Energa

ENERGA SA
Group

Condensed interim consolidated financial statements prepared in accordance with IAS 34 for the six-month period ended 30 June 2018

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Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2018 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	3-month period ended 30 June 2018 (unaudited)	6-month period ended 30 June 2018 (unaudited)	3-month period ended 30 June 2017 (unaudited)	6-month period ended 30 June 2017 (unaudited)
Sales revenues	**2,392**	**5,034**	**2,487**	**5,197**
Cost of sales	(1,816)	(3,884)	(2,074)	(4,251)
Gross profit on sales	**576**	**1,150**	**413**	**946**
Other operating income	28	57	59	96
Selling and distribution expenses	(75)	(163)	(82)	(172)
General and administrative expenses	(91)	(183)	(77)	(162)
Other operating expenses	(23)	(58)	(13)	(53)
Financial income	17	35	(4)	76
Financial costs	(103)	(197)	(76)	(140)
Share in profit/(loss) of entities measured by the equity method	21	51	(2)	8
Profit or loss before tax	**350**	**692**	**218**	**599**
Income tax	(70)	(135)	(43)	(111)
Net profit or loss for the period	**280**	**557**	**175**	**488**
Attributable to:				
Equity holders of the Parent Company	281	556	174	484
Non-controlling interest	(1)	1	1	4
Earnings or loss per share (in PLN)				
- basic	**0.68**	**1.34**	**0.42**	**1.17**
- diluted	**0.68**	**1.34**	**0.42**	**1.17**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2018 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3-month period ended 30 June 2018 (unaudited)	6-month period ended 30 June 2018 (unaudited)	3-month period ended 30 June 2017 (unaudited)	6-month period ended 30 June 2017 (unaudited)
Net profit or loss for the period	**280**	**557**	**175**	**488**
Items that will never be reclassified to profit or loss	***(7)***	***(12)***	***(17)***	***(14)***
Actuarial gains and losses on defined benefit plans	(9)	(15)	(22)	(18)
Deferred income tax	2	3	5	4
Items which may be reclassified to profit or loss in the future	***24***	***9***	***(30)***	***(43)***
Foreign exchange differences from translation of foreign entities	4	4	1	(4)
Cash flow hedge	25	6	(38)	(48)
Deferred income tax	(5)	(1)	7	9
Share in other comprehensive income of entities measured by the equity method	**1**	**1**	**-**	**-**
Net other comprehensive income	**18**	**(2)**	**(47)**	**(57)**
Total comprehensive income	**298**	**555**	**128**	**431**
Attributable to:				
Equity holders of the Parent Company	299	554	127	427
Non-controlling interest	(1)	1	1	4

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2018 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2018 (unaudited)	As at 31 December 2017
ASSETS		
Non-current assets		
Property, plant and equipment	13,653	13,371
Intangible assets	309	338
Goodwill	15	15
Investments in associates and joint ventures measured by the equity method	836	728
Deferred tax assets	307	325
Other non-current financial assets	130	46
Other non-current assets	104	107
	15,354	**14,930**
Current assets		
Inventories	415	352
Income tax receivables	26	31
Trade receivables	1,063	1,843
Contract assets	582	-
Other current financial assets	26	83
Cash and cash equivalents	3,189	3,641
Other current assets	345	176
	5,646	**6,126**
TOTAL ASSETS	**21,000**	**21,056**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2018 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont.)

	As at 30 June 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	1,540	1,433
Cash flow hedge reserve	7	2
Retained earnings	3,069	2,436
Equity attributable to equity holders of the Parent Company	**10,158**	**9,409**
Non-controlling interest	**57**	**56**
	10,215	**9,465**
Non-current liabilities		
Loans and borrowings	2,538	2,720
Bonds issued	4,552	4,520
Non-current provisions	573	550
Deferred tax liabilities	644	596
Deferred income and non-current grants	259	501
Other non-current financial liabilities	5	81
	8,571	**8,968**
Current liabilities		
Trade liabilities	459	792
Contract liabilities	105	-
Current loans and borrowings	364	356
Bonds issued	78	109
Current income tax liabilities	6	11
Deferred income and grants	146	182
Short-term provisions	538	571
Other financial liabilities	129	280
Other current liabilities	389	322
	2,214	**2,623**
Total liabilities	**10,785**	**11,591**
TOTAL EQUITY AND LIABILITIES	**21,000**	**21,056**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 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**
Impact of IFRS 9 and IFRS 15 implementation after tax	**-**	**-**	**-**	**-**	**-**	195	**195**	**-**	**195**
As at 1 January 2018 (restated)	**4,522**	**(2)**	**1,018**	**1,433**	**2**	**2,631**	**9,604**	**56**	**9,660**
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	(12)	**(12)**	-	**(12)**
Foreign exchange differences from translation of foreign entities	-	4	-	-	-	-	**4**	-	**4**
Cash flow hedge	-	-	-	-	5	-	**5**	-	**5**
Share in other comprehensive income of entities measured by the equity method	-	-	-	-	-	1	**1**	-	**1**
Net profit or loss for the period	-	-	-	-	-	556	**556**	1	**557**
Total comprehensive income for the period	**-**	**4**	**-**	**-**	**5**	**545**	**554**	**1**	**555**
Retained earnings/ losses brought forward	-	-	-	107	-	(107)	**-**	**-**	**-**
As at 30 June 2018 (unaudited)	**4,522**	**2**	**1,018**	**1,540**	**7**	**3,069**	**10,158**	**57**	**10,215**
As at 1 January 2017	**4,522**	**4**	**1,018**	**728**	**41**	**2,464**	**8,777**	**40**	**8,817**
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	(14)	**(14)**	-	**(14)**
Foreign exchange differences from translation of foreign entities	-	(4)	-	-	-	-	**(4)**	-	**(4)**
Cash flow hedge	-	-	-	-	(39)	-	**(39)**	-	**(39)**
Net profit or loss for the period	-	-	-	-	-	484	**484**	4	**488**
Total comprehensive income for the period	**-**	**(4)**	**-**	**-**	**(39)**	**470**	**427**	**4**	**431**
Retained earnings/ losses brought forward	-	-	-	705	-	(705)	**-**	**-**	**-**
Dividend payment	-	-	-	-	-	(79)	**(79)**	**-**	**(79)**
Changes in held shares	-	-	-	-	-	4	**4**	**-**	**4**
As at 30 June 2017 (unaudited)	**4,522**	**-**	**1,018**	**1,433**	**2**	**2,154**	**9,129**	**44**	**9,173**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2018 (in millions of PLN)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	6-month period ended 30 June 2018 (unaudited)	6-month period ended 30 June 2017 (unaudited)
Cash flows from operating activities		
Profit or loss before tax	**692**	**599**
Adjustments for:		
Share in (profit)/loss of entities measured by the equity method	(51)	(8)
Foreign currency (gains)/losses	38	(13)
Amortization and depreciation	477	488
Net interest and dividends	151	95
(Profit)/loss on investing activities, including goodwill impairment allowance	(93)	(86)
Changes in working capital:		
Changes in receivables	795	172
Changes in contract assets	(582)	-
Change in inventories	(64)	(66)
Change in liabilities, excluding loans and borrowings	(266)	(41)
Change in contract liabilities	105	-
Change in prepayments and accruals	(285)	(233)
Change in provisions	(25)	(84)
	892	**823**
Income tax	**(66)**	**29**
Net cash from operating activities	**826**	**852**
Cash flows from investing activities		
Disposal of property, plant and equipment and intangible assets	2	5
Purchase of property, plant and equipment and intangible assets	(766)	(585)
Establishment of term deposits with maturities above 3 months	-	(127)
Sale of a subsidiary	58	24
Investments in associates and joint ventures measured by the equity method	(53)	(217)
Loan repayment	10	-
Other	2	(6)
Net cash from investing activities	**(747)**	**(906)**
Cash flow from financing activities		
Proceeds from debt incurred	-	1,252
Repayment of debt incurred	(185)	(169)
Redemption of debt securities	(168)	(126)
Interest paid	(178)	(127)
Other	(1)	(1)
Net cash from financing activities	**(532)**	**829**
Net increase/(decrease) in cash and cash equivalents	**(453)**	**775**
Cash and cash equivalents at the beginning of the period	**3,643**	**1,464**
Cash and cash equivalents at the end of the period	**3,190**	**2,239**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 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 cover the 6-month period ended 30 June 2018 and contains appropriate comparative data.
The Parent Company is entered in the Register of Entrepreneurs of the National Court Register held by the District Court Gdańsk-Północ in Gdańsk, 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 30 June 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 joint ventures and associates

