Energa

ENERGA SA Group

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

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	3-month period ended 30 September 2018 (unaudited)	9-month period ended 30 September 2018 (unaudited)	3-month period ended 30 September 2017 (unaudited)	9-month period ended 30 September 2017 (unaudited)
Sales revenues	**2,567**	**7,601**	**2,520**	**7,717**
Cost of sales	(2,211)	(6,095)	(2,183)	(6,434)
Gross profit on sales	**356**	**1,506**	**337**	**1,283**
Other operating income	26	83	48	144
Selling and distribution expenses	(87)	(250)	(84)	(256)
General and administrative expenses	(88)	(271)	(76)	(238)
Other operating expenses	(22)	(80)	(54)	(107)
Financial income	17	52	(3)	73
Financial costs	(82)	(279)	(82)	(222)
Share in profit/(loss) of entities measured by the equity method	27	78	9	17
Profit or loss before tax	**147**	**839**	**95**	**694**
Income tax	(24)	(159)	(24)	(135)
Net profit or loss for the period	**123**	**680**	**71**	**559**
Attributable to:				
Equity holders of the Parent Company	122	678	68	552
Non-controlling interest	1	2	3	7
Earnings or loss per share (in PLN)				
- basic	**0.29**	**1.64**	**0.16**	**1.33**
- diluted	**0.29**	**1.64**	**0.16**	**1.33**

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3-month period ended 30 September 2018 (unaudited)	9-month period ended 30 September 2018 (unaudited)	3-month period ended 30 September 2017 (unaudited)	9-month period ended 30 September 2017 (unaudited)
Net profit or loss for the period	**123**	**680**	**71**	**559**
Items that will never be reclassified to profit or loss	***(1)***	***(13)***	***1***	***(13)***
Actuarial gains and losses on defined benefit plans	(1)	(16)	2	(16)
Deferred income tax	-	3	(1)	3
Items which may be reclassified to profit or loss in the future	***(16)***	***(7)***	***(3)***	***(46)***
Foreign exchange differences from translation of foreign entities	(2)	2	1	(3)
Cash flow hedge	(17)	(11)	(5)	(53)
Deferred income tax	3	2	1	10
Share in other comprehensive income of entities measured by the equity method		**1**	**-**	**-**
Net other comprehensive income	**(17)**	**(19)**	**(2)**	**(59)**
Total comprehensive income	**106**	**661**	**69**	**500**
Attributable to:				
Equity holders of the Parent Company	105	659	66	493
Non-controlling interest	1	2	3	7

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 September 2018 (unaudited)	As at 31 December 2017
ASSETS		
Non-current assets		
Property, plant and equipment	13,830	13,371
Intangible assets	296	338
Goodwill	15	15
Investments in associates and joint ventures measured by the equity method	1,006	728
Deferred tax assets	336	325
Other non-current financial assets	78	46
Other non-current assets	109	107
	15,670	**14,930**
Current assets		
Inventories	551	352
Income tax receivables	3	31
Trade receivables	1,149	1,843
Contract assets	599	-
Other current financial assets	22	83
Cash and cash equivalents	2,953	3,641
Other current assets	240	176
	5,517	**6,126**
TOTAL ASSETS	**21,187**	**21,056**

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont.)

	As at 30 September 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)
Reserve capital	1,018	1,018
Supplementary capital	1,540	1,433
Cash flow hedge reserve	(7)	2
Retained earnings	3,190	2,436
Equity attributable to equity holders of the Parent Company	**10,263**	**9,409**
Non-controlling interest	**58**	**56**
	10,321	**9,465**
Non-current liabilities		
Loans and borrowings	2,444	2,720
Bonds issued	4,459	4,520
Non-current provisions	574	550
Deferred tax liabilities	640	596
Deferred income and non-current grants	255	501
Other non-current financial liabilities	29	81
	8,401	**8,968**
Current liabilities		
Trade liabilities	480	792
Contract liabilities	114	-
Current loans and borrowings	368	356
Bonds issued	69	109
Current income tax liabilities	63	11
Deferred income and grants	176	182
Short-term provisions	721	571
Other financial liabilities	149	280
Other current liabilities	325	322
	2,465	**2,623**
Total liabilities	**10,866**	**11,591**
TOTAL EQUITY AND LIABILITIES	**21,187**	**21,056**

Condensed interim consolidated financial statements as at and for the nine-month period ended 30 September 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	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	**-**	**-**	**-**	**-**	**-**	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	-	-	-	-	-	(13)	**(13)**	-	**(13)**
Foreign exchange differences from translation of foreign entities	-	2	-	-	-	-	**2**	-	**2**
Cash flow hedge	-	-	-	-	(9)	-	**(9)**	-	**(9)**
Share in other comprehensive income of entities measured by the equity method	-	-	-	-	-	1	**1**	-	**1**
Net profit or loss for the period	-	-	-	-	-	678	**678**	2	**680**
Total comprehensive income for the period	**-**	**2**	**-**	**-**	**(9)**	**666**	**659**	**2**	**661**
Retained earnings/ losses brought forward	-	-	-	107	-	(107)	-	-	-
As at 30 September 2018 (unaudited)	**4,522**	**-**	**1,018**	**1,540**	**(7)**	**3 190**	**10,263**	**58**	**10,321**
As at 1 January 2017	**4,522**	**4**	**1,018**	**728**	**41**	**2,464**	**8,777**	**40**	**8,817**
Actuarial gains and losses on defined benefit plans	**-**	**-**	**-**	**-**	**-**	**(13)**	**(13)**	**-**	**(13)**
Foreign exchange differences from translation of foreign entities	-	(3)	-	-	-	-	**(3)**	-	**(3)**
Cash flow hedge	-	-	-	-	(43)	-	**(43)**	-	**(43)**
Net profit or loss for the period	-	-	-	-	-	552	**552**	7	**559**
Total comprehensive income for the period	**-**	**(3)**	**-**	**-**	**(43)**	**539**	**493**	**7**	**500**
Retained earnings/ losses brought forward	**-**	**-**	**-**	705	-	(705)	**-**	**-**	**-**
Dividend payment	-	-	-	-	-	(79)	**(79)**	**-**	**(79)**
Changes in held shares	-	-	-	-	-	3	**3**	**-**	**3**
As at 30 September 2017 (unaudited)	**4,522**	**1**	**1,018**	**1,433**	**(2)**	**2,222**	**9,194**	**47**	**9,241**

