o.

** data at the end of November 2017

*** on 27 February 2018, there was a transformation from SA to a Sp. z o.o.

On 18 January 2017, the Management Board of ENERGA SA along with ENEA SA, PGE Polska Grupa Energetyczna SA, PGNiG Technologie SA ("Investors") and Polimex-Mostostal SA signed an investment agreement under which the Investors undertook to make a capital investment in Polimex-Mostostal SA. ENERGA SA subscribed to 37.5 million newly-issued shares with the par value of PLN 2 each, for the total amount of PLN 75 m and purchased 1.5 million Polimex-Mostostal SA shares from SPV Operator sp. z o.o. approved for trading on the Warsaw Stock Exchange in a block transaction for the total amount of PLN 6 million. As a result of this transaction, its stake in the Polimex-Mostostal SA reached approximately 16.5%. The investment agreement allows the investors to influence the financial and operational policy of Polimex-Mostostal SA. 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-Mostostal SA. The purpose of the memorandum of agreement is to ensure increased control over Polimex-Mostostal SA to the Investors, who jointly hold the majority of votes at the Shareholder Meeting of Polimex-Mostostal SA (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-Mostostal SA, including determination of the composition of Polimex-Mostostal SA's Management Board. Because of the Investors' powers mentioned above that result in significant influence, the stake held in Polimex-Mostostal SA was classified as an associate. Polimex-Mostostal SA is an engineering and construction company, which is characterized by a broad range of services provided in the capacity of a general contractor. Polimex-Mostostal SA's registered office is in Warsaw. Polimex-Mostostal SA is listed on the Warsaw Stock Exchange. At session closing on 29 December 2017, the average price of Polimex-Mostostal SA's stock was PLN 4.03; accordingly the fair value of the block of shares held by the Company was PLN 157 m.

On 8 December 2016, ENERGA SA, ENEA SA and Elektrownia Ostrołęka SA (current Sp. z o.o.) signed an investment agreement regarding the execution of the new power unit construction project in Ostrołęka. The condition precedent to the transaction was obtaining, an approval from the President of the Office of Competition and Consumer Protection ("UOKiK") for the concentration involving the purchase of 50% of shares in the special-purpose vehicle Elektrownia Ostrołęka SA (current Sp. z o.o.) by Enea SA.

11. Shares in subsidiaries, associates and joint ventures (cont.)

On 11 January 2017, the President of UOKiK issued an unconditional approval, which means that the condition precedent has been fulfilled. On 8 February and 3 July 2017, Enea SA executed two out of three tranches of

In connection with the above transaction, Elektrownia Ostrołęka SA (current Sp. z o.o.) is no longer a subsidiary of ENERGA SA and is now classified as a joint venture.

On 26 April 2017, ENERGA SA made a cash contribution of PLN 10 m and in exchange it subscribed to newly-created shares in Elektrownia Ostrołęka SA (current Sp. z o.o.). The stake held by ENERGA SA in the company's capital did not change.

On 31 March 2017, ENERGA SA made a cash contribution of PLN 100 m and in exchange it subscribed to newly-created shares in ENERGA Kogeneracja Sp. z o.o., increasing its share in the company's capital by 3.74%. The increase in the share capital of ENERGA Kogeneracja Sp. z o.o. was registered on 11 May 2017.

On 30 August 2017, ENERGA SA made a cash contribution of PLN 18 m and in exchange it subscribed to newly-created shares in ENERGA Finance AB (publ).

On 6 September 2017, ENERGA SA acquired from ENERGA-OBRÓT SA a 100% equity stake in ENERGA Oświetlenie Sp. Z o.o. for PLN 234 m. Under a memorandum of agreement signed by ENERGA SA and ENERGA-OBRÓT SA, the payment for the shares was effected through redemption of bonds by ENERGA-OBRÓT SA (datio in solutum).

On 14 September 2017, ENERGA SA acquired from ENERGA-OPERATOR SA a 100% equity stake in ENERGA-OPERATOR Logistyka Sp. z o.o. for PLN 25 m. Under a memorandum of agreement signed by ENERGA SA and ENERGA-OPERATOR SA, the payment for the shares was effected through redemption of bonds by ENERGA-OPERATOR SA (datio in solutum).

The value of shares specified in the table above is the value at purchase price less impairment losses. As at 31 December 2017, the total amount of impairment losses on shares was PLN 29 m; the entire amount pertained to shares in RGK Sp. z o.o. No changes in impairment losses on shares were recognized in the current reporting period.

Impairment tests for shares

In Q4 2017, shares held by the Company were assessed for any indications of impairment. Since certain indications existed that could result in the impairment of shares of some Group companies held by ENERGA SA, i.e. the risk of exceeding the net investment value over the value of the capital of these companies, impairment tests were conducted.

The test of impairment of the value of shares was 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 for the Polish market, based on a report 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 co-generation 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 companies 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.

In instance of RGK Sp. z o.o., the measurement was made using an asset-based method on the basis of current appraisal reports for properties and the market value of shares held.

The discount rates set on the basis of the after-tax weighted-average cost of capital (WACC), used for the calculation, fell within the range from 5.18% to 7.01%.

ENERGA Invest Sp. z o.o.

The impairment tests for shares in the company were conducted as at 31 December 2017. The value in use was calculated on the basis of financial projections for the period of December 2017 - December 2024 and residual value. 2.0% growth rate was used to extrapolate cash flow forecasts beyond 2024; this is not higher than the average long-term inflation rates in Poland. A standard 5-year projection period was extended because of the pending process to implement the company's new business model; as a result, it is now possible to determine residual value based on representative cash flows and prepare a more reliable valuation of the Company's shares.

Based on the results of the tests conducted in Q4 2017, it was found that no impairment losses needed to be recognized on the value of shares in the company.

31 December 2017 (in millions of PLN)

11. Shares in subsidiaries, associates and joint ventures (cont.)

ENERGA Informatyka i Technologie Sp. z o.o.

