Energa

ENERGA SA
Group

Condensed interim consolidated financial statements prepared in accordance with IAS 34 for the three-month period ended 31 March 2018

CONTENTS

Condensed interim consolidated financial statements as at and for the three-month period ended 31 March 2018 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	3-month period ended 31 March 2018 (unaudited)	3-month period ended 31 March 2017 (unaudited)
Sales revenues	**2,642**	**2,710**
Cost of sales	(2,068)	(2,177)
Gross profit on sales	**574**	**533**
Other operating income	29	37
Selling and distribution expenses	(88)	(90)
General and administrative expenses	(92)	(85)
Other operating expenses	(35)	(40)
Financial income	18	80
Financial costs	(94)	(64)
Share in profit/(loss) of the entities measured by the equity method	30	10
Profit or loss before tax	**342**	**381**
Income tax	(65)	(68)
Net profit or loss for the period	**277**	**313**
Attributable to:		
Equity holders of the Parent Company	275	310
Non-controlling interest	2	3
Earnings or loss per share (in PLN)		
- basic	**0.66**	**0.75**
- diluted	**0.66**	**0.75**

Condensed interim consolidated financial statements as at and for the three-month period ended 31 March 2018 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3-month period ended 31 March 2018 (unaudited)	3-month period ended 31 March 2017 (unaudited)
Net profit for the period	**277**	**313**
Items that will never be reclassified to profit or loss	***189***	***3***
Actuarial gains and losses on defined benefit plans	(6)	4
Impact of IFRS 9 and IFRS 15 implementation	240	-
Deferred income tax	(45)	(1)
Items which may be reclassified to profit or loss in the future	***(15)***	***(13)***
Foreign exchange differences from translation of foreign entities	-	(5)
Cash flow hedge	(19)	(10)
Deferred tax	4	2
Net other comprehensive income	**174**	**(10)**
Total comprehensive income	**451**	**303**
Attributable to:		
Equity holders of the Parent Company	449	300
Non-controlling interest	2	3

Condensed interim consolidated financial statements as at and for the three-month period ended 31 March 2018 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 2018 (unaudited)	As at 31 December 2017
ASSETS		
Non-current assets		
Property, plant and equipment	13,405	13,371
Intangible assets	320	338
Goodwill	15	15
Investments in associates and joint ventures measured by the equity method	814	728
Deferred tax assets	350	325
Other non-current financial assets	58	46
Other non-current assets	107	107
	15,069	**14,930**
Current assets		
Inventories	450	352
Income tax receivables	24	31
Trade receivables	1,692	1,843
Other current financial assets	28	83
Cash and cash equivalents	3,319	3,641
Other current assets	423	176
	5,936	**6,126**
TOTAL ASSETS	**21,005**	**21,056**

Condensed interim consolidated financial statements as at and for the three-month period ended 31 March 2018 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont.)

	As at 31 March 2018 (unaudited)	As at 31 December 2017
EQUITY AND LIABILITIES		
Equity		
Share capital	4,522	4,522
Foreign exchange differences from translation of a foreign entity	(2)	(2)
Reserve capital	1,018	1,018
Supplementary capital	1,433	1,433
Cash flow hedge reserve	(13)	2
Retained earnings	2,900	2,436
Equity attributable to equity holders of the Parent Company	**9,858**	**9,409**
Non-controlling interest	**58**	**56**
	9,916	**9,465**
Non-current liabilities		
Loans and borrowings	2,632	2,720
Bonds issued	4,392	4,520
Non-current provisions	559	550
Deferred tax liabilities	645	596
Deferred income and non-current grants	270	501
Other non-current financial liabilities	78	81
	8,576	**8,968**
Current liabilities		
Trade liabilities	542	792
Current loans and borrowings	359	356
Bonds issued	43	109
Current income tax liability	42	11
Deferred income and grants	129	182
Short-term provisions	722	571
Other financial liabilities	107	280
Other current liabilities	569	322
	2,513	**2,623**
Total liabilities	**11,089**	**11,591**
TOTAL EQUITY AND LIABILITIES	**21,005**	**21,056**

Condensed interim consolidated financial statements as at and for the three-month period ended 31 March 2018 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Parent Company								
	Share capital	Foreign exchange differences from translation of a foreign entity	Reserve capital	Supplementary capital	Capital cash flow hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2018	**4,522**	**(2)**	**1,018**	**1,433**	**2**	**2,436**	**9,409**	**56**	**9,465**
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	(5)	**(5)**	-	**(5)**
Cash flow hedge	-	-	-	-	(15)	-	**(15)**	-	**(15)**
Impact of IFRS 9 and IFRS 15 implementation	-	-	-	-	-	194	**194**	-	**194**
Net profit (loss) for the period	-	-	-	-	-	275	**275**	2	**277**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(15)**	**464**	**449**	**2**	**451**
As at 31 March 2018 (unaudited)	**4,522**	**(2)**	**1,018**	**1,433**	**(13)**	**2,900**	**9,858**	**58**	**9,916**
As at 1 January 2017	**4,522**	**4**	**1,018**	**728**	**41**	**2,464**	**8,777**	**40**	**8,817**
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	3	**3**	-	**3**
Foreign exchange differences from translation of foreign entities	-	(5)	-	-	-	-	**(5)**	-	**(5)**
Cash flow hedge	-	-	-	-	(8)	-	**(8)**	-	**(8)**
Net profit (loss) for the period	-	-	-	-	-	310	**310**	3	**313**
Total comprehensive income for the period	**-**	**(5)**	**-**	**-**	**(8)**	**313**	**300**	**3**	**303**
As at 31 March 2017 (unaudited)	**4,522**	**(1)**	**1,018**	**728**	**33**	**2,777**	**9,077**	**43**	**9,120**