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

As at 30 June 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	
				30 June 2018	31 December 2017
Distribution Segment					
1	Energa-Operator SA[1]	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. [1]	Koszalin	technical customer service	100	100
9	Energa Operator Wykonawstwo Elektroenergetyczne Sp. z o.o. (formerly Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.)[2]	Słupsk	contracting and design	100	100
10	Energetyka Kaliska - Usługi Techniczne Sp. z o.o.[2]	Kalisz	contracting and design	-	100
11	ZEP - Centrum Wykonawstwa Specjalistycznego Sp. z o.o. [2]	Płock	contracting and design	-	100
12	Zakład Budownictwa Energetycznego Sp. z o.o. [2]	Koszalin	contracting and design	-	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

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2018 (in millions of PLN)

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 June 2018	31 December 2017
15	Energa SLOVAKIA s.r.o.	Bratislava	trading in electricity	100	100
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
Other Segment					
22	Energa Centrum Usług Wspólnych Sp. z o.o. [3]	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. [3]	Gdańsk	financing services and property management	-	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.) [4]	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] Two companies of the Group, Energa Operator SA and Energa Operator Techniczna Obsługa Odbiorców Sp. z o.o. signed a Merger Plan on 26 April 2018, where Energa Operator SA was designated as the merging company.

The Meeting of Shareholders of Energa Operator Techniczna Obsługa Odbiorców Sp. z o.o. adopted a resolution on the merger on 1 June 2018; the merger will take place without an increase of the merging company's share capital (in accordance with Articles 514 § 1 and 515 § 1 of the Code of Commercial Companies, under the simplified procedure envisaged in Articles 516 § 1, 5 and 6 of the Code of Commercial Companies. The merger was registered in the National Court Register on 2 July 2018.

[2] On 26 February 2018, a Merger Plan was signed by four investment companies belonging to the Distribution Segment, namely Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o. (merging 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. (merged companies).

2. Composition of the Group, and joint ventures and associates (cont.)

The Meetings of Shareholders of those companies during which merger resolutions were adopted were held on 3 April 2018. The merger was registered in the National Court Register on 30 April 2018. On the same day, the merging company's articles of association were amended and, as a result, the company was renamed ENERGA-OPERATOR Wykonawstwo Elektroenergetyczne Sp. z o.o.

[3] In connection with the Merger Plan of Energa Centrum Usług Wspólnych Sp. z o.o. (merging company) and RGK Sp. z o.o. (merged company) agreed and signed on 19 January 2018, the Meetings of Shareholders of those companies adopted merger resolutions on 16 April 2018. The merger was registered in the National Court Register on 7 June 2018.

[4] The change of the company's name was registered on 23 February 2018.

Additionally, as at 30 June 2018 the Group holds shares in joint ventures: Polska Grupa Górnicza Sp. z o.o. ("PGG"), Elektrownia Ostrołęka Sp. z o.o (formerly Elektrownia Ostrołęka SA) and in associates: Polimex-Mostostal S.A. ("Polimex") and ElectroMobility Poland SA (see description in Note 2.2).

2.2. Joint ventures and associates

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. 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").

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: Payments totalling PLN 100 m were made, which resulted in the Group acquiring 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%.

2. Composition of the Group, and joint ventures and associates (cont.)

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 June 2018, the average stock price of Polimex was PLN 3.12; accordingly, the fair value of the block of shares held by the Group was PLN 122 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.

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.

An increase of the share capital of Elektrownia Ostrołęka SA, by virtue of the resolution of the Meeting of Shareholders of 13 April 2017, was registered on 30 May 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.

On 30 July 2018, an increase of the share capital of Elektrownia Ostrołęka Sp. z o.o. by PLN 35 m, by virtue of the resolution of the Meeting of Shareholders of 29 March 2018, was registered under which Energa SA and Enea S.A. acquired 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.