The impairment tests for shares in the company were conducted as at 31 December 2017. The value in use was calculated on the basis of financial projections for the period of December 2017 - December 2022 and residual value.

2.0% growth rate was used to extrapolate cash flow forecasts beyond 2022; this is not higher than the average long-term inflation rates in Poland.

Based on the results of the tests conducted in Q4 2017, it was found that no impairment losses needed to be recognized on the value of shares in the company.

ENERGA Obrót SA

The impairment tests for shares in the company were conducted as at 31 December 2017. The value in use was calculated on the basis of financial projections for the period of December 2017 - December 2022 and residual value. 2.0% growth rate was used to extrapolate cash flow forecasts beyond 2022; this is not higher than the average long-term inflation rates in Poland.

Based on the results of the tests conducted in Q4 2017, it was found that no impairment losses needed to be recognized on the value of shares in the company.

ENERGA Kogeneracja Sp. z o.o.

The impairment tests for shares in the company were conducted as at 30 November 2017. The value in use was calculated on the basis of financial projections for the period of December 2017 - December 2030 and residual value. 2.0% growth rate was used to extrapolate cash flow forecasts beyond 2030; this is not higher than the average long-term inflation rates in Poland. The standard 5-year projection period was extended because of the fact that proceeds from the green certificates obtained by the BB20 installation distort cash flows in that period. Extension of the projection period makes it possible to determine residual value based on representative cash flows and therefore conduct a more reliable valuation of the Company's shares.

Based on the results of the tests conducted in Q4 2017, it was found that no impairment losses needed to be recognized on the value of shares in the company.

Enspirion Sp. z o.o.

The impairment tests for shares in the company were conducted as at 31 October 2017. The value in use was calculated on the basis of financial projections for the period of October 2017 - December 2022 and residual value. 2.0% growth rate was used to extrapolate cash flow forecasts beyond 2022; this is not higher than the average long-term inflation rates in Poland.

Based on the results of the tests conducted in Q4 2017, it was found that no impairment losses needed to be recognized on the value of shares in the company.

ENERGA Wytwarzanie SA

The impairment tests for shares in the company were conducted as at 31 October 2017. The value in use was calculated on the basis of financial projections for the period of October 2017 - December 2022 and residual value. 2.0% growth rate was used to extrapolate cash flow forecasts beyond 2022; this is not higher than the average long-term inflation rates in Poland.

Based on the results of the tests conducted in Q4 2017, it was found that no impairment losses needed to be recognized on the value of shares in the company.

RGK Sp. z o.o.

The impairment tests for shares in the company were conducted as at 31 December 2017. The value in use was calculated on the basis of the current property appraisals and purchase offers received for real properties and land owned by the company and the market valuation of shares held by the company.

Based on the results of the tests conducted in Q4 2017, Based on the results of the tests conducted in Q4 2017, it was found that no impairment losses value needed to be changed on the shares in the company.

Sensitivity analysis

The estimated impact of the change of the WACC level on the overall valuation of the above-mentioned shares is presented below. An adverse change in WACC at the following level will not require any impairment losses to be recognized.

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/reversal amount [PLN m]
		Increase in value	Decrease in value	
Discount rates	[+ 0.5 p.p.]	-	(589)	-
	[- 0.5 p.p.]	735	-	-

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

31 December 2017 (in millions of PLN)

12. Intangible assets

	Licenses and patents	Other intangible assets	Intangible assets not in use	TOTAL
Gross value				
As at 1 January 2017	**9**	**21**	**18**	**48**
Purchase of intangible assets (including assets not in use)	-	-	25	**25**
Settlement of intangible assets not in use	9	6	(15)	**-**
Handed over for use under a lease agreement	(8)	-	-	**(8)**
As at 31 December 2017	**10**	**27**	**28**	**65**
Accumulated amortization				
As at 1 January 2017	**(8)**	**(16)**	**-**	**(24)**
Amortization for the period	-	(3)	-	**(3)**
As at 31 December 2017	**(8)**	**(19)**	**-**	**(27)**
Impairment loss				
As at 1 January 2017	**-**	**-**	**-**	**-**
Impairment loss recognized	-	-	(25)	**(25)**
As at 31 December 2017	**-**	**-**	**(25)**	**(25)**
Net value as at 1 January 2017	**1**	**5**	**18**	**24**
Net value as at 31 December 2017	**2**	**8**	**3**	**13**

Impairment loss was recognized for expenditures incurred for projects conducted in cooperation with the Institute of Fluid-Flow Machinery, since as of today they cannot be used at the industrial level. The impairment loss was recognized for the entire asset.

	Licenses and patents	Other intangible assets	Intangible assets not in use	TOTAL
Gross value				
As at 1 January 2016	**9**	**20**	**51**	**80**
Purchase of intangible assets (including assets not in use)	-	-	68	**68**
Settlement of intangible assets not in use	93	1	(94)	**-**
Sale, disposal	-	-	(7)	**(7)**
Handed over for use under a lease agreement	(93)	-	-	**(93)**
As at 31 December 2016	**9**	**21**	**18**	**48**
Accumulated amortization				
As at 1 January 2016	**(8)**	**(14)**	**-**	**(22)**
Amortization for the period	-	(2)	-	**(2)**
As at 31 December 2016	**(8)**	**(16)**	**-**	**(24)**
Net value as at 1 January 2016	**1**	**6**	**51**	**58**
Net value as at 31 December 2016	**1**	**5**	**18**	**24**

13. Cash and cash equivalents

Cash in the bank earns interest at variable interest rates, 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 Company’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:

31 December 2017 (in millions of PLN)

13. Cash and cash equivalents (cont.)

	As at 31 December 2017	As at 31 December 2016
Cash in bank	1,567	460
Short-term deposits up to 3 months	1,446	835
Total cash and cash equivalents presented in the statement of financial position, including:	**3,013**	**1,295**
Unrealized foreign exchange differences and interest	2	(2)
Total cash and cash equivalents presented in the statement of cash flows	**3,015**	**1,293**

The Company does not have any restricted cash.