Condensed interim consolidated financial statements as at and for the three-month period ended 31 March 2018 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	3-month period ended 31 March 2018 (unaudited)	3-month period ended 31 March 2017 (unaudited)
Cash flows from operating activities		
Profit/(loss) before tax	**342**	**381**
Adjustments for:		
Share in (profit)/loss of the entities measured by the equity method	(30)	(10)
Foreign currency (gains)/losses	10	(16)
Depreciation and amortization	238	246
Net interest and dividends	69	39
(Profit)/loss on investing activities, including goodwill impairment allowance	6	(59)
Changes in working capital:		
Change in receivables	175	32
Change in inventories	(98)	(94)
Change in liabilities excluding loans and borrowings	(5)	52
Change in prepayments and accruals	(382)	(318)
Change in provisions	154	8
	479	**261**
Income tax	**4**	**(30)**
Net cash from operating activities	**483**	**231**
Cash flow from investing activities		
Disposal of property, plant and equipment and intangible assets	2	5
Purchase of property, plant and equipment and intangible assets	(424)	(293)
Sale of a subsidiary	58	24
Investments in associates and joint ventures measured by the equity method	(53)	(137)
Loan repayment	10	-
Other	1	(6)
Net cash from investing activities	**(406)**	**(407)**
Cash flows from financing activities		
Proceeds from debt incurred	-	1,252
Repayment of debt incurred	(91)	(77)
Redemption of debt securities	(168)	-
Interest paid	(145)	(110)
Other	-	(1)
Net cash from financing activities	**(404)**	**1,064**
Net increase/(decrease) in cash and cash equivalents	**(327)**	**888**
Cash and cash equivalents at the beginning of the period	**3,643**	**1,464**
Cash and cash equivalents at the end of the period	**3,316**	**2,352**

Condensed interim consolidated financial statements as at and for the three-month period ended 31 March 2018 (in millions of PLN)

ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY INFORMATION

1. General information

The Energa SA Group (the "Group") consists of **Energa Spółka Akcyjna** ("Parent Company", "Company") with its registered office in Gdańsk and its subsidiaries (see Note 2). The condensed interim consolidated financial statements of the Group covers the three-month period ended 31 March 2018 and contains appropriate comparative data.
The parent entity is entered in the Register of Entrepreneurs of the National Court Register held by the District Court Gdańsk-Północ, 7th Commercial Division of the National Court Register under KRS number 0000271591. The Parent Company's REGON statistical number is 220353024.

The primary activities of the Group are as follows:

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

As at 31 March 2018, the Polish State Treasury is the parent and ultimate controlling party of the Company and the Energa SA Group.

2. Composition of the Group and its changes

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

As at 31 March 2018 the Group consists of Energa SA and the following subsidiaries:

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 March 2018	31 December 2017
	Distribution Segment				
1	Energa-Operator SA	Gdańsk	distribution of electricity	100	100
2	Energa-Operator Eksploatacja Elbląg Sp. z o.o.	Elbląg	grid operation	100	100
3	Energa-Operator Eksploatacja Gdańsk Sp. z o.o.	Gdańsk	grid operation	100	100
4	Energa-Operator Eksploatacja Kalisz Sp. z o.o.	Kalisz	grid operation	100	100
5	Energa-Operator Eksploatacja Płock Sp. z o.o.	Płock	grid operation	100	100
6	Energa-Operator Eksploatacja Słupsk Sp. z o.o.	Słupsk	grid operation	100	100
7	Energa-Operator Eksploatacja Toruń Sp. z o.o.	Toruń	grid operation	100	100
8	Energa-Operator Techniczna Obsługa Odbiorców Sp. z o.o.	Koszalin	technical customer service	100	100
9	Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.	Słupsk	contracting and design	100	100
10	Energetyka Kaliska - Usługi Techniczne Sp. z o.o.	Kalisz	contracting and design	100	100
11	ZEP - Centrum Wykonawstwa Specjalistycznego Sp. z o.o.	Płock	contracting and design	100	100
12	Zakład Budownictwa Energetycznego Sp. z o.o.	Koszalin	contracting and design	100	100
	Sales Segment				
13	Energa-Obrót SA	Gdańsk	trading in electricity	100	100
14	Energa Oświetlenie Sp. z o.o.	Sopot	lighting services	100	100
15	Energa SLOVAKIA s.r.o.	Bratislava	trading in electricity	100	100

Condensed interim consolidated financial statements as at and for the three-month period ended 31 March 2018 (in millions of PLN)

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 March 2018	31 December 2017
	Generation Segment				
16	Energa Wytwarzanie SA	Gdańsk	production of energy	100	100
17	Energa Elektrownie Ostrołęka SA	Ostrołęka	production of energy	89.64	89.64
18	Energa Kogeneracja Sp. z o.o.	Elbląg	production of energy	100	100
19	Energa Ciepło Ostrołęka Sp. z o.o.	Ostrołęka	distribution of heat	100	100
20	Energa Serwis Sp. z o.o.	Ostrołęka	repair and maintenance services	94.81	94.81
21	Energa Ciepło Kaliskie Sp. z o.o.	Kalisz	distribution of heat	91.24	91.24
	Others Segment				
22	Energa Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting, payroll and administrative services	100	100
23	Energa Finance AB (publ)	Stockholm	financing activity	100	100
24	Energa Informatyka i Technologie Sp. z o.o.	Gdańsk	information and communication technologies	100	100
25	RGK Sp. z o.o.	Gdańsk	financing services and property management	100	100
26	Enspirion Sp. z o.o.	Gdańsk	organization and management of development of innovative power projects	100	100
27	Energa Logistyka Sp. z o.o. (formerly Energa-Operator Logistyka Sp. z o.o.) [1]	Płock	logistics and supply	100	100
28	Energa Invest Sp. z o.o.	Gdańsk	investment project management	100	100
29	EOB PGK1 Sp. z o.o.	Gdańsk	financial service activities	100	100
30	Centrum Badawczo-Rozwojowe im. M. Faradaya Sp. z o.o. (formerly EOB PGK2 Sp. z o.o.)	Gdańsk	development engineering work	100	100
31	Energa Ochrona Sp. z o.o. (formerly ENSA PGK3 Sp. z o.o.)	Gdańsk	security services	100	100
32	ENSA PGK8 Sp. z o.o.	Gdańsk	financial service activities	100	100

[1] a change of the name of the company was registered on 23 February 2018

Additionally, as at 31 March 2018 the Group holds shares in joint ventures: Polska Grupa Górnicza Sp. z o.o. ("PGG"), Elektrownia Ostrołęka SA and in associates: Polimex-Mostostal S.A. ("Polimex") and ElectroMobility Poland SA (see description in note 2.2).