3. Composition of the Parent Company's Management Board

During the first half of 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:
- Mr Daniel Obajtek - President of the Management Board,
- Ms Alicja Barbara Klimiuk - Vice-President of the Management Board for Operational Matters,
- Mr Jacek Kościelniak - Vice-President of the Management Board for Financial Matters,
- Mr Grzegorz Ksepko - Vice-President of the Management Board for Corporate Matters,

2) in the period from 6 February 2018 to 1 July 2018:
- Ms Alicja Barbara Klimiuk - Vice-President of the Management Board for Operational Matters, acting as the President of the Management Board,
- Mr Jacek Kościelniak - Vice-President of the Management Board for Financial Matters,
- Mr Grzegorz Ksepko - Vice-President of the Management Board for Corporate Matters,

3) in the period from 2 July 2018 to 31 July 2018:
- Mr Arkadiusz Siwko - President of the Management Board,
- Ms Alicja Barbara Klimiuk - Vice-President of the Management Board for Operational Matters,
- Mr Jacek Kościelniak - Vice-President of the Management Board for Financial Matters,
- Mr Grzegorz Ksepko - Vice-President of the Management Board for Corporate Matters.

3. Composition of the Parent Company's Management Board

4) in the period from 1 August 2018 until the day these financial statements were prepared:

- Ms Alicja Barbara Klimiuk - Vice-President of the Management Board for Operational Matters, acting as the President of the Management Board,
- Mr Jacek Kościelniak - Vice-President of the Management Board for Financial Matters,
- Mr Grzegorz Ksepko - Vice-President of the Management Board for Corporate Matters.

4. Approval of the financial statements

These condensed interim consolidated financial statements were approved for publication by the Company's Management Board on 8 August 2018.

5. Basis of 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.

5.2. 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 Group applies IAS 39 on a continuous basis. The Group applied both standards from their effective dates without transforming comparative data.

IFRS 9 "Financial Instruments"

In accordance with the new standard, financial assets are classified into only three categories: financial assets at amortized cost, financial assets at fair value through other comprehensive income or financial assets at fair value through profit or loss. The classification of financial assets depends on the business model of managing financial assets and the characteristics of the contractual cash flows of the financial asset.
The classification of financial assets is made at the moment of initial recognition and can only be changed if the business model of managing financial assets has changed.
In accordance with IFRS 9, a financial asset is measured at amortized cost if both of the following conditions are met:

• the Group's objective is to maintain these financial assets to obtain contractual cash flows, and
• for which the contractual provisions cause, on certain dates, cash flows, which are exclusively repayments of the unsettled principal amount and interest on that amount (the so-called SPPI, solely payment of principal and interest).

In turn, a financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

• the Group's objective is both, to maintain these financial assets to obtain contractual cash flows, and to sell financial assets, and

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2018 (in millions of PLN)

7. Significant accounting policies (cont.)

- for which the contractual provisions cause, on certain dates, cash flows, which are exclusively repayments of the unsettled principal amount and interest on that amount (the so-called SPPI, solely payment of principal and interest).

Other financial assets are measured at fair value through profit or loss.
IFRS 9 did not change the classification of financial liabilities.

IFRS 9 also changes the model for determining impairment losses - from the incurred loss model for the expected losses model. As of January 1, 2018, the Group implemented the expected credit losses model in accordance with the simplified method admissible for application by IFRS 9. The reasons for using the above model are the following arguments:

- receivables held by the Group did not contain a significant element of financing within the meaning of the principles set out in IFRS 15, i.e. there was no significant financing component that could adjust the promised amount of remuneration,
- receivables met the condition of waiting to be repaid in less than a year.

The simplified model allows you to calculate credit losses throughout the life of your receivables.
Therefore, as regards receivables from customers, the Group separated a portfolio of strategic counterparties for which historical data on repayment does not provide full information on the expected credit losses to which the Group may be exposed. The risk of insolvency of strategic counterparties was assessed on the basis of ratings assigned to counterparties using the internal scoring model, respectively converted into probability of default occuring. The expected credit loss, in accordance with IFRS 9 Financial Instruments, is calculated taking into account estimates of potential recoveries due to collateral posted.
In the case of receivables from other counterparties, it is expected that historical repayment data may reflect the credit risk that will be incurred in future periods. The expected credit losses for this group of counterparties were estimated by assigning percentages to individual categories of receivables, allowing for estimating the value of receivables from recipients, which are not expected to be repaid.
Taking into account the above methodology for calculating expected credit losses, the value of receivables can also be updated individually, in particular in relation to:

- receivables from debtors put into liquidation or bankruptcy,
- debts questioned by debtors and from which the debtor is in arrears, and according to the assessment of the debtor's financial and economic situation it is not probable that the write-off will be created in the amount of 100% of the debt previously recognized,
- other overdue receivables, as well as non-overdue receivables, the risk of which is not recoverable is significant according to the individual assessment of the Management Board.

In connection with the entry in force of IFRS 9, the implemented changes involved primarily the classification of financial assets and the method of estimation of impairment write-downs for financial assets, i.e. migration to the expected loss model. The change of classification represents a change in presentation (see below). Meanwhile, in connection with the change of the method of estimation of provisions for trade receivables based on the analysis of likelihood of loss within the specific receivables categories as at 1 January 2018 provisions were established in the aggregate value of PLN 12 m (impact on retained earnings following recognition of deferred tax of PLN 10 m).
The table below presents the classification of financial instruments prior to and after the effective date of the new IFRS standards (valid as at 1 January 2018).

Financial instruments	Classification of financial instruments according to IAS 39	Classification of financial instruments according to IFRS 9	Value according to IAS 39	Value according to IFRS 9
Assets				
Trade receivables	Loans and receivables	Measured at amortized cost	1,843	1,831
Cash and cash equivalents	Cash and cash equivalents	Measured at amortized cost	3,641	3,641
Other financial assets				
Bonds, treasury bills and other debt instruments	Loans and receivables	Measured at amortized cost	14	14
Derivative financial instruments	Financial assets measured at fair value through profit or loss	Measured at fair value through profit or loss of the period	24	24
Derivative financial instruments	Hedging derivatives	Hedging derivatives	9	9
Other	Loans and receivables	Measured at amortized cost	82	82
TOTAL			**5,613**	**5,601**
Liabilities				
Loans and borrowings				
Preferential loans and borrowings	Financial liabilities measured at amortized cost	Measured at amortized cost	1,570	1,570
Loans and borrowings	Financial liabilities measured at amortized cost	Measured at amortized cost	1,506	1,506

