



**ENERGA SA  
Group**

**Consolidated financial  
statements prepared in  
accordance with the  
International Financial  
Reporting Standards as  
endorsed by the  
European Union for the  
year ended 31  
December 2019**

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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2019	Year ended 31 December 2018
<b>Sales revenues</b>	<b>10</b>	<b>11,479</b>	<b>10,337</b>
<b>Revenue from Price Difference Refund Fund</b>		<b>693</b>	<b>-</b>
Cost of sales	11.1	(10,930)	(8,284)
<b>Gross profit on sales</b>		<b>1,242</b>	<b>2,053</b>
Other operating income	11.4	245	104
Selling and distribution expenses	11.1	(380)	(354)
General and administrative expenses	11.1	(364)	(355)
Other operating expenses	11.5	(284)	(272)
Financial income	11.6	40	69
Financial costs	11.7	(762)	(382)
Share of profit/(loss) of entities measured using the equity method		(496)	90
<b>Profit or (loss) before tax</b>		<b>(759)</b>	<b>953</b>
Income tax	12	(242)	(209)
<b>Net profit or (loss) for the period</b>		<b>(1,001)</b>	<b>744</b>
Attributable to:			
Equity holders of the parent company		(952)	739
Non-controlling interest		(49)	5
<b>Earnings or (loss) per share (in PLN)</b>	<b>23</b>		
-basic		<b>(2.30)</b>	<b>1.79</b>
- diluted		<b>(2.30)</b>	<b>1.79</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2019	Year ended 31 December 2018
<b>Net profit for the period</b>		<b>(1,001)</b>	<b>744</b>
<b>Items that will never be reclassified to profit or loss</b>		<b>(68)</b>	<b>(14)</b>
Actuarial gains and losses on defined benefit plans	25.1	(84)	(17)
Deferred tax		16	3
<b>Items that may subsequently be reclassified to profit or loss</b>		<b>(18)</b>	<b>(34)</b>
Foreign exchange differences from translation of foreign entities		-	2
Cash flow hedges	29.6	(22)	(44)
Deferred tax		4	8
<b>Share in other comprehensive income of entities measured by the equity method</b>		<b>(5)</b>	<b>-</b>
<b>Net other comprehensive income</b>		<b>(91)</b>	<b>(48)</b>
<b>Total comprehensive income</b>		<b>(1,092)</b>	<b>696</b>
Attributable to:			
Equity holders of the parent company		(1,042)	691
Non-controlling interest		(50)	5

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2019	As at 31 December 2018 (restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	14,262	14,396
Intangible assets	14	223	246
Right-of-use assets	15	847	-
Goodwill	16	11	15
Investments in associates and joint ventures measured using the equity method	17	336	1,029
Deferred tax assets	12.3	262	313
Other non-current financial assets	29.1	190	65
Other non-current assets	21.1	144	118
		<b>16,275</b>	<b>16,182</b>
<b>Current assets</b>			
Inventories	18	756	687
Current tax receivables		61	4
Trade receivables	29.4.1	1,489	1,429
Contract assets	29.4.1	313	363
Other current financial assets	29.1	203	22
Cash and cash equivalents	20	1,461	2,724
Other current assets	21.2	409	188
		<b>4,692</b>	<b>5,417</b>
<b>TOTAL ASSETS</b>		<b>20,967</b>	<b>21,599</b>