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	9-month period ended 30 September 2018 (unaudited)	9-month period ended 30 September 2017 (unaudited)
Cash flows from operating activities		
Profit/(loss) before tax	**839**	**694**
Adjustments for:		
Share in (profit)/loss of entities measured by the equity method	(78)	(17)
Foreign currency (gains)/losses	23	(35)
Amortization and depreciation	718	731
Net interest and dividends	218	219
(Profit)/loss on investing activities, including goodwill impairment allowance	(93)	17
Changes in working capital:		
Change in receivables	720	268
Change in contract assets	(599)	-
Change in inventories	(199)	219
Change in liabilities, excluding loans and borrowings	(305)	(99)
Change in contract liabilities	114	-
Change in prepayments and accruals	(168)	(150)
Change in provisions	159	(359)
	1,349	**1,488**
Income tax	**(39)**	**(5)**
Net cash from operating activities	**1,310**	**1,483**
Cash flows from investing activities		
Disposal of property, plant and equipment and intangible assets	12	10
Purchase of property, plant and equipment and intangible assets	(1,161)	(862)
Establishment of term deposits with maturities above 3 months	-	(127)
Disposal of Energa Trading fund units	-	2
Sale of a subsidiary	58	43
Investments in associates and joint ventures measured by the equity method	(196)	(217)
Loan repayment	10	-
Other	1	(6)
Net cash from investing activities	**(1,276)**	**(1,157)**
Cash flow from financing activities		
Proceeds from debt incurred	-	2,313
Repayment of debt incurred	(278)	(257)
Redemption of debt securities	(168)	(232)
Interest paid	(280)	(180)
Other	-	2
Net cash from financing activities	**(726)**	**1,646**
Net increase/(decrease) in cash and cash equivalents	**(692)**	**1,972**
Cash and cash equivalents at the beginning of the period	**3,643**	**1,464**
Cash and cash equivalents at the end of the period	**2,951**	**3,436**

Condensed interim consolidated financial statements as at and for the nine-month period ended 30 September 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 nine month period ended 30 September 2018 and contain 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 September 2018, the controlling party and ultimate parent of the Energa SA Group is the State Treasury.

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 September 2018, the Group consists of Energa SA and the following subsidiaries:

Item	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 September 2018	31 December 2017
	Distribution Segment				
1	Energa-Operator SA[1, 2]	Gdańsk	distribution of electricity	100	100
2	Energa-Operator Eksploatacja Elbląg Sp. z o.o.[2]	Elbląg	grid operation	100	100
3	Energa-Operator Eksploatacja Gdańsk Sp. z o.o.[2]	Gdańsk	grid operation	100	100
4	Energa-Operator Eksploatacja Kalisz Sp. z o.o.[2]	Kalisz	grid operation	100	100
5	Energa-Operator Eksploatacja Płock Sp. z o.o.[2]	Płock	grid operation	100	100
6	Energa-Operator Eksploatacja Słupsk Sp. z o.o.[2]	Słupsk	grid operation	100	100
7	Energa-Operator Eksploatacja Toruń Sp. z o.o.[2]	Toruń	grid operation	100	100
8	Energa-Operator Techniczna Obsługa Odbiorców Sp. z o.o. [1]	Koszalin	technical customer service	-	100
9	Energa Operator Wykonawstwo Elektroenergetyczne Sp. z o.o. (former Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.)[3]	Słupsk	contracting and design	100	100
10	Energetyka Kaliska - Usługi Techniczne Sp. z o.o.[3]	Kalisz	contracting and design	-	100
11	ZEP – Centrum Wykonawstwa Specjalistycznego Sp. z o.o. [3]	Płock	contracting and design	-	100
12	Zakład Budownictwa Energetycznego Sp. z o.o. [3]	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 nine-month period ended 30 September 2018 (in millions of PLN)

Item	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 September 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. [4]	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. [4]	Gdańsk	financing services and property management	-	100
26	Enspirion Sp. z o.o.	Gdańsk	organisation 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.) [5]	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 of the Group's companies, namely Energa-Operator SA i Energa Operator Techniczna Obsługa Odbiorców Sp. z o.o. signed a Merger Plan on 26 April 2018, with Energa-Operator SA being the acquiring company. The merger was registered in the National Court Register on 2 July 2018.

[2] On 1 October 2018, a merger was registered between the following companies: Energa-Operator Eksploatacja Elbląg Sp. z o.o., Energa-Operator Eksploatacja Gdańsk Sp. z o.o., Energa-Operator Eksploatacja Kalisz Sp. z o.o., Energa-Operator Eksploatacja Płock Sp. z o.o., Energa-Operator Eksploatacja Słupsk Sp. z o.o., Energa-Operator Eksploatacja Toruń Sp. z o.o. (merged companies) and Energa-OPERATOR SA (the acquiring company).

[3] On 26 February 2018, a Merger Plan was signed by four investment companies operating within the Distribution Business Line: Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o. (the acquiring company), Energetyka Kaliska – Usługi Techniczne Sp. z o.o., ZEP – Centrum Wykonawstwa Specjalistycznego Sp. z o.o. and Zakład Budownictwa Energetycznego Sp. z o.o. (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 by the National Court Register on 30 April 2018. On the same day, the acquiring Company's articles of association were amended and, as a result, the Company's business name changed to Energa-OPERATOR Wykonawstwo Elektroenergetyczne Sp. z o.o.

[4] Following the Merger Plan, agreed and signed on 19 January 2018, to merge Energa Centrum Usług Wspólnych Sp. z o.o. (the acquiring company) and RGK Sp. z o.o. (merged company), the general meetings of these companies passed their resolutions on the merger on 16 April 2018. The merger was registered by the National Court Register on 7 June 2018.

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

Additionally, as at 30 September 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 (the "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. The payments were made.

On 31 March 2017, the subsidiary Energa Kogeneracja Sp. z o.o. signed an investment agreement (the "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 the "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 recapitalisation 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 the "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, *inter alia*, 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) approved 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 approved the concentration 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.