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Financial instruments	Classification of financial instruments according to IAS 39	Classification of financial instruments according to IFRS 9	Value according to IAS 39	Value according to IFRS 9
Bonds issued	Financial liabilities measured at amortized cost	Measured at amortized cost	4,629	4,629
Trade liabilities	Financial liabilities measured at amortized cost	Measured at amortized cost	792	792
Other financial liabilities				
Liabilities on purchase of property, plant and equipment and intangible assets	Financial liabilities measured at amortized cost	Measured at amortized cost	255	255
Derivative financial instruments	Hedging derivatives	Hedging derivatives	78	78
Dividend liabilities	Financial liabilities measured at amortized cost	Measured at amortized cost	2	2
Other	Financial liabilities measured at amortized cost	Measured at amortized cost	21	21
Other	Financial instruments excluded from the scope of IAS 39	Financial instruments excluded from the scope of IFRS 9	5	5
TOTAL			**8,858**	**8,858**

Below we present disclosures about credit risk by rating categories and other categories regarding trade receivables and contract assets:

	1 January 2018			30 June 2018		
	Average weighted indicator	Gross value	Impairment losses	Average weighted indicator	Gross value	Impairment losses
Customer's above average rating	0.0%	615	-	0.0%	603	-
Customer's average rating	0.6%	129	(1)	0.2%	168	-
Customer's below average rating	10.9%	39	(4)	8.9%	43	(4)

	1 January 2018			30 June 2018		
	Average weighted indicator	Gross value	Impairment losses	Average weighted indicator	Gross value	Impairment losses
Unrated customers in the sales business line	2.0%	807	(16)	2.0%	732	(15)
Claims due	78.3%	281	(220)	78.9%	308	(243)
Other receivables	20.6%	253	(52)	50.0%	108	(54)

IFRS 15 “Revenue from contracts with customers”

In addition to the method of recognizing the connection fee resulting from years prior to 2009 and the presentation of transition fees and renewable energy sources consisting in the reduction of revenue (as described below), there were no significant changes in the recognition of revenues. In addition, from 1 January 2018, the five-step method of recognizing revenue in accordance with point 9 of IFRS 15.

Revenues from sales are recognized at the moment and to the extent reflecting the fulfillment by the Group of the obligation to provide the service (delivery of the service) or delivery of the goods. The liability is fulfilled when the customer obtains control over the transferred asset. Sales revenue is recognized at the transaction price, i.e. in the amount for which payment is expected.

Depending on the fulfillment of the criteria set out in IFRS 15 "Revenues from contracts with customers", revenues may be recognized once (when the control over goods and services is transferred to the customer) or they can be spread over time in a way that illustrates the performance of the service - especially in the case of contracts provided over time, e.g. electricity supply.

The generic structure of sales revenues and the method of their recognition are as follows:

- revenues from the sale of electricity are recognized in revenues when the goods are delivered to the customer on the basis of readings from metering and billing equipment. In the case when no real reading from the meter was made in the settlement period, the basis for determining the revenue is the estimate, determined on the basis of the average 24-hour electricity consumption in previous settlement periods. The price lists binding in a given period are used to calculate the income. These are services provided on a continuous basis;
- revenues from gas sales are recognized when goods are delivered in the manner described for electricity;
- revenues from the sale of energy certificates of origin are recognized at the time of the sale/transfer of certificates held;

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7. Significant accounting policies (cont.)

- revenues from the sale of other goods, products and materials recognized at the time of the sale/transfer of owned goods, products and materials;
- revenues from distribution and transit services are recognized when the service is provided. Services are provided on a continuous basis;
- revenues for connection of suppliers are recognized after the service is provided;
- rental revenues are determined using the straight-line method over the rental period in relation to open contracts;
- revenues from other services are recognized when the service is provided.

Revenues from the sale of energy purchased by the Group on the Balancing Market are presented as revenues from the sale of goods.
Revenue from the performance of an incomplete service in the period from the date of conclusion of the contract to the end of the reporting period - after deduction of revenues that affected the financial result in previous reporting periods - is determined in proportion to the degree of its implementation, if this degree can be reliably determined.
Revenues from reinvoicing are recognized as revenues from basic operating activities.
Adjustments to sales revenues are included in the period they relate to until the financial statements are authorized for issue.
Dividend income is recognized when the right to the dividend is acquired.

Revenues from contracts with customers, presented by categories, which reflect the manner in which economic factors affect the nature, amount, payment date and uncertainty of revenues and cash flows are presented in note 9.

In accordance with IFRS 15, contract assets and contract liabilities have been presented in the statement of financial position.

The Group presents all unconditional rights to receive remuneration separately as a receivable. The right to remuneration is unconditional if the only condition for remuneration is the expiration of a certain period of time.
However if:

a) The Group fulfills the obligation by transferring goods or services to the customer before the customer pays the remuneration or before its due date, the Group presents the contract as a contract asset, excluding any amounts presented as receivables. The assets component of the contract is the Group's right to remuneration in exchange for goods or services that the Group has transferred to the customer.
b) the customer makes the payment of remuneration or the Group is entitled to the amount of remuneration which is unconditional (i.e. payable) before the Group transfers goods or services to the customer, the Group presents the contract as a contract liability at the time of payment or when the payment becomes due.

The contract liability is the Group's obligation to provide goods or services to the customer in return for which the Group has received remuneration (or the amount of remuneration is due) from the customer.

Changes resulting from the change in accounting policy have been included in a simplified manner without any change in comparative data, only introduced as an adjustment to retained earnings.

In connection with the entry in force of IFRS 15, as at 1 January 2018 the Group increased retained earnings by the amount of PLN 205 m on account of a one-time settlement of the income from connection charges relating to the periods before 1 July 2009 after defferend tax effect, that were recognized as deferred income and settled over time. At the same time, the Group changed the method of presentation of the transition charge and renewable energy sources arguing that they represent a quasi tax collected for the benefit of other entities. Consequently, the aforementioned charges currently reduce the value of the revenues but are not part of the Group’s own cost of sales.

	30 June 2018 data published	Connection charges	Transition charges and renewable sources of energy	30 June 2018 net of IFRS 15
Statement of comprehensive income				
Sales revenues	5,197	6	178	5,381
Cost of sales	(3,884)		(178)	(4,062)
Profit or loss before tax	692	6		698
Income tax	(135)	(1)		(136)
Net profit or loss for the reporting period	557	5		562
Statement of financial position				
Retained earnings	2,512	(205)		2,307
Profit or loss before tax	557	5		562
Total equity	10,215	(200)		10,015
Deferred income tax provision	644	(47)		597
Deferred income and grants	405	247		652
Total liabilities	10,785	200		10,985

7. Significant accounting policies (cont.)

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.