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

2.2.1. Polska Grupa Górnicza

On 28 April 2016, the subsidiary Energa Kogeneracja Sp. z o.o. signed an Investment Agreement ("Agreement") defining the terms and conditions of the financial investment in Polska Grupa Górnicza Sp. z o.o. ("PGG"). As part of the investment in PGG, Energa Kogeneracja Sp. z o.o. committed to make payments for the newly issued shares in PGG for the total amount of PLN 500 m. Payments to the capital were made.

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

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

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

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

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

Under the new agreement, the Group undertook to subscribe for new shares with the total par value of PLN 100 m in exchange for a cash contribution made in three tranches: At the end of the current reporting period, capital contribution in the total amount of PLN 100 m was made, which results in the subscription of 15.32% of PGG's share capital.

Both the Investment Agreement of 28 April 2016 and the new Investment Agreement of 31 March 2017 provide for a series of mechanisms which allow the investors to monitor the financial situation of PGG on the ongoing basis, performance of its business plan and taking optimisation actions, among others, in the event of adverse changes of market conditions. These powers are exercised by the Supervisory Board of PGG, where the Agreement provides that each PGG shareholder has the right to appoint, revoke and suspend the function of one member of the Supervisory Board (personal right), with the total of 7 Board Members.

In addition, PGE Górnictwo i Energetyka Konwencjonalna S.A., Energa Kogeneracja Sp. z o.o., PGNiG TERMIKA S.A. and Fundusz Inwestycji Polskich Przedsiębiorstw [Polish Corporates Mutual Fund] Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych [Private Assets Closed-End Mutual Fund] (hereinafter jointly referred to as "New Investors") signed a Memorandum of Agreement concerning PGG (hereinafter referred to as the "Memorandum of Agreement"). The purpose of the Memorandum of Agreement is to ensure increased control over PGG to the New Investors, who jointly hold the majority of votes at the PGG's Shareholder Meeting. The Memorandum of Agreement assumes, among others, that a joint position will be agreed when the key decisions are made by the General Meeting and Supervisory Board of PGG. On 29 June 2016 the Office of Competition and Consumer Protection (UOKiK) gave the consent for the merger consisting in the New Investors taking over joint control over PGG, based on the Memorandum of Agreement. On 31 March 2017, under a new Investment Agreement, Enea S.A. joined the PGG investors. On 22 December 2017 the UOKiK gave the consent for the merger by Enea S.A. entering the Memorandum of Agreement.

On 29 December 2017 an entry on the transformation of Polska Grupa Górnicza Sp. z o.o. into a joint-stock company was made in the National Court Register.

PGG deals in coal mining, which means access to vast resources of energy fuel, which can be used by generating companies of the Group. The PGG has its registered office in Katowice.

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

2.2.2. Polimex-Mostostal

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

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

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

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

Polimex is an engineering and construction company, which is characterized by a broad range of services provided in the capacity of a general contractor. The Company's registered office is in Warsaw. Polimex is listed on the Warsaw Stock Exchange. At the session closing on 29 March 2018, the average stock price of Polimex was PLN 3.90; accordingly the fair value of the block of shares held by the Group was PLN 152 m.

2.2.3. Ostrołęka Power Plant

On 8 December 2016, Energa SA, ENEA S.A. and Elektrownia Ostrołęka SA (on 27 February 2018, transformation of Elektrownia Ostrołęka SA into a limited liability company was registered) signed an investment agreement regarding the execution of the new power unit construction project in Ostrołęka. The condition precedent for the transaction was obtaining an approval from the President of the Office of Competition and Consumer Protection for the concentration involving the purchase of 50% of shares in the special-purpose vehicle Elektrownia Ostrołęka SA by Enea S.A. On 11 January 2017, the President of UOKiK issued an unconditional approval for the concentration and consequently on 1 February 2017, Energa SA and ENEA S.A. signed a share purchase agreement by ENEA S.A.

Under the above agreements, Energa SA and ENEA S.A. acquired joint control over Elektrownia Ostrołęka SA with its registered office in Ostrołęka; the company's purpose is building and operating a new coal-fired unit.

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

In addition, on 26 March 2018 an annex to the investment agreement was signed, which defines the maximum expenditures by Energa SA until the instruction is issued to the General Contractor to commence the work (the issue of selecting the General Contractor is addressed in Note 20).

Following implementation of provisions of the investment agreement, Energa SA and Enea S.A. hold a 50% stake in Elektrownia Ostrołęka SA and the same number of votes at the General Meeting. The Management Board and the Supervisory Board consist of the same number of representatives of both investors. Decisions on significant actions require unanimous consent of both shareholders. Given the above, the investment was classified as a joint venture and is captured using the equity method.

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

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

Currently the procedure of registration of the share capital of Elektrownia Ostrołęka Sp. z o.o. by PLN 35 m is underway, by virtue of the resolution of the Meeting of Shareholders of 29 March 2018, under which Energa SA and Enea S.A. subscribed new shares half each, i.e. PLN 17.5 m each, and paid for them with cash.

2.2.4. ElektroMobility Poland

On 3 January 2018 a resolution of the General Meeting of Shareholders of ElectroMobility Poland SA was passed concerning an increase in the share capital of the company to PLN 30 m, by increasing the nominal value of shares. Under the resolution, Energa SA contributed PLN 5 m in cash to the company. The increase in the share capital of ElektroMobility was registered in the National Court Register on 23 April 2018.

ElectroMobility Poland SA is classified as an associated entity. The share in the company was presented at the nominal value.

3. Composition of the Parent Company's Management Board

During Q1 2018 and until these financial statements were prepared, the composition of the Management Board of Energa SA was as follows:

1) in the period from 1 January 2018 to 5 February 2018:
   a) Mr Daniel Obajtek - President of the Management Board,
   b) Ms Alicja Barbara Klimiuk - Vice-President of the Management Board for Operational Matters,
   c) Mr Jacek Kościelniak - Vice-President of the Management Board for Financial Matters,
   d) Mr Grzegorz Ksepko - Vice-President of the Management Board for Corporate Matters,
2) in the period from 6 February 2018 until the day these financial statements were prepared:
   a) Ms Alicja Barbara Klimiuk - Vice-President of the Management Board for Operational Matters, acting as the President of the Management Board
   b) Mr Jacek Kościelniak - Vice-President of the Management Board for Financial Matters,
   c) Mr Grzegorz Ksepko - Vice-President of the Management Board for Corporate Matters.