On 31 August 2018, Annex No. 1 to the Agreement was signed to regulate the continuation of the PGG investment and to adjust the terms of the Agreement to the new legal form of PGG.

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

PGG is a privately held company and therefore its shares are not publicly quoted on the market.

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 trade for the total amount of PLN 5.8 m. As a result of this trade, its stake in Polimex 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 operating policy. These powers are exercised through the Supervisory Board. According to the agreement, the Supervisory Board will consist of 3 members nominated 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 the formation of Polimex's Management Board.

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

Polimex is an engineering and construction company, which is characterised 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 market close on 28 September 2018, the Polimex share price 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 of Energa SA until a notice to proceed is issued to the General Contractor (the issue of General Contractor selection is addressed in Note 20).

Following the 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, a PLN 35 m increase of the share capital of Elektrownia Ostrołęka Sp. z o.o. was registered, pursuant to a resolution of the Meeting of Shareholders of 29 March 2018, under which Energa SA and Enea S.A. acquired 50% of new shares each, i.e. shares worth PLN 17.5 m each, in exchange for cash contributions.

On 27 July 2018, a resolution was passed by an Extraordinary General Meeting of Shareholders of Elektrownia Ostrołęka to increase the company's share capital by PLN 287 m. The new shares were equally divided between Energa SA and Enea S.A. The newly issued shares were paid for through cash contributions on 30 July 2018. The increase of the share capital was registered on 16 October 2018.

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 three quarters 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. Composition of the Parent Company's Management Board (cont.)

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.

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 Operations, 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 7 November 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 endorsed 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 the events and transactions that are relevant to the understanding of the changes in the Group's financial position and performance since the most recent 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 the 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 recognized in other comprehensive income.

6. Material items subject to judgement 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 restating comparative data.

IFRS 9: Financial instruments

In accordance with the new standard, financial assets are classified only in three categories: as financial assets measured at amortised cost, as financial assets measured at fair value through other comprehensive income, or as financial assets measured at fair value through profit or loss. The classification of financial assets depends on the business model of financial asset management and the characteristics of contractual cash flows for the financial asset concerned.
Financial assets are classified at initial recognition and can only be reclassified if the business model of financial asset management changes.

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

7. Significant accounting policies (cont.)

In accordance with IFRS 9, a financial asset shall be measured at amortised cost if both of the following conditions are met:
- it is the Group's objective to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On the other hand, a financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:
- it is the Group's objective to hold financial assets in order to collect contractual cash flows, and to sell financial assets, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Furthermore, IFRS 9 changes the model with regard to the recognition of impairment losses, moving from incurred to expected losses. On 1 January 2018, the Group introduced a model of expected credit loss in accordance with the simplified method admitted for application by IFRS 9. The application of the model is justified by the following reasons:
- the Group's receivables did not have a significant financing component (determined in accordance with IFRS 15) at their transaction price, meaning that no significant financing component existed that could adjust the promised amount of consideration,
- the receivables were expected to be repaid in full in less than one year.

The simplified model allows for the calculation of lifetime expected credit losses.
Therefore, with respect to its receivables from customers, the Group marked off a portfolio of strategic counterparties for whom it is expected that repayment history information does not provide complete information with regard to the expected credit losses which the Group might be exposed to. The solvency risk of strategic counterparties was assessed on the basis of counterparty ratings relying on an internal scoring model, appropriately converted into the probability of default. The expected credit loss, in accordance with IFRS 9: Financial instruments, is calculated considering the estimates of potential recoveries from security. For receivables from other counterparties, it is expected that repayment history information may reflect the credit risk to be incurred in future periods. The expected credit losses for this counterparty group were estimated by assigning percentages to each category of receivables permitting to estimate the value of receivables from customers that are expected to remain unpaid.
Considering the above methodology for the calculation of expected credit losses, the receivables can be revalued on a case-by-case basis, in particular with respect to:
- receivables from debtors in liquidation or bankruptcy,
- receivables disputed by debtors and receivables which are past due and, following an assessment of the debtor's assets and financial position, their repayment in the contractual amount is unlikely (in which case an impairment charge for doubtful debts can be created equalling 100% of the previously recognized debt),
- other past-due receivables, as well as receivables not past due that involve a substantial risk of default in the Management Board's discretion.

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 losses on financial assets, i.e. migration to the estimated 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 loan losses within individual categories of receivables 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
Bonds issued	Financial liabilities measured at amortized cost	Measured at amortized cost	4,629	4,629

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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
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**

Disclosures of credit risk by rating category and other categories relating to trade receivables and contract assets are presented below.

	1 January 2018			30 September 2018		
	Weighted average loss rate	Gross value	Impairment losses	Weighted average loss rate	Gross value	Impairment losses
Customer best rating	0.0%	615	-	0.0%	616	-
Customer medium rating	0.6%	129	(1)	0.1%	147	-
Customer worst rating	10.9%	39	(4)	8.4%	41	(4)

	1 January 2018			30 September 2018		
	Weighted average loss rate	Gross value	Impairment losses	Weighted average loss rate	Gross value	Impairment losses
Customers without ratings in the Sales Business Line	2.0%	807	(16)	2.0%	724	(14)
Disputed receivables	78.3%	281	(220)	79.1%	313	(248)
Other receivables	20.6%	253	(52)	23.8%	227	(54)

IFRS 15: Revenue from Contracts with Customers

Except for the recognition of charges for new connections from before 2009 and presentation of transitional charges and RES involving the reduction of revenues (as described below), there have been no significant changes in the recognition of revenues. Furthermore, the five-step revenue recognition/treatment method in line with section 9 of IFRS 15 has been applied since 1 January 2018.

Revenues from sales are recognized when (or as) the Group satisfies a performance obligation (provides the service) or transfers the goods. The obligation is satisfied when (or as) the customer obtains control of the transferred asset. Revenues from sales are recognized at the transaction price, i.e. the amount expected to be paid.

Depending on the satisfaction of the criteria set out in IFRS 15: Revenue from Contracts with Customers, revenues can be either recognized on a one-off basis (when the control of goods and services is transferred to the customer), or spread over time to reflect the performance of the obligation – in particular for contracts delivered over a period of time, such as electricity supply.