7.3. 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 customers and its international assets do not have a significant impact on the Group's results.

The tables below show the allocation of revenues and expenses for the period from 1 January to 30 June 2018 and the assets and liabilities as at 30 June 2018 by individual reporting segments, together with appropriate comparative information. The data for a corresponding period were restated as a result of the change in business line allocation of Energa Logistyka Sp. z o.o.

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

6-month period ended 30 June 2018 (unaudited) or as at 30 June 2018 (unaudited)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external customers	2,043	2,535	414	42	**5,034**	-	**5,034**
Inter-business line sales	29	148	132	204	**513**	(513)	**-**
Total business line revenues	**2,072**	**2,683**	**546**	**246**	**5,547**	**(513)**	**5,034**
EBITDA	**990**	**57**	**168**	**(56)**	**1,159**	**2**	**1,161**
Amortization and depreciation	377	20	80	10	**487**	(10)	**477**
Impairment losses on non-financial non-current assets	-	-	(117)	(2)	**(119)**	-	**(119)**
Operating profit or loss	**613**	**37**	**205**	**(64)**	**791**	**12**	**803**
Net finance income/expense	(65)	6	(26)	596	**511**	(673)	**(162)**
Share in profit/(loss) of entities measured by the equity method	-	-	-	-	**-**	51	**51**
Profit or loss before tax	**548**	**43**	**179**	**532**	**1,302**	**(610)**	**692**
Income tax	(109)	(8)	(35)	18	**(134)**	(1)	**(135)**
Net profit or loss	**439**	**35**	**144**	**550**	**1,168**	**(611)**	**557**
Assets and liabilities							
Cash and cash equivalents	46	36	3	3,104	**3,189**	-	**3,189**
Total assets	**13,986**	**2,116**	**4,081**	**16,720**	**36,903**	**(15,903)**	**21,000**
Financial liabilities	4,785	-	873	7,959	**13,617**	(6,085)	**7,532**
Other business line information							
Capital expenditure	534	12	76	6	**628**	(4)	**624**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2018 (in millions of PLN)

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

6-month period ended 30 June 2017 (unaudited) (restated) or as at 31 December 2017 (restated)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external customers	2,149	2,599	403	46	**5,197**	-	**5,197**
Inter-business line sales	26	18	128	169	**341**	(341)	**-**
Total business line revenues	**2,175**	**2,617**	**531**	**215**	**5,538**	**(341)**	**5,197**
EBITDA	**931**	**11**	**177**	**(26)**	**1,093**	**50**	**1,143**
Amortization and depreciation	381	22	82	10	**495**	(7)	**488**
Operating profit or loss	**550**	**(11)**	**95**	**(36)**	**598**	**57**	**655**
Net finance income/expense	(57)	2	(33)	223	**135**	(199)	**(64)**
Share in profit/(loss) of entities measured by the equity method	-	-	-	-	**-**	8	**8**
Profit or loss before tax	**493**	**(9)**	**62**	**187**	**733**	**(134)**	**599**
Income tax	(98)	(1)	(16)	6	**(109)**	(2)	**(111)**
Net profit or loss	**395**	**(10)**	**46**	**193**	**624**	**(136)**	**488**
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	435	21	46	30	**532**	(4)	**528**

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

6-month period ended 30 June 2018 (unaudited)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenues on sales of products and goods for resale and materials, incl.:	**28**	**2,599**	**491**	**122**	**3,240**	**(360)**	**2,880**
Electricity	26	2,665	359	-	**3,050**	(267)	**2,783**
Certificates of origin	-	-	23	-	**23**	-	**23**
Gas	-	69	-	-	**69**	(1)	**68**
Other products, goods for resale and materials	2	2	109	122	**235**	(92)	**143**
Excise tax	-	(137)	-	-	**(137)**	-	**(137)**
Revenues on sales of services, including:	**2,044**	**84**	**55**	**124**	**2,307**	**(153)**	**2,154**
Distribution and transit services	1,983	-	17	-	**2,000**	(18)	**1,982**
Customer connection fees	18	-	-	-	**18**	-	**18**
Rental income	18	2	32	1	**53**	(10)	**43**
Other services	25	82	6	123	**236**	(125)	**111**
TOTAL	**2,072**	**2,683**	**546**	**246**	**5,547**	**(513)**	**5,034***
of which:							
Revenues on sales of products and goods for resale and materials transferred or services provided on a continous basis	2,009	2,597	376	-	**4,982**	(286)	**4,696**
Revenues on sales of products and goods for resale and materials transferred or services provided at a specific time	63	86	170	246	**565**	(227)	**338**

* In the presented revenues for the period 6-month period ended 30 June 2018 estimated revenues from contracts are PLN 477 m.

6-month period ended 30 June 2017 (unaudited) (restated)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenues on sales of products and goods for resale and materials, incl.:	**36**	**2,509**	**481**	**127**	**3,153**	**(220)**	**2,933**
Electricity	34	2,561	357	-	**2,952**	(133)	**2,819**
Certificates of origin	-	1	6	-	**7**	-	**7**
Gas	-	80	-	-	**80**	(1)	**79**
Other products, goods for resale and materials	2	3	118	127	**250**	(86)	**164**
Excise tax	-	(136)	-	-	**(136)**	-	**(136)**
Revenues on sales of services, including:	**2,139**	**108**	**50**	**88**	**2,385**	**(121)**	**2,264**
Distribution and transit services	2,071	-	18	-	**2,089**	(18)	**2,071**
Customer connection fees	35	-	-	-	**35**	-	**35**
Rental income	17	1	26	1	**45**	(6)	**39**
Other services	16	107	6	87	**216**	(97)	**119**
TOTAL	**2,175**	**2,617**	**531**	**215**	**5,538**	**(341)**	**5,197**
of which:							
Revenues on sales of products and goods for resale and materials transferred or services provided on a continous basis	2,105	2,505	375	-	**4,985**	(152)	**4,833**
Revenues on sales of products and goods for resale and materials transferred or services provided at a specific time	70	112	156	215	**553**	(189)	**364**

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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 613 m (PLN 483 m in the corresponding period of 2017);
- sold and scrapped property, plant and equipment with a total carrying value of PLN 20 m (PLN 11 m in the corresponding period of 2017).
- recognized impairment losses on property, plant and eqipment in the amount of PLN 117 m (none in the corresponding period of 2017).