	Note	As at 31 December 2019	As at 31 December 2018
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	22.1	4,522	4,522
Foreign exchange differences from translation of a foreign entity		-	-
Reserve capital	22.4	1,018	1,018
Supplementary capital	22.5	2,035	1,540
Cash flow hedge reserve	22.6, 29.6	(52)	(34)
Retained earnings	22.7	1,730	3,249
<b>Equity attributable to equity holders of the parent company</b>		<b>9,253</b>	<b>10,295</b>
<b>Non-controlling interest</b>	22.8	<b>11</b>	<b>61</b>
		<b>9,264</b>	<b>10,356</b>
<b>Non-current liabilities</b>			
Loans and borrowings	29.4.2	2,047	2,384
Bonds issued	29.4.2	2,326	4,484
Long-term provisions	25	786	642
Deferred tax liabilities	12.3	738	593
Deferred income and non-current grants	27	296	274
Lease liabilities	34, 29.1	637	16
Other non-current financial liabilities	26.1, 29.1	82	45
		<b>6,912</b>	<b>8,438</b>
<b>Current liabilities</b>			
Trade liabilities		802	617
Contract liabilities		139	129
Current loans and borrowings	29.4.2	393	189
Bonds issued	29.4.2	2,219	108
Current income tax liabilities		-	65
Deferred income and grants	27	188	187
Short-term provisions	25	583	942
Other financial liabilities	29.1	235	300
Other current liabilities	26.2	232	268
		<b>4,791</b>	<b>2,805</b>
<b>Total liabilities</b>		<b>11,703</b>	<b>11,243</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>22,967</b>	<b>21,599</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to equity holders of the parent company							Non-controlling interest	Total equity
		Share capital	Foreign exchange differences from translation of a foreign entity	Reserve capital	Supplementary capital	Revaluation reserve – hedging instruments	Retained earnings	Total		
<b>As at 1 January 2019</b>		<b>4,522</b>	<b>-</b>	<b>1,018</b>	<b>1,540</b>	<b>(34)</b>	<b>3,249</b>	<b>10,295</b>	<b>61</b>	<b>10,356</b>
Actuarial gains and losses on defined benefit plans	25.1	-	-	-	-	-	(67)	(67)	(1)	(68)
Cash flow hedges	29.6	-	-	-	-	(18)	-	(18)	-	(18)
Share in other comprehensive income of entities measured by the equity method		-	-	-	-	-	(5)	(5)	-	(5)
Net profit (loss) for the period		-	-	-	-	-	(952)	(952)	(49)	(1,001)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(18)</b>	<b>(1,024)</b>	<b>(1,042)</b>	<b>(50)</b>	<b>(1,092)</b>
Distribution of profits/ coverage of losses from previous years		-	-	-	495	-	(495)	-	-	-
<b>Total transactions with owners</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>495</b>	<b>-</b>	<b>(495)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>As at 31 December 2019</b>		<b>4,522</b>	<b>-</b>	<b>1,018</b>	<b>2,035</b>	<b>(52)</b>	<b>1,730</b>	<b>9,253</b>	<b>11</b>	<b>9,264</b>
<b>As at 1 January 2018</b>		<b>4,522</b>	<b>(2)</b>	<b>1,018</b>	<b>1,433</b>	<b>2</b>	<b>2,436</b>	<b>9,409</b>	<b>56</b>	<b>9,465</b>
Adjustment on account of implementation of IFRS 9 and IFRS 15		-	-	-	-	-	195	195	-	195
<b>As at 1 January 2018 (restated data)</b>		<b>4,522</b>	<b>(2)</b>	<b>1,018</b>	<b>1,433</b>	<b>2</b>	<b>2,631</b>	<b>9,604</b>	<b>56</b>	<b>9,660</b>
Actuarial gains and losses on defined benefit plans	25.1	-	-	-	-	-	(14)	(14)	-	(14)
Foreign exchange differences from translation of foreign entities		-	2	-	-	-	-	2	-	2
Cash flow hedges	29.6	-	-	-	-	(36)	-	(36)	-	(36)
Net profit (loss) for the period		-	-	-	-	-	739	739	5	744
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>(36)</b>	<b>725</b>	<b>691</b>	<b>5</b>	<b>696</b>
Distribution of profits/ coverage of losses from previous years		-	-	-	107	-	(107)	-	-	-
<b>Total transactions with owners</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>107</b>	<b>-</b>	<b>(107)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>As at 31 December 2018</b>		<b>4,522</b>	<b>-</b>	<b>1,018</b>	<b>1,540</b>	<b>(34)</b>	<b>3,249</b>	<b>10,295</b>	<b>61</b>	<b>10,356</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2019	Year ended 31 December 2018
<b>Cash flows from operating activities</b>			
Profit/(loss) before tax		(759)	953
Adjustments for:			
Share in (profit)/loss of entities measured using the equity method		496	(90)
Foreign exchange (gains)/losses		(12)	28
Amortization and depreciation	11.2	1,079	967
Net interest and dividends		315	298
(Profit)/loss on investing activities, including goodwill impairment allowance	31	893	(204)
<b>Changes in working capital</b>			
Change in receivables	31	(427)	410
Change in contract assets	31	50	(363)
Change in inventories		(69)	(335)
Change in liabilities, excluding loans and borrowings	31	160	(195)
Change in contract liabilities	31	10	129
Change in prepayments and accruals		(23)	(72)
Change in provisions	31	(312)	441
		<b>1,401</b>	<b>1,967</b>
Income tax		<b>(148)</b>	<b>(108)</b>
<b>Net cash from operating activities</b>		<b>1,253</b>	<b>1,859</b>
<b>Cash flows from investing activities</b>			
Disposal of property, plant and equipment and intangible assets		7	6
Purchase of property, plant and equipment and intangible assets		(1,675)	(1,638)
Disposal of subsidiary		-	58
Investments in associates and joint ventures measured using the equity method	2.2	(181)	(206)
Loans granted		(189)	-
Repayment of loans		-	10
Other		1	-
<b>Net cash from investing activities</b>		<b>(2,037)</b>	<b>(1,770)</b>
<b>Cash flows from financing activities</b>			
Proceeds from debt incurred		852	37
Repayment of debt incurred		(990)	(560)
Redemption of debt securities		(3)	(168)
Repayment of lease liabilities		(35)	-
Interest paid		(324)	(312)
Grants received		15	27
Reimbursement of funds under grants received		-	(29)
Other		-	(1)
<b>Net cash from financing activities</b>		<b>(485)</b>	<b>(1,006)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1,269)</b>	<b>(917)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	20	<b>2,726</b>	<b>3,643</b>
<b>Cash and cash equivalents at the end of the period</b>	20	<b>1,457</b>	<b>2,726</b>

**ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY INFORMATION****1. General information**

The Energa Group (the "Group") consists of **Energa Spółka Akcyjna** ("Parent Company", "Company") with its registered office in Gdańsk and its subsidiaries (see Note 2). The consolidated financial statements of the Group cover the year ended 31 December 2019 and contain appropriate comparative data.

The Parent Company is entered in the Register of Businesses of the National Court Register held by the Gdańsk-Północ District Court, 7th Commercial Division of the National Court Register, with the KRS reference no 0000271591.

The Parent Company's REGON statistical number is 220353024.

The basic business activities of the Group are as follows:

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

As at 31 December 2019, the Polish State Treasury is the Company's parent and ultimate controlling party of the Energa SA Group.

**2. Composition of the Group and joint ventures and associates****2.1. Composition of the Group at the end of the reporting period**

As at 31 December 2019, the Group consists of Energa SA and the following companies:

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 December 2019	31 December 2018
Distribution Business Line (Segment)					
1	Energa-Operator SA	Gdańsk	distribution of electricity	100	100
2	Energa Operator Wykonawstwo Elektroenergetyczne Sp. z o.o.	Słupsk	contracting and design	100	100
Sales Business Line (Segment)					
3	Energa-Obrót SA	Gdańsk	trading in electricity	100	100
4	Energa Oświetlenie Sp. z o.o.	Sopot	lighting services	100	100
5	Energa SLOVAKIA s.r.o.	Bratislava	trading in electricity	100	100
Production Business Line (Segment)					
6	Energa OZE SA <sup>1</sup>	Gdańsk	production of energy	100	100
7	Energa Elektrownie Ostrołęka SA	Ostrołęka	production of energy	89.64	89.64
8	Energa Kogeneracja Sp. z o.o.	Elbląg	production of energy	100	100
9	Energa Ciepło Ostrołęka Sp. z o.o.	Ostrołęka	distribution of heat	100	100
10	Energa Serwis Sp. z o.o.	Ostrołęka	repairs and maintenance services	94.81	94.81
11	Energa Ciepło Kaliskie Sp. z o.o.	Kalisz	distribution of heat	91.24	91.24
12	CCGT Grudziądz Sp. z o.o. <sup>2</sup>	Grudziądz	production of energy	100	100
13	CCGT Gdańsk Sp. z o.o. <sup>3</sup>	Gdańsk	production of energy	100	100
Other Business Line (Segment)					

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 December 2019	31 December 2018
14	Energa Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting, payroll and administrative services	100	100
15	Energa Finance AB (publ)	Stockholm	financing activity	100	100
16	Energa Informatyka i Technologie Sp. z o.o.	Gdańsk	information and communication technologies	100	100
17	Enspirion Sp. z o.o.	Gdańsk	organization and management of the development of innovative power projects	100	100
18	Energa Logistyka Sp. z o.o.	Płock	logistics and supply	100	100
19	Energa Invest Sp. z o.o.	Gdańsk	investment project management	100	100
20	Centrum Badawczo-Rozwojowe im. M. Faradaya Sp. z o.o.	Gdańsk	development activity in engineering	100	100
21	Energa Ochrona Sp. z o.o.	Gdańsk	security activities	100	100

<sup>1</sup> Formerly Energa Wytwarzanie SA – it was renamed and registered as Energa OZE SA on 3 September 2019.