14. Other non-current assets

	As at 31 December 2017	As at 31 December 2016
Capital contributions	71	60
Receivables from sale of investment properties	-	12
Property, plant and equipment	8	8
Lease receivables	69	75
Other	1	3
TOTAL	**149**	**158**

15. Trade receivables and other current financial receivables

	As at 31 December 2017	As at 31 December 2016
Receivables from sale of shares	57	-
Trade receivables	15	33
Lease receivables	17	19
Loan receivables	10	-
TOTAL	**99**	**52**

16. Other current assets

	As at 31 December 2017	As at 31 December 2016
Receivables on account of settlements in the ENERGA Tax Group	79	-
Receivables on account of taxes, customs duties, social security, and other benefits	8	-
Advances for deliveries	6	26
Accrued financial costs	2	7
Accrued costs by nature	1	4
Other current assets	-	1
TOTAL	**96**	**38**

31 December 2017 (in millions of PLN)

17. Share capital and other capital

17.1. Share capital

As at 31 December 2017, ENERGA SA's share capital is PLN 4,522 m and has not changed in the current year.

The table below presents the ownership structure of the Company:

	As at 31 December 2017	As at 31 December 2016
State Treasury	51.52%	51.52%
Other shareholders	48.48%	48.48%
TOTAL	**100.00%**	**100.00%**

17.2. Par value per share

All the outstanding shares have the aggregated par value of PLN 4,522 m and have been fully paid up.

17.3. Shareholders' rights

As at 31 December 2017, the State Treasury held 213,326,317 shares of the Company, constituting 51.52% of its share capital and entitling to exercise 358,254,317 votes at the General Meeting, which makes up 64.09% of the total number of votes at the General Meeting (including 144,928,000 registered series BB shares, preferred with respect to the voting right at the General Meeting in such manner that one series BB share gives the right to two votes at the General Meeting).

According to the Company's articles of association in effect on the date of these statements, Supervisory Board members are appointed and dismissed by the General Meeting, but the State Treasury is personally entitled to appoint and dismiss Supervisory Board members so that the State Treasury has an absolute majority of the votes in the Supervisory Board. The above entitlement expires on the date on which the State Treasury's share in the share capital will fall below 20%.

17.4. Reserve capital

Reserve capital was created as a result of the share capital reduction by PLN 447 m made in connection with the reverse split of the parent company's shares in 2013 and distribution of the Company's 2015 net profit in the amount of PLN 571 m. Reserve capital may be used only to cover future losses or to raise the Company's share capital.

17.5. Supplementary capital

Pursuant to the requirements of the Commercial Company Code, joint stock companies are required to create supplementary capital to cover losses. At least 8% of the company's profit for a given financial year presented in the Company's financial statements is transferred to supplementary capital until the capital reaches at least one third of the company's share capital. The use of the supplementary capital is decided by the General Meeting, however, the portion of the supplementary capital representing one-third of the share capital may only be used to cover a loss posted in the financial statements and cannot be allocated to other purposes. As at 31 December 2017, supplementary capital amounts to PLN 1,433 m or 31.69% of the share capital.

17.6. Retained earnings and restrictions on dividend payment

Retained earnings include capital established and utilized according to the principles defined by provisions of law and the Company's articles of association as well as results of the current reporting period. As at 31 December 2017, there are no restrictions on dividend payment, other than those resulting from provisions of law.

18. Earnings per share

There were no diluting instruments in the Company and therefore diluted earnings per share are equal to basic earnings per share. The Company had not discontinued operations. The data used to calculate earnings per share are presented below.

	Year ended 31 December 2017	Year ended 31 December 2016
Net profit on continuing operations	107	784
Net profit	**107**	**784**
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**

19. Dividends

By the date of approval of these financial statements for publication, the proposed distribution of the 2017 profit has not been adopted.

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.

31 December 2017 (in millions of PLN)

20. Liabilities

20.1. Trade and other financial liabilities

	As at 31 December 2017	As at 31 December 2016
Liabilities to related parties	12	4
trade liabilities	3	1
other	9	3
Liabilities to other entities	11	15
trade liabilities	11	13
other	-	2
TOTAL	**23**	**19**

20. Provisions (cont.)

20.2. Other current liabilities

	As at 31 December 2017	As at 31 December 2016
Liabilities on account of settlements in the ENERGA Tax Group	90	98
Liabilities on account of taxes, customs duties, social security, and other benefits	2	2
Other	4	2
TOTAL	**96**	**102**

21. Deferred income and grants

	As at 31 December 2017	As at 31 December 2016
Grants received	78	88
Financial income	2	6
Other	18	23
TOTAL, of which:	**98**	**117**
Long-term	79	94
Short-term	19	23

As at 31 December 2017, the Company recognizes as grants received: primarily, the valuation effect of the preferential loan from the European Investment Bank (EIB), which is recognized over the loan repayment period (see descriptions in Notes 8.10 and 23.7).

22. Information on related entities

Related party transactions are made based on market prices of goods, products or services delivered.

22.1. Transactions involving parties related to the State Treasury

The Company's parent entity is the State Treasury. ENERGA SA concludes transactions with other related entities and with the State Treasury associated with normal, daily business operations. These transactions are concluded on an arms' length basis and their terms and conditions do not deviate from transactions with other entities. They do not constitute material transactions. The Company 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.