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

In the first half of 2018, the Group's property, plant and equipment and goodwill were assessed for any internal and external indications of a drop in recoverable value. In connection with the occurrence in the first half of 2018 of the changes in the legislative environment, i.e. the signing by the President of the Republic of Poland of the Act of 7 June 2018 amending the Renewable Energy Sources Act and Some Other Acts, indications were found of a potential increase in the recoverable value of the property, plant and equipment of the Group's companies and impairment tests were conducted.

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

- price forecasts have been adopted for electricity and 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;
- 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),

Wind farms ("CGU Karcino, CGU Karścino, CGU Bystra, CGU Myślino, CGU Parsówek")

The impairment tests for wind farms were conducted as at 31 May 2018. The tests were performed for the remaining useful life period estimated at 25 years from the commissioning of the wind farm. A standard 5-year projection period was extended to the full period of the farms' remaining economic useful life to allow for preparation of a more reliable valuation of the CGUs whose total period of use is specified and foreseeable. Calculations to determine the value in use cover the period from June 2018 until the last year of the wind farm's operation, i.e. between 2034 and 2040, depending on CGU. 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 8.31% to 8.75% (averaging 6.95% after tax).

Based on the results of the tests conducted in the first half of 2018, the need was stated for reversing the impairment write-downs for wind farms for the amount of PLN 116.6 m (primarily for plant and equipment). The recoverable value was determined at PLN 664.4 m.

Sensitivity analysis

The estimated impact of the changes in selected parameters on the overall valuation of the abovementioned assets is presented below. The conducted sensitivity analyses indicate that discount rates and electricity prices are the factors that impact the estimated value in use of the CGUs to the greatest extent. Their change could necessitate the establishment or reversal of impairment write-downs of the aggregate value specified below.

The sensitivity analysis considers changes in factors throughout the forecast period.

Parameter	Value 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.]		(25.9)	(21.1)
	[- 0.5 p.p.]	27.6		22.3
Electricity prices	[+ 1%]	8.8		7.5
	[- 1%]		(8.8)	(7.5)

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

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12. Cash and cash equivalents

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

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

	As at 30 June 2018 (unaudited)	As at 30 June 2017 (unaudited)
Cash at bank and in hand	2,360	1,544
Short-term deposits up to 3 months	829	697
Total cash and cash equivalents presented in the statement of financial position	**3,189**	**2,241**
Unrealized foreign exchange differences and interest	1	-
Current account overdraft	-	(2)
Total cash and cash equivalents presented in the statement of cash flows	**3,190**	**2,239**
including restricted cash	*34*	*27*

13. Earnings per share

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

	6-month period ended 30 June 2018 (unaudited)	6-month period ended 30 June 2017 (unaudited)
Net profit or loss attributable to equity holders of the Parent Company	556	484
Net profit or loss attributable to common equity holders of the Parent Company	**556**	**484**
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 (basic and diluted) (in PLN)	**1.34**	**1.17**

14. Dividends

On 27 June 2018, the Ordinary General Meeting of Shareholders adopted a resolution on the distribution of profit for 2017 which was allocated in full to the supplementary capital.

On 26 June 2017 the Ordinary General Meeting of Shareholders adopted a resolution on the distribution of profit for 2016, where PLN 79 m 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.

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2018 (in millions of PLN)

15. Provisions

15.1. Provisions for employee benefits

The Group recognizes provisions for post-employment benefits and jubilee bonuses in amounts calculated using actuarial methods. The amount of provisions recognized in these financial statements derives from the projection of provisions as at 30 June 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 applied for the projections of the provisions as at 30 June 2018 was adopted at the level of 3.19% (as at 31 December 2017: 3.36%).

	Pension and similar benefits	Energy tariff	Company Social Benefits Fund	Jubilee bonuses	TOTAL
As at 1 January 2018	**123**	**167**	**29**	**215**	**534**
Current service costs	3	1	-	6	**10**
Past service costs	-	-	-	(1)	**(1)**
Actuarial gains and losses	3	12	-	5	**20**
Benefits paid	(2)	(4)	(1)	(6)	**(13)**
Interest costs	2	3	1	4	**10**
As at 30 June 2018 (unaudited), of which:	**129**	**179**	**29**	**223**	**560**
Short-term	**11**	**10**	**1**	**22**	**44**
Long-term	**118**	**169**	**28**	**201**	**516**

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

15.2. Other provisions

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emission	Obligation to redeem certificates	Other provisions	TOTAL
As at 1 January 2018	**114**	**57**	**46**	**299**	**71**	**587**
Interest costs	-	1	-	-	-	**1**
Recognized	9	-	54	277	40	**380**
Reversed	(8)	(1)	-	(5)	(8)	**(22)**
Used	(1)	-	(49)	(299)	(46)	**(395)**
As at 30 June 2018 (unaudited), of which:	**114**	**57**	**51**	**272**	**57**	**551**
Short-term	**114**	**-**	**51**	**272**	**57**	**494**
Long-term	**-**	**57**	**-**	**-**	**-**	**57**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2018 (in millions of PLN)

15. Provisions (cont.)

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

NOTES ON FINANCIAL INSTRUMENTS

16. Financial instruments

16.1. Carrying value of financial instruments by category and class

As at 30 June 2018 (unaudited)	Measured at fair value through profit or loss	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
Trade receivables	-	-	1,063	-	**1,063**
Contract assets	-	-	582	-	**582**
Cash and cash equivalents	-	-	3,189	-	**3,189**
Other financial assets	16	103	37	-	**156**
Bonds, treasury bills and other debt instruments	-	-	14	-	**14**
Derivative financial instruments	16	103	-	-	**119**
Other	-	-	23		**23**
TOTAL	**16**	**103**	**4,871**	**-**	**4,990**
Liabilities					
Loans and borrowings	-	-	2,902	-	**2,902**
Preferential loans and borrowings	-	-	1,506	-	**1,506**
Loans and borrowings	-	-	1,396	-	**1,396**
Bonds issued	-	-	4,630	-	**4,630**
Trade liabilities	-	-	459	-	**459**
Contract liabilities	-	-	105	-	**105**
Other financial liabilities	-	-	129	5	**134**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	107	-	**107**
Derivative financial instruments	-	-	-	-	**-**
Dividend liabilities	-	-	2	-	**2**
Other	-	-	20	5	**25**
TOTAL	**-**	**-**	**8,225**	**5**	**8,230**