The generic structure of sales revenue and the treatment thereof are as follows:

- revenues from the sales of electricity are recognized when the goods are delivered to the customer, based on readings of metering and billing devices. If a meter is not physically read in a billing period, the revenue is determined on the basis of an estimate, which in turn is based on the average daily consumption of electricity in the previous billing periods. Price lists valid in the period concerned are used for the purposes of revenue calculations. The services are provided on a continuous basis;
- revenue from the sales of gas is recognized when the goods are delivered, in the manner described for electricity;
- revenue from the sales of certificates of origin for energy is recognized at the time of the sales transaction / transfer of the certificates;
- revenue from the sales of other goods, products and materials is recognized at the time of the sales transaction / transfer of the goods, products and materials;
- revenue from distribution and transit services is recognized when the service is provided. The services are provided continuously;
- revenue from supplier connections is recognized after the provision of the service;
- rental income is recognized on a straight-line basis throughout the rental period in relation to open agreements;
- revenue from other services is recognized when the service is provided.

Revenue from the sales of energy purchased by the Group on the Balancing Market is presented as revenue from sales of goods.

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

7. Significant accounting policies (cont.)

Revenue from the provision of a service in progress in the period from the conclusion of the contract to the end of the reporting period, after the deduction of revenues which affected the financial result in previous reporting periods, is determined pro-rata according to progress, provided that progress can be reliably determined.
Recharge revenue is recognized as core operating income.
Adjustments of sales revenues are recognized in their respective periods until the approval of financial statements for issue.
Dividend income is recognized when the right to dividend is vested.

Revenue recognized from contracts with customers disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors is presented in Note 9.

Contract assets and contract liabilities items were added to the statement of financial position, in accordance with IFRS 15.

The Group Label presents any unconditional rights to consideration separately as a receivable. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

While:

a) if the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the Group presents the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer.
b) if a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional (i.e. a receivable), before the Group transfers a good or service to the customer, the Group presents the contract as a contract liability when the payment is made or the payment is due.

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Changes arising from a change in accounting policy are recognized on a simplified basis. Instead of modifying the comparative data, they are reflected as an adjustment of retained earnings.

In connection with the entry in force of IFRS 15, as at 1 January 2018 the Group increased its retained earnings by PLN 205 m due to a non-recurring settlement of revenue from connection charges from before 1 July 2009, after the effect of deferred tax, that had been recognized as deferred income and accounted for over time. At the same time, the Group changed the method of presentation of the transitional charge and RES 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 September 2018 published data	Connection charges	Transitional charges and RES	30 September 2018 without IFRS 15
Statement of comprehensive income				
Sales revenues	7,601	10	263	7,874
Cost of sales	(6,095)		(263)	(6,358)
Profit or loss before tax	839	10		849
Income tax	(159)	(2)		(161)
Net profit or loss for the reporting period	680	8		688
Statement of financial position				
Retained earnings	2,510	(205)		2,305
Profit or loss before tax	680	8		688
Total equity	10,321	(197)		10,124
Deferred tax liabilities	640	(46)		594
Deferred income and grants	431	243		674
Total liabilities	10,866	197		11,063

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 IFRSs (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);
- Interpretation IFRIC 23: Uncertainty over Income Tax Treatments (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 improvements to IFRSs (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),
- Amendment to IFRS 3: Business combinations (applicable to annual periods beginning on or after 1 January 2020),
- Amendments to IAS 1: Presentation of financial statements and IAS 8: Accounting policies, changes in accounting estimates and errors - definition of material (applicable to annual periods beginning on or after 1 January 2020).

In the event that the above-mentioned standards are implemented, the Group does not expect the related changes to have a material effect 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 organised and managed within operating segments, which are divided according to the types of products offered. The division of the Group's reporting is based on the following operating segments called business lines, in accordance with the Group's terminology, introduced in the Cooperation Agreement signed on 20 December 2017:

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

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

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

Transactions between business lines are settled on market terms.

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

The tables below show the allocation of revenues and expenses for the period from 1 January to 30 September 2018 and the assets and liabilities as at 30 September 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.

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

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

9-month period ended 30 September 2018 (unaudited) or as at 30 September 2018 (unaudited)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external customers	2,981	3,856	687	77	**7,601**	-	**7,601**
Inter-business line sales	39	218	175	327	**759**	(759)	**-**
Total business line revenues	**3,020**	**4,074**	**862**	**404**	**8,360**	**(759)**	**7,601**
EBITDA	**1,364**	**50**	**234**	**(66)**	**1,582**	**5**	**1,587**
Amortization and depreciation	565	30	122	15	**732**	(14)	**718**
Impairment losses on non-financial non-current assets	-	-	(117)	(2)	**(119)**	-	**(119)**
Operating profit or loss	**799**	**20**	**229**	**(79)**	**969**	**19**	**988**
Net finance income/expense	(101)	7	(39)	579	**446**	(673)	**(227)**
Share in profit/(loss) of entities measured by the equity method	-	-	-	-	**-**	78	**78**
Profit or loss before tax	**698**	**27**	**190**	**500**	**1,415**	**(576)**	**839**
Income tax	(139)	(3)	(36)	21	**(157)**	(2)	**(159)**
Net profit or loss	**559**	**24**	**154**	**521**	**1,258**	**(578)**	**680**
Assets and liabilities							
Cash and cash equivalents	49	46	18	2,840	**2,953**	-	**2,953**
Total assets	**13,824**	**2,214**	**4,174**	**16,285**	**36,497**	**(15,310)**	**21,187**
Financial liabilities	4,679	-	882	7,782	**13,343**	(6,003)	**7,340**
Other business line information							
Capital expenditures	860	22	156	10	**1,048**	(6)	**1,042**

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

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

9-month period ended 30 September 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	3,170	3,837	640	70	**7,717**	-	**7,717**
Inter-business line sales	33	22	168	279	**502**	(502)	**-**
Total business line revenues	**3,203**	**3,859**	**808**	**349**	**8,219**	**(502)**	**7,717**
EBITDA	**1,345**	**24**	**267**	**(39)**	**1,597**	**46**	**1,643**
Amortization and depreciation	574	32	123	15	**744**	(13)	**731**
Impairment losses on non-financial non-current assets	**-**	**-**	86	**-**	**86**	**-**	**86**
Operating profit or loss	**771**	**(8)**	**58**	**(54)**	**767**	**59**	**826**
Net finance income/expense	(86)	7	(46)	184	**59**	(208)	**(149)**
Share in profit/(loss) of entities measured by the equity method	-	-	-	-	**-**	17	**17**
Profit or loss before tax	**685**	**(1)**	**12**	**130**	**826**	**(132)**	**694**
Income tax	(137)	(6)	(8)	16	**(135)**	-	**(135)**
Net profit or loss	**548**	**(7)**	**4**	**146**	**691**	**(132)**	**559**
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 expenditures	677	31	61	30	**799**	(5)	**794**