22.2. Transactions with related entities (excluding State Treasury companies)

	Year ended 31 December 2017	Year ended 31 December 2016
Net revenue on the sale of products, goods and materials	80	68
Cost of purchase	14	16
Other operating income	-	7
Dividend income	203	874
Other financial income	164	204
Financial costs	101	91

31 December 2017 (in millions of PLN)

22. Information on related entities (cont.)

	As at 31 December 2017	As at 31 December 2016
Assets		
Long-term receivables	69	87
Other non-current assets	-	2
Cash pooling receivables	553	577
Trade receivables	15	33
Other current financial receivables – subsidiaries	17	19
Other current financial receivables – joint ventures	10	-
Long-term bonds	3,805	3,959
Short-term bonds	444	1,243
Other current assets	79	-
Equity and liabilities		
Non-current liabilities on account of loans and borrowings	2,915	2,207
Long-term bond issued	844	571
Cash pooling liabilities	477	1,009
Current trade liabilities	3	1
Other financial liabilities	9	3
Current loans and borrowings	29	19
Short-term bond issued	6	6
Other current liabilities	90	98

The tables above present transactions with subsidiaries within the ENERGA SA Group and joint ventures. Transactions with the associated entity, other than those stated in note 11, are not material.

Transactions of taking up shares in subsidiaries, associates and joint ventures are presented in note 11.

22.3. Compensation paid or due to the Company’s Management Board members and Supervisory Board members

	Year ended 31 December 2017	Year ended 31 December 2016
Management Board	4	6
Supervisory Board	1	<1
TOTAL	**5**	**6**

22.4. Loans granted to, and other transactions with, Management Board and Supervisory Board members

During the reporting period, there were no loans granted to or other material transactions with members of the Management Board and of the Supervisory Board of ENERGA SA.

22.5. Compensation paid or due to senior management (except for members of the Company's Management Board and Supervisory Board)

The amount of benefits paid or due to the key management was PLN 10 m in 2017 and PLN 6 m in 2016.

31 December 2017 (in millions of PLN)

NOTES ON FINANCIAL INSTRUMENTS

23. Financial instruments

23.1. Carrying amount of financial instruments by category and class

As at 31 December 2017	Financial assets measured 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							
Cash pooling receivables	-	553	-	-	-	-	**553**
Cash and cash equivalents	-	-	3,013	-	-	-	**3,013**
Derivative financial instruments	24	-	-	-	9	-	**33**
Shares in subsidiaries, associates and joint ventures	-	-	-	-	-	7,149	**7,149**
Bonds	-	4,249	-	-	-	-	**4,249**
Lease receivables	-	-	-	-	-	86	**86**
Trade receivables and other current financial receivables	-	83	-	-	-	-	**83**
Capital contributions	-	71	-	-	-	-	**71**
TOTAL	**24**	**4,956**	**3,013**	**-**	**9**	**7,235**	**15,237**
Liabilities							
Loans and borrowings	-	-	-	5,413	-	-	**5,413**
Preferential loans and borrowings	-	-	-	1,378	-	-	**1,378**
Loans and borrowings	-	-	-	4,035	-	-	**4,035**
Bonds issued	-	-	-	2,073	-	-	**2,073**
Derivative financial instruments	-	-	-	-	78	-	**78**
Trade liabilities and other financial liabilities	-	-	-	23	-	-	**23**
Trade liabilities	-	-	-	14	-	-	**14**
Capital contribution liabilities	-	-	-	8	-	-	**8**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	-	1	-	-	**1**
Cash pooling liabilities	-	-	-	477	-	-	**477**
TOTAL	**-**	**-**	**-**	**7,986**	**78**	**-**	**8,064**

31 December 2017 (in millions of PLN)

23. Financial instruments (cont.)

As at 31 December 2016	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						
Cash pooling receivables	577	-	-	-	-	**577**
Cash and cash equivalents	-	1,295	-	-	-	**1,295**
Derivative financial instruments	-	-	-	147	-	**147**
Shares in subsidiaries and associates	-	-	-	-	6,780	**6,780**
Bonds	5,202	-	-	-	-	**5,202**
Lease receivables	-	-	-	-	94	**94**
Trade receivables and other current financial receivables	33	-	-	-	-	**33**
Other financial assets	72	-	-	-	-	**72**
Capital contributions	60	-	-	-	-	**60**
Other	12	-	-	-	-	**12**
TOTAL	**5,884**	**1,295**	**-**	**147**	**6,874**	**14,200**
Liabilities						
Loans and borrowings	-	-	4,963	-	-	**4,963**
Preferential loans and borrowings	-	-	1,487	-	-	**1,487**
Loans and borrowings	-	-	3,476	-	-	**3,476**
Bonds issued	-	-	1,020	-	-	**1,020**
Trade liabilities and other financial liabilities	-	-	19	-	-	**19**
Cash pooling liabilities	-	-	1,009	-	-	**1,009**
TOTAL	**-**	**-**	**7,011**	**-**	**-**	**7,011**

31 December 2017 (PLN m)

23. Financial instruments (cont.)

23.2. Items of income, expenses, profits and losses recognized in the statement of profit or loss by category of financial instruments

Year ended 31 December 2017	Assets measured 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
Dividends and profit sharing	-	-	-	-	-	203	**203**
Interest income/(cost)	-	163	31	(215)	(54)	1	**(74)**
Foreign exchange differences	-	-	(4)	157	(140)	-	**13**
Other	17	-	-	(2)	-	-	**15**
Net profit/(loss)	**17**	**163**	**27**	**(60)**	**(194)**	**204**	**157**
Other comprehensive income	-	-	-	-	(48)	-	**(48)**
Comprehensive income	**17**	**163**	**27**	**(60)**	**(242)**	**204**	**109**

Year ended 31 December 2016	Assets measured 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
Dividends and profit sharing	-	-	-	-	-	874	**874**
Interest income/(cost)	3	204	8	(212)	(31)	1	**(27)**
Foreign exchange differences	-	-	5	(80)	69	-	**(6)**
Recognition of impairment losses	-	(8)	-	-	-	-	**(8)**
Other	-	-	-	(1)	-	-	**(1)**
Net profit/(loss)	**3**	**196**	**13**	**(293)**	**38**	**875**	**832**
Other comprehensive income	-	-	-	-	38	-	**38**
Comprehensive income	**3**	**196**	**13**	**(293)**	**76**	**875**	**870**

31 December 2017 (in millions of PLN)

23. Financial instruments (cont.)

23.3. Fair value of financial instruments

Some of the Company'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 Company 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.