Since Mr Daniel Obajtek resigned as President of the Management Board of Energa SA on 5 February 2018, on 6 February 2018 the Management Board of Energa SA adopted a resolution entrusting the function of the President of the Management Board of the Company to Ms Alicja Barbara Klimiuk. On 6 February 2018 the Supervisory Board of the Company approved the decision on entrusting the function of the President of the Management Board of Energa SA to Vice-President of the Management Board for Operational Matters, Ms Alicja Barbara Klimiuk.

4. Approval of the financial statements

These condensed interim consolidated financial statements were approved for publication by the Company's Management Board on 9 May 2018.

5. Basis for preparation of the financial statements

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

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

As at the date of these condensed interim financial statements there is no evidence indicating that the continuation of the Group's business activities as a going concern may be at risk.

5.1. Statement of compliance

These condensed interim consolidated financial statements of Energa SA Group have been prepared in accordance with the International Accounting Standard 34 "Interim financial reporting" as adopted by the European Union. They do not include all the information required for a complete set of financial statements compliant with the International Financial Reporting Standards ("IFRS"). However, selected notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2017.

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

5.2. Functional and presentation currency

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

Exchange differences from translation were captured in other comprehensive income.

6. Material items subject to judgment and estimates

In the current reporting period no changes were made in the methods used to make material estimations. Changes of estimates resulted from events that occurred during the reporting period and the full application of IFRS 9.

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

7. Significant accounting policies

The accounting policies of the Group are applied on a continuous basis, except for the changes caused by amendments introduced in IFRS EU, in particular concerning IFRS 9 “Financial instruments” and IFRS 15 “Revenue from Contracts with Customers”, applied for the first time in this reporting period. For the hedge accounting purposes, the Company applies IAS 39 on a continuous basis.

7.1. Standards and interpretations applied in 2018 for the first time

The following amendments to existing standards published by the IASB and approved by the EU came into force in 2018:

- 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),
- Clarifications to IFRS 15 “Revenue from Contracts with Customers” (applicable to annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2 “Share-based Payment” – Classification and Measurement of Share-based Payment Transactions (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 “Insurance Contracts” – Applying changes introduced by IFRS 9 “Financial Instruments” (applicable to annual periods beginning on or after 1 January 2018),
- Improvements to IFRS (2014-2016 cycle) – Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IAS 28 “Investments in Associates and Joint Ventures” (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to IAS 40 “Investment Property” – Transfers of Investment Property to other asset groups (applicable to annual periods beginning on or after 1 January 2018),
- IFRIC 22 interpretation: “Foreign Currency Transactions and Advance Consideration” (applicable to annual periods beginning on or after 1 January 2018),

The introduction of the above-mentioned amendments did not have a material effect on the Group’s results.

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

When approving these financial statements, the Group 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 16 “Leases” (applicable to annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 9 “Financial Instruments” – Prepayment Features with Negative Compensation (applicable to annual periods beginning on or after 1 January 2019).

The Group is still analysing contracts which will be subject to disclosure in the balance sheet in accordance with IFRS 16, as their quantity and value is subject to continuous changes.

7. Significant accounting policies (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 Assets and Liabilities" (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,
- Changes regarding references to the Conceptual Framework in the IFRS (applicable to annual periods beginning on or after 1 January 2020);
- IFRS 17 "Insurance Contracts" (applicable to annual periods beginning on or after 1 January 2021),
- Amendments to IAS 19 "Employee Benefits" – amendments to the 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 various standards – "Improvements to IFRS (2015-2017 Cycle)" amendments made as part of the process of introducing annual amendments to IFRS the (IFRS 3, IFRS 11, IAS 12, and IAS 23) aimed primarily at resolving inconsistencies and clarification of the terminology (applicable to annual periods beginning on or after 1 January 2019),
- 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 Group does not anticipate the related changes to have a significant impact on its financial statements.

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

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

NOTES ON BUSINESS LINES (OPERATING SEGMENTS)

9. Business lines (Operating segments)

The Group presents segment information in accordance with IFRS 8 Operating Segments for the current and for comparative reporting periods. The Group is organized and managed within operating segments, which are divided according to the types of products offered. The division of the Group's reporting is based on the following operating segments called business lines, in accordance with the Group's terminology, introduced in the Cooperation Agreement signed on 20 December 2017:

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

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

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

Transactions between business lines are settled on market terms.

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

The tables below show the allocation of revenues and expenses for the period from 1 January to 31 March 2018 and the assets and liabilities as at 31 March 2018 by individual reporting segments, together with appropriate comparative information. Data for the comparative period were restated as a result of the change in the assignment of Energa Logistyka Sp. z o.o. to the business line.

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9. Business lines (Operating segments) (cont.)

Three-month period ended 31 March 2018 (unaudited) or as at 31 March 2018 (unaudited)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external customers	1,052	1,342	227	21	**2,642**	-	**2,642**
Inter-business line sales	15	81	77	92	**265**	(265)	**-**
Total business line revenues	**1,067**	**1,423**	**304**	**113**	**2,907**	**(265)**	**2,642**
EBITDA	**509**	**53**	**103**	**(38)**	**627**	**(1)**	**626**
Depreciation and amortization	188	10	40	4	**242**	(4)	**238**
Operating profit or loss	**321**	**43**	**63**	**(42)**	**385**	**3**	**388**
Net finance income/expense	(34)	3	(13)	(31)	**(75)**	(1)	**(76)**
Share in profit/(loss) of the entities measured by the equity method	-	-	-	-	**-**	30	**30**
Profit or loss before tax	**287**	**46**	**50**	**(73)**	**310**	**32**	**342**
Income tax	(58)	(8)	(9)	10	**(65)**	-	**(65)**
Profit or loss before tax	**229**	**38**	**41**	**(63)**	**245**	**32**	**277**
Assets and liabilities							
Cash and cash equivalents	43	43	3	3,230	**3,319**	-	**3,319**
Total assets	**14,273**	**2,257**	**4,124**	**16,537**	**37,191**	**(16,186)**	**21,005**
Financial liabilities	4,857	-	991	7,838	**13,686**	(6,260)	**7,426**
Other business line information							
Capital expenditure	222	5	30	3	**260**	(4)	**256**

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9. Business lines (Operating segments) (cont.)