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

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

9-month period ended 30 September 2018 (unaudited)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenues from sales of goods, products and materials, including:	**40**	**3,953**	**776**	**201**	**4,970**	**(531)**	**4,439**
Electricity	36	4,022	586	-	**4,644**	(376)	**4,268**
Certificates of origin for energy	-	38	38	-	**76**	1	**77**
Gas	-	94	-	-	**94**	(1)	**93**
Other goods, products and materials	4	2	152	201	**359**	(155)	**204**
Excise tax	-	(203)	-	-	**(203)**	-	**(203)**
Revenues from sales of services, including:	**2,980**	**121**	**86**	**203**	**3,390**	**(228)**	**3,162**
Distribution and transit services	2,899	-	21	-	**2,920**	(23)	**2,897**
Customers' new connection charges	29	-	-	-	**29**	-	**29**
Rental income	27	2	46	1	**76**	(14)	**62**
Other services	25	119	19	202	**365**	(191)	**174**
TOTAL	**3,020**	**4,074**	**862**	**404**	**8,360**	**(759)**	**7,601**
including:					**-**		**-**
Revenues from goods, products and materials or services provided continuously	2,935	3,913	607	-	**7,455**	(400)	**7,055**
Revenues from goods, products and materials or services provided at a point in time	85	161	255	404	**905**	(359)	**546**

* In the presented revenues for the nine month period ended 30 September 2018, the estimated revenue from contracts and agreements amounts to PLN 485 m.

9-month period ended 30 September 2017 (unaudited) (restated)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenues from sales of goods, products and materials, including:	**56**	**3,706**	**733**	**210**	**4,705**	**(324)**	**4,381**
Electricity	53	3,800	555	-	**4,408**	(174)	**4,234**
Certificates of origin for energy	-	1	14	-	**15**	-	**15**
Gas	-	107	-	-	**107**	(1)	**106**
Other goods, products and materials	3	3	164	210	**380**	(149)	**231**
Excise tax	-	(205)	-	-	**(205)**	-	**(205)**
Revenues from sales of services, including:	**3,147**	**153**	**75**	**139**	**3,514**	**(178)**	**3,336**
Distribution and transit services	3,048	-	22	-	**3,070**	(23)	**3,047**
Customers' new connection charges	47	-	-	-	**47**	1	**48**
Rental income	25	2	39	1	**67**	(9)	**58**
Other services	27	151	14	138	**330**	(147)	**183**
TOTAL	**3,203**	**3,859**	**808**	**349**	**8,219**	**(502)**	**7,717**
including:					**-**		**-**
Revenues from goods, products and materials or services provided continuously	3,101	3,702	577	-	**7,380**	(198)	**7,182**
Revenues from goods, products and materials or services provided at a point in time	102	157	231	349	**839**	(304)	**535**

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

NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10. Property, plant and equipment

In the current reporting period, the Group:

- incurred capital expenditures on property, plant and equipment in the amount of PLN 1,025 m (vs. PLN 735 m in the corresponding period of 2017);
- disposed of and liquidated property, plant and equipment with a total carrying value of PLN 30 m (vs. PLN 19 m in the corresponding period of 2017);
- reversed impairment losses on property, plant and equipment worth PLN 117 m (vs. PLN 75 m recognized and PLN 110 m reversed in the corresponding period of 2017);
- did not identify the need to recognise impairment losses on goodwill (in the same period of 2017, the Group recognized impairment losses on goodwill in the amount of PLN 11 m).

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

In Q3 2018, no impairment triggers were identified that could result in a decrease in recoverable value of the property, plant and equipment held by the Energa Group companies, therefore it was found that impairment testing was unnecessary.

In the first half of 2018, property, plant and equipment and goodwill were assessed for any internal and external impairment triggers. In connection with changes in the legislative environment that occurred in the first half of 2018, 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 Certain Other Acts, triggers were identified that could potentially result in an increase in the recoverable value of 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, and making a range of assumptions, including the following:

- price forecasts for electricity and certificates of origin for the Polish market, based on a report prepared for the Group by a third party; the forecast covered a horizon until 2065,
- support maintained for production of energy from existing renewable sources in accordance with the Renewable Energy Sources Act of 20 February 2015, as amended (Journal of Laws of 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. The standard 5-year projection period was extended to match the remaining economic useful life of the wind farms, which supported a more reliable valuation of the CGUs whose full life 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 the 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, a need was identified to reverse the impairment losses on wind farms in the amount of PLN 116.6 m (primarily for plant and equipment). The recoverable value was established at PLN 664.4 m.

Sensitivity analysis

The estimated impact of a change in selected parameters on the overall valuation of the above-mentioned assets is presented below. Sensitivity analyses indicate that discount rates and electricity prices are the key factors affecting the estimated value in use of the CGUs referred to above. A change in discount rates and electricity prices could necessitate the recognition or reversal of impairment losses in 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.

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

12. Cash and cash equivalents

Cash at 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 varying periods, from one day to three months, depending on the Group's current cash requirements, and they earn interest at rates negotiated individually with banks.