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 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 IFRS 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 categorized into three level hierarchy:

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

	30 June 2018 (unaudited)	31 December 2017
	Level 2	Level 2
Assets		
Hedging derivatives (CCIRS I)	82	7
Hedging derivatives (CCIRS II)	5	<1
Hedging derivatives (CCIRS III)	7	-
Hedging derivatives (CCIRS IV)	9	-
Hedging derivatives (IRS)	<1	2
Other derivatives	16	24
Liabilities		
Hedging derivatives (CCIRS III)	-	49
Hedging derivatives (CCIRS IV)	-	29

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2018 (in millions of PLN)

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 30 June 2018 (unaudited)	4,620	3,613	1,093
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 June 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 June 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 30 June 2018 (unaudited)	As at 31 December 2017
Currency	PLN	
Reference rate	WIBOR, rediscount rate	
Value of loan/ borrowing	**2,902**	**3,076**
of which maturing in:		
up to 1 year (short-term)	364	356
1 to 2 years	387	373
2 to 3 years	392	392
3 to 5 years	748	763
over 5 years	1,011	1,192

As at 30 June 2018 and 31 December 2017, the amount of credit limits available to the Group was PLN 3,897 m (74.7% 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 six-month period ended 30 June 2018 (in millions of PLN)

16. Financial instruments (cont.)

Liabilities under bonds issued

	As at 30 June 2018 (unaudited)	As at 31 December 2017
Currency	PLN	
Reference rate	WIBOR	
Value of the issue	**10**	**183**
of which maturing in:		
up to 1 year (short-term)	6	12
2 to 3 years	4	171

	As at 30 June 2018 (unaudited)	As at 31 December 2017
Currency	EUR	
Reference rate	fixed	
Value of the issue		
in currency	1,059	1,066
in PLN	4,620	4,446
of which maturing in:		
up to 1 year (short-term)	72	97
2 to 3 years	2,181	2,085
over 5 years	2,367	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 30 June 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 30-06-2018	Repayment date
European Investment Bank	Loan	Energa-Operator SA Investment Programme	16-12-2009	1,050	-	591	15-12-2025
European Investment Bank	Loan	Energa-Operator SA Investment Programme	10-07-2013	1,000	-	933	15-09-2031
European Bank for Reconstruction and Development	Loan	Energa-Operator SA Investment Programme	29-04-2010	1,076	-	602	18-12-2024
European Bank for Reconstruction and Development	Loan	Energa-Operator SA Investment Programme	26-06-2013	800	-	619	18-12-2024
Nordic Investment Bank	Loan	Energa-Operator SA Investment Programme	30-04-2010	200	-	86	15-06-2022
Bondholders	Eurobonds	General corporate purposes	19-03-2013	2,181[1]	-	2,181[1]	19-03-2020
Bondholders	Eurobonds	General corporate purposes	07-03-2017	1,308[1]	-	1,308[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 30-06-2018	Repayment date
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	50	-	31-12-2022
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	185	15[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	-	15	29-05-2022
Nordic Investment Bank	Loan	FW Myślino construction	23-10-2014	68	-	52	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	1,090[3]		1,090[3]	12-09 2037
TOTAL				**10,971**	**1,035**	**7,508**	

[1] liability under Eurobonds in the total amount of EUR 800 m converted using the average NBP exchange rate of 29 June 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 amount of EUR 250 m converted using the average NBP exchange rate of 29 June 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.

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16. Financial instruments (cont.)

Interest rate risk hedging

In August 2016, the Company additionally concluded IRS transactions to hedge interest rate risk arising out of contracted financing with regard to (see note 16.4):

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

In April and June 2018, the Group additionally concluded IRS transactions with similar characteristics for the following:

- loan agreement concluded with EIB in 2013 – PLN 100 m,
- loan agreement concluded with EBRD in 2010 – PLN 100 m, and
- loan agreement concluded with EIB in 2009 – PLN 100 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 transactions relating to 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 2022 and not longer.

All held hedging instruments are used to hedge cash flows and relate to financial instruments classified to the same risk category. The hedging instruments presented refer to loan liabilities between Energa Finance AB and Energa SA, Hybrid bonds from the European Investment Bank and loans from the European Investment Bank and the European Bank for Reconstruction and Development.

Fair value of hedges

The fair value of hedges was:

	Value	Recognition in the statement of financial position	Change in the fair value of hedging instrument adopted as the basis for recognition of ineffectiveness of the hedge in a reporting period	Nominal amounts of the hedging instrument (in EUR million)
As at 30 June 2018 (unaudited)				
CCIRS I	82	Assets – Other financial assets	None	400
CCIRS II	5	Assets – Other financial assets	None	25
CCIRS III	7	Assets – Other financial assets	None	200
CCIRS IV	9	Assets – Other financial assets	None	250
IRS	<1	Assets – Other financial assets	None	450
As at 31 December 2017				
CCIRS I	7	Assets – Other financial assets	None	400
CCIRS II	<1	Assets – Other financial assets	None	25
CCIRS III	49	Liabilities – Other financial liabilities	None	200
CCIRS IV	29	Liabilities – Other financial liabilities	None	250
IRS	2	Assets – Other financial assets	None	450

The Group remained in the hedge accounting according to IFRS 39, while no ineffectiveness was found in the reporting period.

Under cash flow hedge accounting, the cash flow hedge reserve (the effective portion of changes in the value of the hedge, less deferred tax) increased in the reporting period by PLN 5 m.

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

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16. Financial instruments (cont.)

Change in cash flow hedge reserve during the reporting period	6-month period ended 30 June 2018 (unaudited)	6-month period ended 30 June 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	173	(137)
Accrued interest transferred from the reserve to financial income/costs	-	1
Revaluation of hedging instruments transferred from the reserve to financial income/costs	(167)	88
Income tax on other comprehensive income	(1)	9
At the end of the reporting period	**7**	**2**

As at 30 June 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.