Three-month period ended 31 March 2017 (unaudited) (restated) or as at 31 March 2017 (restated)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external customers	1,136	1,341	211	22	**2,710**	-	**2,710**
Inter-business line sales	15	9	67	74	**165**	(165)	**-**
Total business line revenues	**1,151**	**1,350**	**278**	**96**	**2,875**	**(165)**	**2,710**
EBITDA	**531**	**(10)**	**104**	**(24)**	**601**	**-**	**601**
Depreciation and amortization	191	11	41	5	**248**	(2)	**246**
Operating profit or loss	**340**	**(21)**	**63**	**(29)**	**353**	**2**	**355**
Net finance income/expense	(27)	1	(18)	54	**10**	6	**16**
Share in profit/(loss) of the entities measured by the equity method	-	-	-	-	**-**	10	**10**
Profit or loss before tax	**313**	**(20)**	**45**	**25**	**363**	**18**	**381**
Income tax	(62)	3	(11)	2	**(68)**	-	**(68)**
Profit or loss before tax	**251**	**(17)**	**34**	**27**	**295**	**18**	**313**
Assets and liabilities							
Cash and cash equivalents	50	38	3	3,550	**3,641**	-	**3,641**
Total assets	**13,360**	**2,284**	**4,106**	**16,193**	**35,943**	**(14,887)**	**21,056**
Financial liabilities	3,865	-	991	7,932	**12,788**	(5,083)	**7,705**
Other business line information							
Capital expenditure	169	8	18	26	**221**	(4)	**217**

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NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10. Property, plant and equipment

In the current reporting period, the Group:

- incurred expenditures towards property, plant and equipment in the amount of PLN 252 m (PLN 187 m in the corresponding period of 2017);
- sold and scrapped property, plant and equipment with a total carrying value of PLN 8 m (PLN 9 m in the corresponding period of 2017).

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

In Q1 2018 there were no premises that could result in the drop in recoverable value of property, plant and equipment of the Energa Group companies, therefore it was found that the impairment tests were unnecessary.

12. Cash and cash equivalents

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

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

	As at 31 March 2018 (unaudited)	As at 31 March 2017 (unaudited)
Cash at bank and in hand	1,416	1,698
Short-term deposits up to 3 months	1,903	655
Total cash and cash equivalents presented in the statement of financial position	**3,319**	**2,353**
Unrealized foreign exchange differences and interest	(3)	3
Current account overdraft	-	(4)
Total cash and cash equivalents presented in the statement of cash flows	**3,316**	**2,352**
including restricted cash	*35*	*21*

13. Earnings per share

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

	3-month period ended 31 March 2018 (unaudited)	3-month period ended 31 March 2017 (unaudited)
Net profit or loss on continuing operations attributable to equity holders of the Parent Company	275	310
Net profit or loss attributable to common equity holders of the Parent Company	**275**	**310**
Number of shares at the end of the reporting period (millions)	414	414
Number of shares used to calculate earnings per share (millions)	414	414
Earnings or loss per share on continuing operations (basic and diluted) (in PLN)	**0.66**	**0.75**

14. Dividends

By the date of publication of these financial statements, no proposal for the distribution of profit for 2017 had been adopted.

On 26 June 2017 the Ordinary General Meeting of Shareholders adopted a resolution on the distribution of profit for 2016, where PLN 79m was appropriated for payment of the dividend for shareholders of the Company, which is PLN 0.19 per share. The dividend was paid out in full, including PLN 28 m on account of shares with voting preference.

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15. Provisions

15.1. Provisions for employee benefits

The Group recognizes provisions for post-employment benefits and jubilee bonuses in amounts calculated using actuarial methods. The amount of provisions recognized in these financial statements derives from the projection of provisions as at 31 March 2018, carried out by an independent actuary. The projection was based on the main assumptions used to measure provisions as at 31 December 2017, except the updated discount rate and the expected growth rate of the energy equivalent. The discount rate used to project the provisions as at 31 March 2018 was assumed at 3.41% (3.36% as at 31 December 2017).

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	TOTAL
As at 1 January 2018	**123**	**167**	**29**	**215**	**534**
Current service cost	1	1	-	3	5
Actuarial gains and losses	-	6	-	-	6
Benefits paid	(1)	-	-	(3)	(4)
Interest costs	1	1	-	2	4
As at 31 March 2018 (unaudited), of which:	**124**	**175**	**29**	**217**	**545**
Short-term	**10**	**9**	**2**	**22**	**43**
Long-term	**114**	**166**	**27**	**195**	**502**

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	Restructuring	TOTAL
As at 1 January 2017	**118**	**166**	**69**	**213**	**1**	**567**
Current service cost	1	1	1	3	-	6
Actuarial gains and losses	(1)	(4)	1	(1)	-	(5)
Benefits paid	(1)	-	(1)	(3)	-	(5)
Interest costs	1	1	1	2	-	5
Reversed	-	-	-	-	(1)	(1)
As at 31 March 2017 (unaudited), of which:	**118**	**164**	**71**	**214**	**-**	**567**
Short-term	**9**	**9**	**5**	**21**	**-**	**44**
Long-term	**109**	**155**	**66**	**193**	**-**	**523**

15.2. Other provisions

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Obligation to redeem certificates	Other provisions	TOTAL
As at 1 January 2018	**114**	**57**	**46**	**299**	**71**	**587**
Interest costs	-	1	-	-	-	**1**
Recognized	4	-	28	133	38	**203**
Reversed	(5)	(1)	-	-	(7)	**(13)**
Used	(1)	-	-	-	(41)	**(42)**
As at 31 March 2018 (unaudited), of which:	**112**	**57**	**74**	**432**	**61**	**736**
Short-term	**112**	**-**	**74**	**432**	**61**	**679**
Long-term	**-**	**57**	**-**	**-**	**-**	**57**

Condensed interim consolidated financial statements as at and for the three-month period ended 31 March 2018 (in millions of PLN)

15. Provisions (cont.)

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Obligation to redeem certificates	Other provisions	TOTAL
As at 1 January 2017	**131**	**50**	**41**	**405**	**95**	**722**
Recognized	4	2	9	185	52	**252**
Reversed	(5)	-	-	-	(2)	**(7)**
Used	(1)	-	-	(196)	(42)	**(239)**
As at 31 March 2017 (unaudited), of which:	**129**	**52**	**50**	**394**	**103**	**728**
Short-term	**129**	**-**	**50**	**394**	**102**	**675**
Long-term	**-**	**52**	**-**	**-**	**1**	**53**