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

	As at 30 September 2018 (unaudited)	As at 30 September 2017 (unaudited)
Cash at bank and in hand	1,199	1,724
Short-term deposits up to 3 months	1,754	1,713
Total balance of cash and cash equivalents presented in the statement of financial position	**2,953**	**3,437**
Unrealised foreign exchange differences and interest	(2)	(1)
Current account overdraft	-	-
Total cash and cash equivalents presented in the statement of cash flows	**2,951**	**3,436**
including restricted cash	*69*	*28*

13. Earnings per share

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

	9-month period ended 30 September 2018 (unaudited)	9-month period ended 30 September 2017 (unaudited)
Net profit or loss attributable to equity holders of the Parent Company	678	552
Net profit or loss attributable to common equity holders of the Parent Company	**678**	**552**
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)	**1.64**	**1.33**

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 dividend for shareholders of the Company, resulting in 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 nine-month period ended 30 September 2018 (in millions of PLN)

15. Provisions

15.1. Provisions for employee benefits

The Group recognises provisions for post-employment benefits and jubilee bonuses in amounts calculated using actuarial methods. The amount of provisions recognized in these financial statements is derived from a projection of provisions as at 30 September 2018, prepared 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 provisions as at 30 September 2018 was 3.21% (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	4	2	1	9	**16**
Past service costs	-	-	-	(1)	**(1)**
Actuarial gains and losses	3	13	-	7	**23**
Benefits paid	(4)	(5)	(1)	(16)	**(26)**
Interest costs	3	4	1	5	**13**
As at 30 September 2018 (unaudited), of which:	**129**	**181**	**30**	**219**	**559**
Short-term	**10**	**10**	**1**	**21**	**42**
Long-term	**119**	**171**	**29**	**198**	**517**

	Pension and similar benefits	Energy tariff	Company Social Benefits Fund	Jubilee bonuses	Restructur-ing	TOTAL
As at 1 January 2017	**118**	**166**	**69**	**213**	**1**	**567**
Current service costs	4	2	1	9	-	**16**
Past service costs	(3)	(2)	(27)	(4)		**(36)**
Actuarial gains and losses	3	8	5	11	-	27
Benefits paid	(3)	(5)	(2)	(16)	-	**(26)**
Interest costs	3	4	2	5	-	**14**
Reversed	-	-	-	-	(1)	**(1)**
As at 30 September 2017 (unaudited), of which:	**122**	**173**	**48**	**218**	**-**	**561**
Short-term	**9**	**10**	**3**	**22**	**-**	**44**
Long-term	**113**	**163**	**45**	**196**	**-**	**517**

15.2. Other provisions

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emission	Obligation to redeem cetrificates	Other provisions	TOTAL
As at 1 January 2018	**114**	**57**	**46**	**299**	**71**	**587**
Interest expense	-	1	-	-	-	**1**
Recognized	12	-	106	414	40	**572**
Reversed	(11)	(1)	-	(6)	(12)	**(30)**
Used	(1)	-	(49)	(298)	(46)	**(394)**
As at 30 September 2018 (unaudited), of which:	**114**	**57**	**103**	**409**	**53**	**736**
Short-term	**114**	**-**	**103**	**409**	**53**	**679**
Long-term	**-**	**57**	**-**	**-**	**-**	**57**

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

15. Provisions (cont.)

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emission	Obligation to redeem cetrificates	Other provisions	TOTAL
As at 1 January 2017	**131**	**50**	**41**	**405**	**95**	**722**
Interest expense	-	1	-	-	-	**1**
Recognized	10	4	35	131	41	**221**
Reversed	(29)	-	(1)	(10)	(5)	**(45)**
Used	(24)	-	(43)	(400)	(44)	**(511)**
Reclassification	11	-	-	-	(11)	**-**
As at 30 September 2017 (unaudited), of which:	**99**	**55**	**32**	**126**	**76**	**388**
Short-term	**99**	**-**	**32**	**126**	**75**	**332**
Long-term	**-**	**55**	**-**	**-**	**1**	**56**

NOTES ON FINANCIAL INSTRUMENTS

16. Financial instruments

16.1. Carrying value of financial instruments by category and class

As at 30 September 2018 (unaudited)	Measured at fair value through profit or loss of the period	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
Trade receivables	-	-	1,149	-	**1,149**
Contract assets	-	-	599	-	**599**
Cash and cash equivalents	-	-	2,953	-	**2,953**
Other financial assets	15	52	33	-	**100**
Bonds, treasury bills and other debt instruments	-	-	11	-	**11**
Derivative financial instruments	15	52	-	-	**67**
Other	-	-	22		**22**
TOTAL	**15**	**52**	**4,734**	**-**	**4,801**
Liabilities					
Loans and borrowings	-	-	2,812	-	**2,812**
Preferential loans and borrowings	-	-	1,470	-	**1,470**
Loans and borrowings	-	-	1,342	-	**1,342**
Bonds issued	-	-	4,528	-	**4,528**
Trade liabilities	-	-	480	-	**480**
Contract liabilities	-	-	114	-	**114**
Other financial liabilities	-	23	150	5	**178**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	124	-	**124**
Derivative financial instruments	-	23	-	-	**23**
Dividend liabilities	-	-	2	-	**2**
Other	-	-	24	5	**29**
TOTAL	**-**	**23**	**8,084**	**5**	**8,112**

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

16. Financial instruments (cont.)

As at 31 December 2017	Measured at fair value through profit or loss of the period	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 categorised into a three level hierarchy:

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

	30 September 2018 (unaudited)	31 December 2017
	Level 2	Level 2
Assets		
Hedging derivatives (CCIRS I)	47	7
Hedging derivatives (CCIRS II)	3	<1
Hedging derivatives (CCIRS IV)	1	-
Hedging derivatives (IRS)	1	2
Other derivatives	15	24
Liabilities		
Hedging derivatives (CCIRS III)	23	49
Hedging derivatives (CCIRS IV)	-	29

Condensed interim consolidated financial statements as at and for the nine-month period ended 30 September 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 S.A. The options were purchased from Towarzystwo Finansowe Silesia Sp. z o.o. under an agreement of 18 January 2017 and refer to the purchase, in three tranches, a total of 9 million shares of Polimex-Mostostal S.A., 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 S.A. 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 September 2018 (unaudited)	4,519	3,515	1,059
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 28 September 2018, which are determined based on trades on the Luxembourg stock exchange and over-the-counter trading, and in the case of hybrid bonds based on the analysis of future cash flows discounted using the interest rates in effect as at 28 September 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 amortised cost, except for hedging derivatives. This category of the Group's financial instruments includes primarily contracted loans and borrowings and issued bonds.