	As at 31 December 2017 Level 2	As at 31 December 2016 Level 2
Assets		
Hedging derivatives (CCIRS/IRS)	9	147
Other derivatives	24	-
Liabilities		
Hedging derivatives (CCIRS)	78	-

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 Polimex-Mostostal SA shares 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.

23.4. Fair value of financial instruments not measured at fair value on an ongoing basis

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

Loan from ENERGA Finance AB (publ)	Carrying amount	Level 2 fair value
As at 31 December 2017	2,944	3,047
As at 31 December 2016	2,227	2,361

Hybrid bond issue	Carrying amount	Level 2 fair value
As at 31 December 2017	1,055	1,152
As at 31 December 2016	-	-

The fair value measurement of liabilities under loans and under a hybrid bond issue was estimated on the basis of an analysis of future cash flows discounted using market interest rates updated for 29 December 2017.

23.5. Description of material items in individual categories of financial instruments

23.5.1. Financial assets

Loans and receivables

Financial instruments classified by the Company as loans and receivables comprise: purchased bonds, cash pooling receivables, trade receivables, other receivables and capital contributions.

The purchased bonds are presented in the table below, broken down by issuers.

31 December 2017 (in millions of PLN)

23. Financial instruments (cont.)

	As at 31 December 2017	As at 31 December 2016
ENERGA-OPERATOR SA	3,273	4,164
ENERGA Wytwarzanie SA	848	871
ENERGA Elektrownie Ostrołęka SA	94	116
ENERGA Kogeneracja Sp. z o.o.	34	51
TOTAL, of which:	**4,249**	**5,202**
Long-term	3,805	3,959
Short-term	444	1,243

Trade and other receivables	As at 31 December 2017	As at 31 December 2016
Not overdue	76	43
Overdue <30 days	7	2
Gross receivables	**83**	**45**
Impairment losses	-	-
Net receivables, of which	**83**	**45**
Long-term	-	12
Short-term	83	33

Capital contributions	As at 1 January 2017	Contributions made	As at 31 December 2017
RGK Sp. z o.o.	48	-	48
ENERGA Centrum Usług Wspólnych Sp. z o.o.	5	-	5
ENERGA Wytwarzanie SA	2	-	2
ENERGA Informatyka i Technologie Sp. z o.o.	5	-	5
ENERGA Kogeneracja Sp. z o.o.	-	11	11
Other	<1	-	<1
TOTAL	**60**	**11**	**71**

The value of the impairment losses on capital contributions is presented in note 23.6

Hedging derivatives

Hedging derivatives CCIRS are described in detail in Note 23.8.

Financial assets at fair value through profit or loss

The Company classifies call options to purchase Polimex-Mostostal SA shares, which are presented in note 23.3, as financial assets at fair value through profit or loss.

Financial instruments excluded from the scope of IAS 39

The Company recognizes shares in subsidiaries, associates and joint ventures and financial lease receivables as the items of financial assets that are excluded from the scope of IAS 39.

Financial lease receivables related to the license were as follows, as at 31 December 2017 and 31 December 2016:

	As at 31 December 2017		As at 31 December 2016	
	Minimum lease payments	Current value of payments	Minimum lease payments	Current value of payments
Up to 1 year	17	17	20	19
1 to 5 years	64	62	56	54
Over 5 years	7	7	21	21
TOTAL	**88**	**86**	**97**	**94**
less financial income	(2)	-	(3)	-
TOTAL	**86**	**86**	**94**	**94**

31 December 2017 (in millions of PLN)

23. Financial instruments (cont.)

The value of shares in subsidiaries, associates and joint ventures is presented in note 11.

23.5.2. Financial liabilities

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

The following table presents changes in financial liabilities in the reporting period.

	Loans and borrowings	Bonds issued	Total financing liabilities
As at 31 December 2016	**4,963**	**1,020**	**5,983**
Disbursement	846	1,061	1,907
Repayment/Redemption	(285)	-	(285)
Foreign currency differences	(138)	(18)	(156)
Payment of interest	(143)	(34)	(177)
Other changes	170	44	214
As at 31 December 2017	**5,413**	**2,073**	**7,486**

Loans and borrowings

Loans and borrowings contracted as at 31 December 2017 and 31 December 2016 are presented in the table below:

	As at 31 December 2017		As at 31 December 2016	
Currency	PLN	EUR	PLN	EUR
Reference rate	WIBOR	Fixed	WIBOR	Fixed
Loan/borrowing amount				
in currency	2,469	706	2,736	503
in PLN	2,469	2,944	2,736	2,227
of which maturing in:				
up to 1 year (short-term)	297	29	270	20
1 to 2 years	313	-	297	-
2 to 3 years	317	2,081	310	-
3 to 5 years	616	-	625	2,207
over 5 years	926	834	1,234	-

Detailed information on contracted external financing is provided in Note 23.7.

Liabilities under bonds issued

Liabilities under bonds issued as at 31 December 2017 and 31 December 2016 are presented in the table below:

	As at 31 December 2017		As at 31 December 2016	
Currency	PLN	EUR	PLN	EUR
Reference rate	WIBOR	Fixed	WIBOR	Fixed
Value of the issue				
in currency	1,018	253	1,020	-
in PLN	1,018	1,055	1,020	-
of which maturing in:				-
up to 1 year (short-term)	18	12	20	-
1 to 2 years	1,000	-	-	-
2 to 3 years	-	-	1,000	-
over 5 years	-	1,043	-	-

23. Financial instruments (cont.)

Detailed information on bonds issued is provided in Note 23.7.

23.6. Impairment losses on financial assets

Impairment losses on financial assets refer to the recapitalization of RGK Sp. z o.o. in the amount of PLN 34 m and shares in RGK Sp. z o.o. in the amount of PLN 29 m. Impairment losses on shares are presented in Note 11. The amounts of impairment losses did not change in 2017.

23.7. Available external financing

On 28 June 2017, ENERGA SA signed a loan agreement with ENERGA Finance AB (publ) in the total amount of EUR 200 m to finance current operations.