NOTES ON FINANCIAL INSTRUMENTS

16. Financial instruments

16.1. Carrying value of financial instruments by category and class

As at 31 March 2018 (unaudited)	Measured at fair value through profit or loss	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IAS 9	TOTAL
Assets					
Trade receivables	-	-	1,692	-	**1,692**
Cash and cash equivalents	-	-	3,319	-	**3,319**
Other financial assets	22	25	39	-	**86**
Bonds, treasury bills and other debt instruments	-	-	*14*	-	**14**
Derivative financial instruments	*22*	*25*	-	-	**47**
Other	-		*25*		**25**
TOTAL	**22**	**25**	**5,050**	**-**	**5,097**
Liabilities					
Loans and borrowings	-	-	2,991	-	**2,991**
Preferential loans and borrowings	-	-	*1,541*	-	**1,541**
Loans and borrowings	-	-	*1,450*	-	**1,450**
Bonds issued	-	-	4,435	-	**4,435**
Trade liabilities	-	-	542	-	**542**
Other financial liabilities	-	73	107	5	**185**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	*87*	-	**87**
Derivative financial instruments	-	*73*	-	-	**73**
Dividend liabilities	-	-	*2*	-	**2**
Other		-	*18*	*5*	**23**
TOTAL	**-**	**73**	**8,075**	**5**	**8,153**

Condensed interim consolidated financial statements as at and for the three-month period ended 31 March 2018 (in millions of PLN)

16. Financial instruments (cont.)

As at 31 December 2017	Measured at fair value through profit or loss	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IAS 9	TOTAL
Assets					
Trade receivables	-	-	1,843	-	**1,843**
Cash and cash equivalents	-	-	3,641	-	**3,641**
Other financial assets	24	9	96	-	**129**
Bonds, treasury bills and other debt instruments	-	-	14	-	**14**
Derivative financial instruments	24	9	-	-	**33**
Other	-		82	-	**82**
TOTAL	**24**	**9**	**5,580**	**-**	**5,613**
Liabilities					
Loans and borrowings	-	-	3,076	-	**3,076**
Preferential loans and borrowings	-	-	1,570	-	**1,570**
Loans and borrowings	-	-	1,506	-	**1,506**
Bonds issued	-	-	4,629	-	**4,629**
Trade liabilities	-	-	792	-	**792**
Other financial liabilities	-	78	278	5	**361**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	255	-	**255**
Derivative financial instruments	-	78	-	-	**78**
Dividend liabilities	-	-	2	-	**2**
Other	-	-	21	5	**26**
TOTAL	**-**	**78**	**8,775**	**5**	**8,858**

16.2. Fair value of financial instruments

Financial instruments measured at fair value on an ongoing basis

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

The table below analyses fair value measurements for financial instruments categorised into three level hierarchy:

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

	31 March 2018 (unaudited)	31 December 2017
	Level 2	Level 2
Assets		
Hedging derivatives (CCIRS I)	23	7
Hedging derivatives (CCIRS II)	1	<1
Hedging derivatives (IRS)	1	2
Other derivatives	22	24
Liabilities		
Hedging derivatives (CCIRS III)	40	49
Hedging derivatives (CCIRS IV)	33	29

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16. Financial instruments (cont.)

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

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

Financial instruments not measured at fair value on an ongoing basis

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

Liabilities arising from the issue of Eurobonds and hybrid bonds	Carrying amount	Fair value	
		Level 1	Level 2
As at 31 March 2018 (unaudited)	4,423	3,522	1,051
As at 31 December 2017	4,446	3,508	1,152

Fair value measurement of liabilities arising from the bonds issued in the Euro was estimated: in the case of Eurobonds on the basis of quotations from the Bloomberg system from 29 March 2018, which are determined based on transactions on the Luxembourg stock exchange and over-the-counter trading, while in the case of hybrid bonds based on the analysis of future cash flows discounted using the interest rates in effect as at 29 March 2018.

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

16.3. Financial liabilities

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

Loans and borrowings

	As at 31 March 2018 (unaudited)	As at 31 December 2017
Currency	PLN	
Reference rate	WIBOR, Rediscount rate	
Value of the loan/borrowing	**2,991**	**3,076**
of which maturing in:		
up to 1 year (short-term)	359	356
1 to 2 years	382	373
2 to 3 years	392	392
3 to 5 years	756	763
over 5 years	1,102	1,192

As at 31 March 2018 and 31 December 2017 the amount of credit limits available to the Group was PLN 3,994 m (75.3% used) and PLN 4,086 m (75.8% used) respectively.

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

Condensed interim consolidated financial statements as at and for the three-month period ended 31 March 2018 (in millions of PLN)

16. Financial instruments (cont.)

Liabilities under bonds issued

	As at 31 March 2018 (unaudited)	As at 31 December 2017
Currency	PLN	
Reference rate	WIBOR	
Value of the issue	**12**	**183**
of which maturing in:		
up to 1 year (short-term)	9	12
2 to 3 years	3	171

	As at 31 March 2018 (unaudited)	As at 31 December 2017
Currency	EUR	
Reference rate	fixed	
Value of the issue		
in currency	1,051	1,066
in PLN	4,423	4,446
of which maturing in:		
up to 1 year (short-term)	34	97
2 to 3 years	2,105	2,085
over 5 years	2,284	2,264

Detailed information on bonds issued is provided in Note 16.4.