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 5,364 m, of which:

- undertakings covered by the development plan of Energa-Operator SA to satisfy the current and future demand for electricity in the years 2017-2022 (agreed upon with the President of the Energy Regulatory Office) – approx. PLN 5,117 m;
- execution of the Przykona Wind Farm project – approx. PLN 129 m;
- undertakings executed in the Ostrołęka Power Plant B (among others, modernization of power units, construction of a flue gas denitrification installation) – approx. PLN 65 m,
- biomass-fired unit's steam boiler optimization project implemented in Energa Kogeneracja Sp. z o.o. – approx. PLN 27 m,
- gas-steam power plants in Grudziądz and Gdańsk – approx. PLN 22 m,
- modernisation of hydro power stations – approx. PLN 4 m.

18. Information on related entities

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

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 30 June 2018 was not material (in the corresponding period of the previous year, sales to associates and joint ventures amounted to PLN 102 m). In the first half of 2018, purchases from associates and joint ventures were PLN 98 m (in the corresponding period of the previous year, purchases from associates and joint ventures were PLN 86 m). The amount of receivables as at 30 June 2018 was not material (as at 31 December 2017, the receivables amounted to PLN 48 m). The amount of liabilities as at 30 June 2018 was PLN 12 m compared to PLN 15 m as at 31 December 2017. All of these transactions concerning the first half of 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.

Condensed interim consolidated financial statements as at and for the six-month period ended 30 June 2018 (in millions of PLN)

18. Information on related entities (cont.)

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

	6-month period ended 30 June 2018 (unaudited)	6-month period ended 30 June 2017 (unaudited)
Management Board of the Parent Company	2	4
Supervisory Board of the Parent Company	<1	<1
Management Boards of subsidiaries	15	15
Supervisory Boards of subsidiaries	2	1
Other key management	12	10
TOTAL	**31**	**30**

19. Contingent assets and liabilities

19.1. Contingent Liabilities

As at 30 June 2018, the Group recognizes contingent liabilities of PLN 460 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 or reliable estimation of cash outflow is not possible at the moment and no provision has been recognized for these cases.

The largest contingent liability item consists of disputes relating to power infrastructure of Energa-Operator SA where it is located on private land. The Group recognizes provisions for reported legal claims. If there is uncertainty whether a claim amount or legal title to land is justified, the Group recognizes contingent liabilities. As at 30 June 2018, the estimated value of those claims recognized as contingent liabilities is PLN 212 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%.

The amount of PLN 107 m relating to the risk of incurring additional costs in connection with debt financing programmes at the Energa SA Group also represents a major item.

Another issue is 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 ("Energa-Obrót") found that, among others, 22 long-term framework agreements for the purchase of property rights arising out of certificates of origin ("CPAs") were absolutely 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).

In view of the above, on 11 September 2017 Energa-Obrót 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 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.

The majority of court cases regarding invalidity of the CPAs is pending. The litigations were initiated in September 2017 and 15 cases are currently at the stage of proceeding before courts of the first instance. Two litigations pursued before common courts were discontinued as a result of out-of-court settlements concluded by Energa-Obrót and its business partners. Two proceedings before common courts concluded with non-final judgments unfavourable to Energa-Obrót. The company appealed against those judgments. Three proceedings before the arbitration court concluded with final judgments unfavourable to Energa-Obrót.

The analysis of the counter arguments raised against the arguments of Energa-Obrót leads to a conclusion that there are valid reasons supporting legitimacy of the actions filed. Having analysed the arguments and allegations by the defendants, Energa-Obrót still maintains that the CPAs are absolutely invalid, in spite of the unfavourable court decisions. 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.

19. Contingent assets and liabilities (cont.)

What is important, in the course of the trials, new defendants signalled their intention to settle. Currently, Energa-Obrót is negotiating with several entities, which may result in new settlements and amicable resolution of litigations. As at the date of these consolidated financial statements, Energa-Obrót has concluded three settlements with the defendant wind farms.

Due to the high volatility of factors and scenarios affecting the reliable estimation of the level of future outflow of funds in the above cases, the value of the maximum contingent liability resulting from discontinuation of the CPAs at the level of PLN 51 m has been measured. This estimate is based on the mechanisms of contractual penalties contained in the Contracts, taking into account current market conditions.

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. (the ”Contracting Authority”) had resolved a public procurement award procedure titled “Construction of Elektrownia Ostrołęka C with a capacity of approximately 1,000 MW” (“Procedure”, “Contract”) by selecting a Consortium composed of GE Power Sp. z o.o. and Alstom Power System S.A.S. as the General Contractor which offered to perform the Contract with the parameters specified in the tender for a net amount of PLN 5,050 m, gross amount: PLN 6,023 m.

Award of the Contract is not equivalent to:

- giving the consent to conclude the contract with the General Contractor – such a consent needs, among other things, 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, among other things, from the Supervisory Board of Energa SA and a prior specific approval from the 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).

On 12 July 2018, Elektrownia Ostrołęka Sp. z o.o. signed the Public Procurement Contract with the General Contractor: the Consortium of GE Power Sp. z o.o., as the Leader of the Consortium, and Alstom Power Systems S.A.S. (Current Report No 33/2018). The detailed information on the Public Procurement and the Contract has been presented in item 2.1. Material events in the reporting period and after the balance sheet date of the Management Board’s Report on the Activity of Energa Group for the first half of 2018.

In addition, in accordance with the information presented in the current report of the Polimex-Mostostal Capital Group (current report No. 30/2018 of 22 June 2018), the Management Board of "Polimex-Mostostal" S.A. with its registered office in Warsaw, informed that the company has concluded with GE Power Sp. z o.o. letter of intent concerning cooperation in the implementation of the public procurement under the name Construction of Ostrołęka C Power Plant with a capacity of approximately 1000 MW, where the Contracting Authority is Elektrownia Ostrołęka Sp. z o.o.

21. Subsequent events

On 27 July 2018, the share capital of Elektrownia Ostrołęka Sp. z o.o. was increased by PLN 287 m based on the resolution of the Extraordinary Meeting of Shareholders of Elektrownia Ostrołęka. The new shares were acquired by Energa SA i Enea S.A., 50% each. The shares in the increased share capital will be financed with cash contributions by 2 August 2018.

On 7 August 2018 the Board of Energa SA called an Extraordinary General Meeting with the aim of making a preliminary decision on launching Construction Stage in the Ostroleka C Project, consisting in development, construction and operation of a coal-fired supercritical steam power plant with the capacity of ca. 1000 MW.

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…………………………………………

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

Gdańsk, 8 August 2018