On 4 September 2017 ENERGA SA and the European Investment Bank ("EIB") entered into the following agreements:

- subscription agreement, constituting the basis for issuing EUR 250 million of hybrid bonds,
- project agreement, defining detailed financing requirements of the investment project.

On 12 September 2017, ENERGA SA issued hybrid bonds with a total nominal value of EUR 250 m, 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 issued bonds are subordinated, unsecured, coupon bearer securities. The Bonds earn interest at a fixed interest rate estimated according to the formula defined in the terms and conditions of issue. Tranches and maturities of the issued bonds:

- 1st tranche of EUR 125 million, maturing in 16 years, with the first financing period set for 6 years from the issue date,
- 2nd tranche of EUR 125 million, maturing in 20 years, with the first financing period set for 10 years from the issue date.

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.

The external financing available as at 31 December 2017 is presented in the table below:

31 December 2017 (in millions of PLN)

23. Financial instruments (cont.)

Financing institution	Type of liability	Purpose of financing	Date of the agreement	Financing limit (for the ENERGA Group)	Available financing amount (for the ENERGA Group)	Nominal indebtedness of ENERGA SA as at 31 Dec 2017	Repayment date
European Investment Bank	Loan	ENERGA-OPERATOR SA CapEx Program	16-12-2009	1,050	-	634	15-12-2025
European Investment Bank	Loan	ENERGA-OPERATOR SA CapEx Program	10-07-2013	1,000	-	763	15-09-2031
European Bank for Reconstruction and Development	Loan	ENERGA-OPERATOR SA CapEx Program	29-04-2010	1,076	-	648	18-12-2024
European Bank for Reconstruction and Development	Loan	ENERGA-OPERATOR SA CapEx Program	26-06-2013	800	-	264	18-12-2024
Nordic Investment Bank	Loan	ENERGA-OPERATOR SA CapEx Program	30-04-2010	200	-	97	15-06-2022
ENERGA Finance AB (publ)	Loan	Current operations	21-03-2013	2 081[1]	-	2 081[1]	18-03-2020
ENERGA Finance AB (publ)	Loan	Current operations	28-06-2017	834[2]	-	834[2]	28-02-2027
Bondholders	Domestic bonds	General corporate purposes	19-10-2012	1,000	-	1,000	19-10-2019
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 CapEx Program	30-05-2012	100	56	-	31-12-2022
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	189[3]	4[4]	19-09-2022
Bank PEKAO SA	Renewable loan	General corporate purposes	13-10-2011	500	500	-	29-05-2020
Bank PEKAO SA	Loan	ENERGA Elektrownie Ostrołęka SA Capex Program	30-05-2012	85	-	17	29-05-2022
Nordic Investment Bank	Loan	Construction of Myślino Wind Farm	23-10-2014	68	-	55	15-09-2026
European Investment Bank	Hybrid bonds	ENERGA-OPERATOR SA CapEx Program	04-09-2017	1,043[5]	-	1,043[5]	12-09-2037
TOTAL				**10,337**	**1,045**	**7,440**	

[1] liability of EUR 499 m converted using the average NBP exchange rate of 29 December 2017

[2] liability of EUR 200 m converted using the average NBP exchange rate of 29 December 2017

[3] value of limits awarded to ENERGA SA Group companies based on the concluded execution agreements (utilization of the global limit)

[4] the limit amount used in the form of a guarantee (utilization of the guarantee limit awarded under an execution agreement)

[5] liability of EUR 250 m converted using the average NBP exchange rate of 29 December 2017

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23. Financial instruments (cont.)

23.8. Cash flow hedge accounting

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 Company 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 Company 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 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 intra-group loans. The Company 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.

In August 2016, the Company concluded interest rate swap transactions to hedge the interest rate risk arising from the financing used under (see note 23.7):

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

The fair value of hedging is as follows:

	Value	Recognition in the statement of financial position
As at 31 December 2017		
CCIRS I	7	Assets – Derivative financial instruments
CCIRS II	<1	Assets – Derivative financial instruments
CCIRS III	49	Liabilities – Derivative financial instruments
CCIRS IV	29	Liabilities – Derivative financial instruments
IRS	2	Assets – Derivative financial instruments
As at 31 December 2016		
CCIRS I	135	Assets – Derivative financial instruments
CCIRS II	8	Assets – Derivative financial instruments
IRS	4	Assets – Derivative financial instruments

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.

31 December 2017 (in millions of PLN)

23. Financial instruments (cont.)

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

	Year ended 31 December 2017	Year ended 31 December 2016
At the beginning of the reporting period	**41**	**10**
Amount recognized in the cash flow hedge reserve in the period, equal to the change in the fair value of hedging instruments	(216)	107
Accrued interest transferred from the reserve to financial income/costs	23	-
Revaluation of hedging instruments transferred from the reserve to financial income/costs	145	(69)
Income tax on other comprehensive income	9	(7)
At the end of the reporting period	**2**	**41**

As at 31 December 2017, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

23.9. Collateral securing repayment of liabilities

As at the end of the reporting period, there was no collateral established on the Company's assets.

24. Financial risk management principles and objectives

The major financial instruments used by the Company include bank loans, bonds issued and purchased, cash, short-term investments, cash pooling receivables and liabilities and hedging instruments. The main purpose of these financial instruments is to secure funds to finance the Company's operations or to mitigate financial risks.

Key risks generated by the Company's financial instruments include:

- market risk,
- liquidity risk,
- credit risk.

The Management Board verifies and agrees the principles of managing these risks. In 2014, the Management Board of ENERGA SA approved and introduced in the Company the ENERGA Group Liquidity Management Policy and the ENERGA Group Market Risk Management Policy (applicable to FX risk and interest rate risk). The two documents have been introduced across the ENERGA Group, which allows the holding company to manage these risks effectively. Both documents define financial risk management procedures for individual Group companies and introduce appropriate reporting obligations.