16.4. Available external financing

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 March 2018 is presented in the table below:

Financing institution	Type of liability	Purpose of financing	Date of the agreement	Financing limit	Available financing amount	Nominal debt as at 31-03-2018	Repayment date
European Investment Bank	Loan	Energa-Operator SA Investment Programme	16-12-2009	1,050	-	613	15-12-2025
European Investment Bank	Loan	Energa-Operator SA Investment Programme	10-07-2013	1,000	-	950	15-09-2031
European Bank for Reconstruction and Development	Loan	Energa-Operator SA Investment Programme	29-04-2010	1,076	-	625	18-12-2024
European Bank for Reconstruction and Development	Loan	Energa-Operator SA Investment Programme	26-06-2013	800	-	643	18-12-2024
Nordic Investment Bank	Loan	Energa-Operator SA Investment Programme	30-04-2010	200	-	92	15-06-2022
Bondholders	Eurobonds	General corporate purposes	19-03-2013	2,104[1]	-	2,104[1]	19-03-2020
Bondholders	Eurobonds	General corporate purposes	07-03-2017	1,263[1]	-	1,263[1]	07-03-2027
Bondholders	Domestic bonds	General corporate purposes	19-10-2012	1,000	-	3	19-10-2019

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Financing institution	Type of liability	Purpose of financing	Date of the agreement	Financing limit	Available financing amount	Nominal debt as at 31-03-2018	Repayment date
PKO Bank Polski SA	Credit limit	General corporate purposes	30-08-2011	2	-	2	31-12-2019
PKO Bank Polski SA	Credit limit	General corporate purposes	12-10-2011	300	300	-	07-06-2021
PKO Bank Polski SA	Bonds	Energa Elektrownie Ostrołęka SA Investment Programme	30-05-2012	100	53	-	31-12-2022
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	188	12[2]	19-09-2022
Bank PEKAO SA	Revolving loan	General corporate purposes	13-10-2011	500	500	-	29-05-2020
Bank PEKAO SA	Loan	Energa Elektrownie Ostrołęka SA Investment Programme	30-05-2012	85	-	16	29-05-2022
Nordic Investment Bank	Loan	Myślino Wind Farm construction	23-10-2014	68	-	53	15-09-2026
NFOSiGW	Loan	Energa-Obrót SA investment programme	25-03-2011	0	-	0	31-12-2020
WFOŚiWG	Loan	Energa Wytwarzanie SA investment programme	23-12-2014	6	-	6	30-06-2021
WFOŚiWG	Loan	Elektrownia CCGT Gdańsk Sp. z o.o. investment programme	27-06-2014	7	-	7	30-06-2024
European Investment Bank	Hybrid bonds	Energa-Operator SA Investment Programme	04-09-2017	1,052[3]		1,052[3]	12-09 2037
TOTAL				**10,813**	**1,041**	**7,441**	

[1] liability under Eurobonds in the total amount of EUR 800 m converted using the average NBP exchange rate of 30 March 2018

[2] value of guarantee limits granted to the Companies of the Energa Group based on the concluded executive agreements (utilization of the global limit)

[3] liability under hybrid bonds in the total amount of EUR 250 m converted using the average NBP exchange rate of 30 March 2018

16.5. Cash flow hedge accounting

FX risk hedging

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

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

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

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

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

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

Condensed interim consolidated financial statements as at and for the three-month period ended 31 March 2018 (in millions of PLN)

16. Financial instruments (cont.)

Interest rate risk hedging

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

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

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

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

Fair value of hedges

The fair value of hedges was:

	Value	Recognition in the statement of financial position
As at 31 March 2018 (unaudited)		
CCIRS I	23	Assets – Other financial assets
CCIRS II	1	Assets – Other financial assets
CCIRS III	40	Liabilities – Other financial liabilities
CCIRS IV	33	Liabilities – Other financial liabilities
IRS	1	Assets – Other financial assets
As at 31 December 2017		
CCIRS I	7	Assets – Other financial assets
CCIRS II	<1	Assets – Other financial assets
CCIRS III	49	Liabilities – Other financial liabilities
CCIRS IV	29	Liabilities – Other financial liabilities
IRS	2	Assets – Other financial assets

Under cash flow hedge accounting, the cash flow hedge reserve (the effective portion of changes in the value of the hedge, less deferred tax) decreased in the reporting period by PLN 15 m.

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

Change in cash flow hedge reserve during the reporting period	3-month period ended 31 March 2018 (unaudited)	3-month period ended 31 March 2017 (unaudited)
At the beginning of the reporting period	**2**	**41**
Amount recognized in the cash flow hedge reserve in the period, equal to the change in the fair value of hedging instruments	21	(91)
Accrued interest transferred from the reserve to financial income/costs	(7)	(6)
Revaluation of hedging instruments transferred from the reserve to financial income/costs	(33)	87
Income tax on other comprehensive income	4	2
At the end of the reporting period	**(13)**	**33**

As at 31 March 2018, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

16.6. Collateral securing repayment of liabilities

At the end of the reporting period and as at 31 December 2017, there were no material assets securing repayment of liabilities or contingent liabilities.

Condensed interim consolidated financial statements as at and for the three-month period ended 31 March 2018 (in millions of PLN)

OTHER NOTES

17. Investment commitments

At the end of the reporting period, the Group's commitments to incur expenditures for the purchase of property, plant and equipment and intangible non-current assets, which have not yet been included in the statement of financial position, were about PLN 5,711 m, of which:

- undertakings covered by the development plan of Energa-Operator SA to satisfy the current and future demand for electricity in the years 2017-2022 (agreed upon with the President of the Energy Regulatory Office) – approx. 5,431 m;
- execution of the Przykona Wind Farm project – approx. PLN 135 m;
- undertakings executed in the Ostrołęka Power Plant (among others: modernization of power units, construction of a flue gas denitrification installation) – approx. PLN 81 m,
- biomass-fired unit's steam boiler optimization project implemented in ENERGA Kogeneracja Sp. z o.o. – approx. PLN 32 m,
- gas-steam power plants in Grudziądz and Gdańsk – approx. PLN 26 m,
- modernisation of hydro power stations – approx. PLN 6 m.

18. Information on related entities

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

18.1. Transactions involving parties related to the State Treasury

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

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

18.2. Transactions with associates and joint ventures

Sales of Energa SA Group companies to associates and joint ventures in the period ended 31 March 2018 was irrelevant (in the corresponding period of the previous year, sales to associates and joint ventures was PLN 53 m). In Q1 2018 purchases from associates and joint ventures were PLN 70 m (in the corresponding period of the previous year, purchases from associates and joint ventures were PLN 30 m). The amount of receivables as at 31 March 2018 was PLN 10 m (as at 31 December 2017, the receivables amounted to PLN 48 m). The amount of liabilities as at 31 March 2018 was PLN 25 m compared to PLN 15 m as at 31 December 2017. All of these transactions concerning Q1 2018 were concluded with Polska Grupa Górnicza Sp. z o.o., in particular for the purchase of coal.