Loans and borrowings

	As at 30 September 2018 (unaudited)	As at 31 December 2017
Currency	PLN	
Reference rate	WIBOR, rediscount rate	
Value of loan/ borrowing	**2,812**	**3,076**
of which maturing in:		
up to 1 year (short-term)	368	356
1 to 2 years	391	373
2 to 3 years	391	392
3 to 5 years	742	763
over 5 years	920	1,192

As at 30 September 2018 and 31 December 2017, the amount of credit limits available to the Group was PLN 3,894 m (74.3% used) and PLN 4,086 m (75.8% used), respectively.

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

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

16. Financial instruments (cont.)

Liabilities under bonds issued

	As at 30 September 2018 (unaudited)	As at 31 December 2017
Currency	PLN	
Reference rate	WIBOR	
Value of the issue	**9**	**183**
of which maturing in:		
up to 1 year (short-term)	4	12
2 to 3 years	5	171

	As at 30 September 2018 (unaudited)	As at 31 December 2017
Currency	EUR	
Reference rate	fixed	
Value of the issue		
in foreign currency	1,058	1,066
in PLN	4,519	4,446
of which maturing in:		
up to 1 year (short-term)	65	97
2 to 3 years	2,136	2,085
over 5 years	2,318	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 September 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 30.09.2018	Repayment date
European Investment Bank	Loan	Energa-Operator SA Investment Programme	16-12-2009	1,050	-	570	15-12-2025
European Investment Bank	Loan	Energa-Operator SA Investment Programme	10-07-2013	1,000	-	917	15-09-2031
European Bank for Reconstruction and Development	Loan	Energa-Operator SA Investment Programme	29-04-2010	1,076	-	579	18-12-2024
European Bank for Reconstruction and Development	Loan	Energa-Operator SA Investment Programme	26-06-2013	800	-	595	18-12-2024
Nordic Investment Bank	Loan	Energa-Operator SA Investment Programme	30-04-2010	200	-	81	15-06-2022
Bondholders	Eurobonds	General corporate purposes	19-03-2013	2,136[1]	-	2,136[1]	19-03-2020
Bondholders	Eurobonds	General corporate purposes	07-03-2017	1,281[1]	-	1,281[1]	07-03-2027

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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 30.09.2018	Repayment date
Bondholders	Domestic bonds	General corporate purposes	19-10-2012	1,000	-	3	19-10-2019
PKO Bank Polski SA	Credit limit	General corporate purposes	12-10-2011	300	300	-	07-06-2021
PKO Bank Polski SA	Bonds	Energa Elektrownie Ostrołęka SA Investment Programme	30-05-2012	100	47	-	31-12-2022
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	175	25[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	-	14	29-05-2022
Nordic Investment Bank	Loan	FW Myślino construction	23-10-2014	68	-	50	15-09-2026
NFOSiGW	Loan	Energa-Obrót SA Investment Programme	25-03-2011	-	-	-	31-12-2020
WFOŚiWG	Loan	Energa Wytwarzanie SA Investment Programme	23-12-2014	5	-	5	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	1,068[3]	-	1,068[3]	12-09 2037
TOTAL				**10,876**	**1,022**	**7,331**	

[1] EUR 800 m eurobond liability converted using the average NBP exchange rate of 28 September 2018

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

[3] EUR 250 m hybrid bond liability converted using the average NBP exchange rate of 28 September 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.

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

The Group designated CCIRS transactions under which the Group receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN as the hedging instrument. 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").

The Company designated the foreign currency risk arising from the issue of hybrid bonds denominated in EUR as a hedged position under the above hedging relationships. 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 arising from 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.

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 as hedged positions under hedging relationships. In the case of the transactions relating to EIB loan agreement, this is a four-year period.

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 as hedged positions under hedging relationships. 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 hedging instruments

The fair value of hedging instruments was:

	Value	Recognition in the statement of financial position	Change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period	Nominal amounts of the hedge in EUR m
As at 30 September 2018 (unaudited)				
CCIRS I	47	Assets – Other financial assets	None	400
CCIRS II	3	Assets – Other financial assets	None	25
CCIRS III	23	Liabilities – Other financial liabilities	None	200
CCIRS IV	1	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) decreased in the reporting period by PLN 9 m.

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

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

16. Financial instruments (cont.)

Change in cash flow hedge reserve during the reporting period	9-month period ended 30 September 2018 (unaudited)	9-month period ended 30 September 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	98	(79)
Accrued interest transferred from the reserve to financial income/costs	(21)	1
Revaluation of hedging instruments transferred from the reserve to financial income/costs	(88)	25
Income tax on other comprehensive income	2	10
At the end of the reporting period	**(7)**	**(2)**

As at 30 September 2018, no ineffectiveness was 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 5,264 m, of which:

- undertakings covered by the development plan of Energa-Operator SA to satisfy the current and future demand for electricity in 2017-2022 (agreed upon with the President of the Energy Regulatory Office) – approx. PLN 4,785 m;
- execution of the Przykona Wind Farm project – approx. PLN 127 m;
- projects pursued in the Ostrołęka B Power Plant (including but not limited to the modernization of power units, construction of a deSOx and deNOx installation) – approx. PLN 309 m,
- biomass-fired unit's steam boiler optimization project implemented in Energa Kogeneracja Sp. z o.o. – approx. PLN 20 m,
- gas-steam power plants in Grudziądz and Gdańsk – approx. PLN 22 m,
- modernization of hydro power stations – approx. PLN 1 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. Consequently, 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 September 2018 were immaterial (in the same period last year, sales to associates and joint ventures amounted to PLN 126 m). In the three quarters of 2018, purchases from associates and joint ventures added up to PLN 161 m (vs. PLN 114 m in the same period last year). The level of receivables as at 30 September 2018 was immaterial (as at 31 December 2017, the receivables amounted to PLN 48 m). The amount of liabilities as at 30 September 2018 was PLN 25 m vs. PLN 15 m as at 31 December 2017. All the above transactions concerning the first three quarters of 2018 were concluded mainly 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 any material transactions with Management Board members.