24.1. Market risk

The Company identifies the following major market risks to which it is exposed:

- interest rate risk,
- foreign exchange risk.

For the purposes of sensitivity analysis to changes in market risk factors, the Company uses scenario analysis method, which uses expert scenarios reflecting the Company's subjective judgment on how individual market risk factors will develop in the future.

Scenario analyses presented in this item aim to analyze the impact of changes in market risk factors on the Company's financial results. Only those items, which satisfying the definition of financial instruments, are subject to analysis.

Interest rate risk

The Company is exposed to interest rate risk in connection with the fact that it holds assets and liabilities for which income and expenses are calculated on the basis of market interest rates, which are subject to change.

The Company identifies exposure to the risk of WIBOR interest rate changes, which involves primarily long-term financial debt and purchased bonds. The Company's financial policy envisages that the risk of changing interest rates is mitigated by keeping a portion of debt at fixed rates. As at 31 December 2017, 59% of financial debt recorded in the statement of financial position (loans and borrowings and bonds issued) bore a fixed interest rate or was hedged against interest rate risk with IRS transactions.

In interest rate risk sensitivity analysis, the Company uses a parallel shift of the interest rate curve by the possible change in reference interest rates in the coming year. The levels of reference interest rates on the final day of a reporting period were used for this purpose. The extent of potential changes to interest rates was assessed on the basis of volatility of implied options per interest rate quoted on the inter-bank market. in the case of WIBOR, due to the low liquidity of the interest rate option market, the shift of the yield curve has been assumed arbitrarily.

In the case of analysis of sensitivity to interest rate changes, the effect of changes to risk factors would be carried to:

31 December 2017 (in millions of PLN)

24. Financial risk management principles and objectives (cont.)

- other comprehensive income for hedging derivatives,
- interest income/cost for other financial instruments.

The table below presents sensitivity of financial result before tax and other comprehensive income to reasonably possible interest rate changes, assuming that there are no variations in other risk factors for these financial instrument classes that are exposed to interest rate risk:

Financial assets and liabilities	31 December 2017		Interest rate risk sensitivity analysis as at 31 December 2017			
	Carrying amount	Value at risk	WIBOR		EURIBOR	
	PLN	PLN	*WIBOR + 50 bp*	*WIBOR - 50 bp*	*EURIBOR + 20 bp*	*EURIBOR - 20 bp*
Assets						
Cash pooling receivables	553	553	3	(3)	-	-
Cash and cash equivalents	3,013	3,013	15	(15)	-	-
Bonds	4,249	3,471	17	(17)	-	-
Other derivatives	24	24	-	-	-	-
Liabilities						
Cash pooling liabilities	477	477	(2)	2	-	-
Loans and borrowings	5,413	2,469	(12)	12	-	-
Bonds and debt securities issued	2,073	1,018	(5)	5	-	-
Change in profit before tax			**16**	**(16)**	**-**	**-**
Hedging derivatives (assets)	9	9	22	(22)	(8)	8
Hedging derivatives (liabilities)	78	78	71	(74)	(32)	33
Change in other comprehensive income			**93**	**(96)**	**(40)**	**41**

Financial assets and liabilities	31 December 2016		Interest rate risk sensitivity analysis as at 31 December 2016			
	Carrying amount	Value at risk	WIBOR		EURIBOR	
	PLN	PLN	*WIBOR + 50 bp*	*WIBOR - 50 bp*	*EURIBOR + 20 bp*	*EURIBOR - 20 bp*
Assets						
Cash pooling receivables	577	577	3	(3)	-	-
Cash and cash equivalents	1,295	1,295	6	(6)	-	-
Bonds	5,202	4,422	22	(22)	-	-
Liabilities						
Cash pooling liabilities	1,009	1,009	(5)	5	-	-
Loans and borrowings	4,963	2,736	(14)	14	-	-
Bonds and debt securities issued	1,020	1,020	(5)	5	-	-
Change in profit before tax			**7**	**(7)**	**-**	**-**
Hedging derivatives (assets)	147	147	35	(35)	(14)	14
Change in other comprehensive income			**35**	**(35)**	**(14)**	**14**

Foreign exchange risk

With regard to financial transactions, the Company is exposed to foreign exchange risk because of loans from a subsidiary – ENERGA Finance AB (publ). To hedge that risk, the Company has entered into cross-currency interest rate swap (CCIRS) transactions and has implemented hedge accounting (see the description in Note 8.12.4). In addition, the Company identifies foreign exchange risk relating to its cash.

In the foreign exchange risk sensitivity analysis, the possible fluctuations of currency exchange rates were calculated on the basis of annual variability implied for currency options quoted on the inter-bank market for the given currency pair at the date ending the reporting period.

31 December 2017 (in millions of PLN)

24. Financial risk management principles and objectives (cont.)

The table below presents sensitivity of the financial result before tax and other comprehensive income to reasonably possible changes of exchange rates, assuming that there are no changes of other risk factors for such classes of financial instruments which are exposed to the exchange rate change risk:

Financial assets and liabilities	31 December 2017		FX risk sensitivity analysis as at 31 December 2017	
	Carrying amount	Value at risk	EUR/PLN	
	PLN	*PLN*	*EUR/PLN rate + 6%*	*EUR/PLN rate - 6%*
Assets				
Cash and cash equivalents	3,013	91	5	(5)
Hedging derivatives (assets)	9	1,932	116	(116)
Liabilities				
Loans and borrowings	5,413	2,944	(177)	177
Bonds and debt securities issued	2,073	1,055	(63)	63
Hedging derivatives (liabilities)	78	2,148	129	(129)
Change in profit before tax			**(16)**	**16**
Change in other comprehensive income*			**26**	**(26)**

* in respect to hedging derivatives

Financial assets and liabilities	31 December 2016		FX risk sensitivity analysis as at 31 December 2016	
	Carrying amount	Value at risk	EUR/PLN	
	PLN	*PLN*	*EUR/PLN rate + 8%*	*EUR/PLN rate - 8%*
Assets				
Cash and cash equivalents	1,295	124	10	(10)
Hedging derivatives (assets)	147	2,120	170	(170)
Liabilities				
Loans and borrowings	4,963	2,227	(178)	178
Change in profit before tax			**(17)**	**17**
Change in other comprehensive income*			**19**	**(19)**

* in respect to hedging derivatives

24.2. Credit risk

The income and receivables generated mainly in transactions with subsidiaries follow from the specific line of ENERGA SA's business. The financial standing of Group companies is monitored on an ongoing basis by appropriate task forces of ENERGA SA, and therefore exposure to bad debt risk is immaterial.