18.3. Transactions with Parent Company's Management Board members

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

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

	3-month period ended 31 March 2018 (unaudited)	3-month period ended 31 March 2017 (unaudited)
Management Board of the parent company	1	2
Supervisory Board of the parent company	<1	<1
Management Boards of subsidiaries	8	7
Supervisory Boards of subsidiaries	<1	<1
Other key management	6	4
TOTAL	**15**	**13**

19. Contingent assets and liabilities

19.1. Contingent liabilities

As at 31 March 2018, the Group recognizes contingent liabilities of PLN 337 m (PLN 320 m as at 31 December 2017), including mainly the contingent liabilities relating to disputes involving Energa Group companies, where a victory by the company is probable and no provision has been recognized for these cases.

The largest contingent liability item consists of disputes relating to power infrastructure of Energa-Operator SA where it is located on private land. The Group recognizes provisions for reported legal claims. If there is uncertainty whether a claim amount or legal title to land is justified, the Group recognizes contingent liabilities. As at 31 March 2018, the estimated value of those claims recognized as contingent liabilities is PLN 201 m, compared with PLN 210 m on 31 December 2017. The amounts are estimated by the Group's lawyers, who consider the risk of a situation in which liability arises to be below 50%.

19. Contingent assets and liabilities (cont.)

An important issue is also the co-financing agreement for the project entitled "Construction of the biomass power unit in Energa Kogeneracja Sp. z o.o. in Elbląg", which defines the result indicators for the quantity of generated electricity and heat energy from 2014 to 2018. Following failure to meet the indicators, it is likely that the awarded subsidy may be requested to be refunded. However, given the recovery actions undertaken, which are monitored by the Ministry of Energy, the Group estimated that by the end of 2018 the BB20 unit will be optimised so that it can achieve full generating capacity. Thus, the result indicators will be met by the required time limit, i.e. by the end of 2019 and the funds will not have to be refunded. The Management Board of Energa Kogeneracja Sp. z o.o. keeps the Ministry of Energy informed of agreement performance on the ongoing basis. To secure performance of obligations arising out of the co-financing agreement, Energa Kogeneracja Sp. z o.o. issued a blank bill up to PLN 40 m with interest.

In addition, Energa-Obrót SA found that, among others, 22 long-term framework agreements for the purchase of property rights arising out of certificates of origin ("CPAs") were invalid, including package agreements related to the contracts for the sale of electricity concluded with the owners of wind farms with the total capacity of approx. 530 MW. The reason for absolute invalidity of the CPAs is their conflict with the Act of 29 January 2004 on the Public Procurement Law (Journal of Laws of 2017 item 1579). Given this, on 11 September 2017 the Company ceased to perform the CPAs and filed actions to common and arbitration courts to declare the agreements invalid. The CPAs were concluded for up to 20 years of the date the electricity began to be generated at a given installation. The investment capital employed in the wind farms comes from many countries, such as Germany, US, Spain, Austria and Japan.

The sole grounds for the arguments raised by Energa-Obrót SA regarding invalidity of the CPAs are legal conditions related to conclusion of the CPAs. The Company became convinced of the absolute invalidity of the CPAs on the basis of legal opinions prepared by reputable legal firms. The Company made a decision to terminate performance of the CPAs and refer the cases to court on the basis of such opinions.

Court cases regarding invalidity of the CPAs are pending. The litigations were initiated in September 2017 and are currently at the preliminary stage of proceeding before courts of the first instance.

Energa-Obrót SA was delivered responses to statements of claim from nearly all defending wind farms and banks (to which receivables arising out of CPAs were assigned). The analysis of counter arguments raised against arguments of the Company leads to a conclusion that there are good reasons in favour of the legitimacy of the action filed. Having analysed the arguments and allegations by the defendants, the Company still believes that the CPAs are absolutely invalid. This position was confirmed in the course of trials by independent experts from various fields of the law and by another reputable international law firm.

What is important, in the course of the trials, some of the defendants signalled their intention to settle. Currently, Energa-Obrót SA is negotiating with several entities, which may result in settlements and amicable resolution of litigations.

The estimated value of the contingent liability arising out of termination of performance of the CPAs is PLN 46.4 m.

19.2. Contingent assets

At the end of the reporting period and as at 31 December 2017, there were no material contingent assets.

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

On 4 April 2018 Elektrownia Ostrołęka sp. z o.o. ("Contracting Authority") awarded the contract in the public procurement procedure entitled "Construction of Ostrołęka C Power Station with the capacity of approx. 1000 MW" ("Procedure", "Contract") by selecting the Consortium of GE Power Sp. z o.o. and Alstom Power System S.A.S as the General Contractor, which offered performance of the subject of the contract with parameters specified in the tender for the net price of PLN 5,050 m, PLN 6,023 m gross.

Award of the Contract is not equivalent to:

- giving the consent to conclude the contract with the General Contractor – such a consent needs a prior approval from the Supervisory Board of Energa SA;

- giving the consent for the NTP (notice to proceed) - the NTP requires a prior approval from the Supervisory Board of Energa SA and a prior specific approval from General Meeting of Shareholders of Energa SA to commence the Construction Stage.

Earlier, on 24 March 2018 the Management Board of Energa SA, as a shareholder of Contracting Authority, received a request from the Contracting Authority for the consent to award the Contract (Current Report No 11/2018). The Management Board of Energa SA gave the consent on 27 March 2018 (Current Report No 13/2018).

21. Subsequent events

On 3 April 2018 Meetings of Shareholders of Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o. (acquiring company), Energetyka Kaliska - Usługi Techniczne Sp. z o.o., ZEP - Centrum Wykonawstwa Specjalistycznego Sp. z o.o. and Zakład Budownictwa Energetycznego Sp. z o.o. adopted resolutions on the merger of the companies. The merger and a name change of the aquiring company to Energa-Operator Wykonawstwo Elektroenergetyczne Sp. z o.o. were registred in the National Court Register on 30 April 2018.

On 16 April 2018 Meetings of Shareholders adopted resolutions on the merger of Energa Centrum Usług Wspólnych Sp. z o.o. (acquiring company) and RGK Sp. z o.o. Currently, the process of merger registration is pending in the National Court Register.

Signatures of Members of the Management Board of Energa SA:

Alicja Barbara 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

Signature of the person responsible for the preparation of the statements:

Małgorzata Guzińska-Błońska ....

Acting Director of the Finance Department
Manager of the Financial Reporting Unit – Chief Accountant

Gdańsk, 9 May 2018