Condensed interim consolidated financial statements as at and for the nine-month period ended 30 September 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

	9-month period ended 30 September 2018 (unaudited)	9-month period ended 30 September 2017 (unaudited)
Management Board of the parent company	3	3
Supervisory Board of the parent company	<1	<1
Management Boards of subsidiaries	22	21
Supervisory Boards of subsidiaries	3	2
Other key management	18	16
TOTAL	**46**	**42**

19. Contingent assets and liabilities

19.1. Contingent liabilities

As at 30 September 2018, the Group recognises contingent liabilities of PLN 460 m (PLN 320 m as at 31 December 2017), including mainly contingent liabilities relating to disputes involving the Energa Group companies where the companies are likely to succeed or a reliable estimate of the cash outflow is impossible at the moment and no provision has been recognized for these cases.

The largest contingent liability item involves disputes relating to power infrastructure of Energa-Operator SA situated on private land. The Group recognises provisions for reported legal disputes. If there is uncertainty whether the value of the claim or the legal title to land are valid, the Group recognises contingent liabilities. As at 30 September 2018, the estimated value of such claims recognized as contingent liabilities is PLN 211 m, vs. PLN 210 m on 31 December 2017. Considering legal opinions, the estimated amounts determine the risk of liability arising to be below 50%

The risk of incurring additional costs in connection with debt financing programs in Energa Capital Group was also recognized.

Another issue involves the funding agreement for the project “Construction of a biomass power unit at Energa Kogeneracja Sp. z o.o. in Elbląg”, which specifies result indicators relating to the amount of generated electricity and heat energy for the period from 2014 to 2018. If the indicators are not achieved, it is likely that the awarded subsidy will be reclaimed. However, considering the corrective measures taken, which are monitored by the Ministry of Energy, the Group believes 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 paid back. The Management Board of Energa Kogeneracja Sp. z o.o. keeps the Ministry of Energy informed on the performance of the agreement. To secure the performance of obligations arising out of the funding agreement, Energa Kogeneracja Sp. z o.o. issued a blank promissory note for up to PLN 40 m including interest.

In addition, Energa-Obrót SA (“Energa-Obrót”) found that, *inter alia*, 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 that they are in conflict with the Public Procurement Law of 29 January 2004 (Journal of Laws of 2017, item 1579).

In view of the above, on 11 September 2017 Energa-Obrót discontinued the performance of 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 when the installation concerned started its electricity generating activities. 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 the invalidity of the CPAs are the 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 discontinue the performance of the CPAs and refer the cases to court on the basis of these opinions.

Most of the court cases concerning the invalidity of the CPAs are pending. The litigations were initiated in September 2017. 13 cases are currently at the stage of proceeding before courts of first instance. Two common court proceedings were discontinued as a result of out-of-court settlements concluded by Energa-Obrót and its business partners. In another proceedings where a settlement has been reached, the company is waiting for a discontinuation decision. Four proceedings before common courts concluded with non-final judgments unfavourable to Energa-Obrót. In this case,

Energa-Obrót appealed against judgments in two cases, and in the other two it is awaiting the delivery of written reasons for the judgments. Three arbitration proceedings concluded with final judgments unfavourable to the Company. Energa-Obrót appealed to set aside the judgments.

Analysis of the counter arguments raised against the company’s claims leads to the conclusion that there are valid reasons in support of the legitimacy of the actions. 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, the company is negotiating with several entities, which may result in new settlements and amicable resolution of litigations.

Due to the strong variability of the factors and scenarios affecting the reliable estimation of the level of future cash outflows in the above cases, the maximum contingent liability arising from the discontinuation of performance of the CPAs was measured at PLN 63.8 m.This estimate relies on contractual penalty mechanisms embedded in the CPAs, taking into account the current market realities.

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 Ostrołęka Power Plant 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 SAS 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 to issue a notice to proceed (NTP), as issuing an NTP requires, *inter alia*, the prior consent of the Supervisory Board of Energa SA and the prior consent in principle by Energa SA's General Meeting to proceed with the Construction Phase.

Earlier, on 24 March 2018, the Management Board of Energa SA, as a shareholder of the 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 a Public Contract with the General Contractor: a Consortium of GE Power Sp. z o.o. as the Consortium Leader and Alstom Power Systems SAS (Current Report No. 33/2018).

On 3 September 2018, the Company's Extraordinary General Meeting adopted a resolution concerning a consent in principle to the commencement of the Construction Phase of the Ostrołęka C Project, consisting in the preparation, construction and operation of a supercritical coal-fired steam power unit with a gross capacity of approximately 1,000 MW.

On 4 September 2018, a Memorandum of Understanding was signed between Energa SA, Enea S.A., Elektrownia Ostrołęka Sp. z o.o. and Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Energia (”Fund”) concerning the Fund's capital investment (by subscribing for shares in Elektrownia Ostrołęka Sp. z o.o. share capital) in a project implemented by the Elektrownia Ostrołęka Sp. z o.o. involving the preparation, construction and operation of a coal-fired power unit with a gross capacity of approx. 1,000 MW (”Project”). The Memorandum of Understanding defines the tentative financing structure for the Project, with a total of PLN 2 bn in equity to be contributed by Energa SA and Enea S.A. (PLN 1 bn each), which includes any monies contributed by Energa SA and Enea S.A. before the conclusion of a potential investment agreement with the Fund, and no more than PLN 1 bn in equity contributed to Elektrownia Ostrołęka Sp. z o.o. by the Fund. The outstanding balance is to be covered by other forms of financing. The Memorandum of Understanding is valid from the day of signature to 30 November 2018.

Details of the Public Procurement and the Contract are presented in item 2.1. Material events in the reporting period and after the balance sheet date of the Information to the condensed consolidated report of the Energa Group for nine-month period of 2018. Furthermore, in accordance with information provided in a current report of the Polimex-Mostostal Group (Current Report No. 30/2018 of 22 June 2018), the Management Board of Polimex-Mostostal S.A. in Warsaw reported that the Company had concluded a letter of intent with GE Power Sp. z o.o. concerning cooperation in the performance of the public contract “Construction of Ostrołęka Power Plant C with a capacity of approximately 1,000 MW, with Elektrownia Ostrołęka Sp. z o.o. as the Contracting Authority.

21. Subsequent events

On 4 October 2018, the General Meeting of Shareholders of ElectroMobility Poland SA passed a resolution concerning an increase in the share capital of the company to PLN 70 m, by increasing the nominal value of shares. Under the resolution, on 19 October 2018, Energa SA contributed PLN 10 m in cash to the company.

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, 7 November 2018