With respect to other financial assets, such as cash and cash equivalents, credit risk arises when the other party to a contract is unable to make a payment and the maximum exposure to this risk equals the carrying amount of such instruments.

In accordance with the adopted Financial Policy of the ENERGA Group, ENERGA SA is responsible for arranging debt financing on financial market for all Group companies and for distributing such funds to operating companies using the mechanism of internal bond issues. ENERGA SA acts here in the capacity of an investor purchasing long-term securities issued by ENERGA Group companies. This structure generates credit risk for ENERGA SA associated with the service of bonds issued by the company. As at 31 December 2017, the par value of the bonds purchased by ENERGA SA and issued by ENERGA Group companies was as follows:

- ENERGA-OPERATOR SA – PLN 3,215 m,
- ENERGA Wytwarzanie SA – PLN 822 m,
- ENERGA Kogeneracja Sp. z o.o. – PLN 34 m,
- ENERGA Elektrownie Ostrołęka SA – PLN 92 m.

31 December 2017 (in millions of PLN)

24. Financial risk management principles and objectives (cont.)

24.3. Liquidity risk

The Company monitors the risk of insufficient funds, which are required to settle the liabilities at maturity dates, using a tool for periodic liquidity planning. This tool is based on projected cash flows from operating, investing and financing activities, which are prepared by all Group companies. Additionally regular reviews are conducted to test reliability of the projections.

On 4 January 2016, a one-way zero-balancing cash pooling service was launched in the ENERGA Group for funds in Polish zloty. This tool allows the holding company to manage the Group's liquidity in an efficient fashion. According to the assumptions about the structure, at the end of each business day, cash owned by the Group's companies is consolidated on ENERGA SA's accounts and on the following day it may be used to finance payment liabilities of the individual participants. This tool makes it possible to finance the operations first of all with the funds generated by the Group and only then with debt financing.

In respect to liquidity risk management, the Company aims at maintaining the balance between continuity and flexibility of financing through use of various sources of financing, such as overdrafts, bank loans, bonds, Eurobonds and financial lease agreements.

Details of the main external financing contracted by the Company are provided in Note 23.7.

The table below presents the Company's financial liabilities by maturity dates, based on contractual, undiscounted payments (at nominal values, including payments of possible interest).

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	TOTAL
31 December 2017					
Loans and borrowings	137	340	3,721	1,889	**6,087**
Bonds and debt securities issued	9	65	1,202	1,178	**2,454**
Cash pooling liabilities	477	-	-	-	**477**
Trade liabilities	14	-	-	-	**14**
Other financial liabilities	9	-	-	78	**87**
TOTAL	**646**	**405**	**4,923**	**3,145**	**9,119**

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	TOTAL
31 December 2016					
Loans and borrowings	118	313	3,733	1,336	**5,500**
Bonds and debt securities issued	9	26	1,074	-	**1,109**
Cash pooling liabilities	1,009	-	-	-	**1,009**
Trade liabilities	19	-	-	-	**19**
Other financial liabilities	1	-	-	-	**1**
TOTAL	**1,156**	**339**	**4,807**	**1,336**	**7,638**

The Company's financial assets are highly liquid. They are comprised mainly of cash and cash equivalents. The structure of cash and cash equivalents is presented in Note 13.

25. Statement of cashflows

Net interest and dividends

	Year ended 31 December 2017	Year ended 31 December 2016
Dividends received	(203)	(874)
Interest received and paid	62	106
Interest accrued	45	(71)
TOTAL	**(96)**	**(839)**

31 December 2017 (in millions of PLN)

OTHER NOTES

26. Capital management

The Company manages its capital in order to maintain investment-grade credit rating and safe financial ratios to support the Group's operating activity and increase its value for shareholders. This goal is achieved through the internal regulations adopted in the Group. The Company is the only entity that is responsible for running the Group's debt policy and for entering into hedging transactions.

The Company monitors its basic debt ratio, that is net debt to EBITDA, estimated on the consolidated basis. As at the balance sheet date, this ratio was 1.9, while the financing agreements called for the level of 3.5.

The level of the ratio is also regularly monitored by institutions financing the Company and by rating agencies; therefore, it has a significant influence on the evaluation of the Company's credit rating and consequently the availability and cost of debt financing.

The data below originate from the consolidated financial statements of the ENERGA Group for the year ended 31 December 2017.

	As at 31 December 2017	As at 31 December 2016
Interest-bearing loans and borrowings	3,076	3,420
Bonds and debt securities issued	4,629	2,717
Cash and cash equivalents, excluding restricted cash	(3,610)	(1,442)
Net debt	**4,095**	**4,695**
EBITDA	**2,160**	**2,027**
Net debt / EBITDA	**1.90**	**2.32**

27. Contingent assets and liabilities

There are no significant contingent assets and liabilities in the Company.

28. Employment structure

The average headcount in the Company was 141.3 in the year ended 31 December 2017 and 117.7 in the year ended 31 December 2016.

29. Other information significantly affecting the assessment of assets, financial position and the financial result of the Company

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.

30. Subsequent events

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

Management Board Members

Alicja Klimiuk ……………………………………………...
Acting 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

ENERGA Centrum Usług Wspólnych Sp. z o.o. ……………………………………………
Entity responsible for keeping accounting ledgers and for preparing the financial statements

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Gdańsk, 14 March 2018