<sup>2</sup> Formerly EOB PGK1 Sp. z o.o. – it was renamed and registered as CCGT Grudziądz Sp. z o.o. on 1 August 2019. The company's current registered office is in Grudziądz.

<sup>3</sup> Formerly ENSA PGK8 Sp. z o.o. – it was renamed and registered as CCGT Gdańsk Sp. z o.o. on 1 August 2019.

Additionally, as at 31 December 2019, 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. Changes in the composition of the Group and in the investments in joint ventures and associates in the reporting period

### 2.2.1. Polska Grupa Górnicza

On 28 April 2016, Energa Kogeneracja Sp. z o.o., a subsidiary, signed an 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. undertook to make contributions towards the newly-issued shares in PGG in the total amount of PLN 500m. The capital contributions were made.

On 31 March 2017, Energa Kogeneracja Sp. z o.o. signed an Investment Agreement changing 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., Węgllokoks S.A., Towarzystwo Finansowe Silesia Sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych [Polish Corporates Mutual Fund 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 involved a recapitalization of PGG by the Investors (excluding Węgllokoks S.A. and Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych) for the total amount of PLN 1 bn in three payments.

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 payments. Contributions totalling PLN 100 m were made, leading to the acquisition of 15.32% of PGG's share capital.

Both the Investment Agreement of 28 April 2016 and the new Investment Agreement of 31 March 2017 provide for a number of mechanisms allowing the investors to monitor the financial standing of PGG on an ongoing basis, which includes implementation of its business plan and taking optimization measures, among others in the case of adverse changes in market conditions. These rights are exercised by PGG's Supervisory Board and, according to the Agreement, each shareholder in PGG has the right to appoint, dismiss and suspend one Supervisory Board member (as a personal entitlement), and there are eight Supervisory Board members in total.

Additionally, PGE Górnictwo i Energetyka Konwencjonalna S.A., Energa Kogeneracja Sp. z o.o., PGNiG TERMIKA S.A. and Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych [Polish Corporates Closed-End Mutual Fund] (hereinafter jointly referred to as the "New Investors") signed a memorandum of agreement regarding PGG ("Memorandum of Agreement"). The purpose of the Memorandum of Agreement is to increase control of the New Investors

over PGG, since they jointly hold the majority of votes at PGG's Shareholders' Meeting. The Memorandum of Agreement envisages, among others, that a joint position will be agreed upon when key decisions are made by PGG's Shareholders' Meeting and its Supervisory Board. On 29 June 2016, the Office of Competition and Consumer Protection (UOKiK) issued its approval for the concentration involving the acquisition of joint control over PGG by the New Investors based on the Memorandum of Agreement. On 31 March 2017, under the new Investment Agreement, Enea S.A. joined the group of investors in PGG. On 22 December 2017, UOKiK issued its approval for the concentration resulting from Enea S.A. joining the Memorandum of Agreement.

On 29 December 2017, an entry was made in the National Court Register pertaining to the transformation of Polska Grupa Górnicza Sp. z o.o. into a public limited company.

On 31 August 2018, Annex 1 to the Agreement was signed to govern the continued investment in PGG and to adjust the provisions of the Agreement to PGG's altered legal form.

PGG is in the coal mining business, which gives it access to rich resources of energy fuel that can be used by the Group's production companies. The registered office of PGG is in Katowice.

PGG is a privately held company and, therefore, there are no listed market prices for its shares.

### 2.2.2. Polimex-Mostostal

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

The investment agreement allows the investors to influence Polimex's financial and operational policies. These powers are exercised through the Supervisory Board. The Supervisory Board consists of seven members.

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

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

Polimex is an engineering and construction company, which is characterized by a broad range of services provided in the capacity of a general contractor. Polimex's registered office is in Warsaw. Polimex is listed on the Warsaw Stock Exchange. At the session closing on 30 December 2019, the average price of Polimex's stock was PLN 2.155; and accordingly, the fair value of the block of shares held by the Group was PLN 84 m. The balance-sheet value of the block of shares of Polimex amounts to PLN 123 m. As at December 31 2019, the carrying amount was higher than the fair value, however, the entity recognizes that the surplus is temporary. In the event of a prolonged decline of fair value, the entity will review the carrying amount accordingly.

### 2.2.3. Ostrołęka Power Plant

On 8 December 2016, Energa SA, Enea S.A. and Elektrownia Ostrołęka SA signed an Investment Agreement regarding the execution of the new 1,000 MW power unit construction project in Ostrołęka (the "Project"). It was a condition precedent to the performance of the Agreement to obtain the consent of the President of the Office of Competition and Consumer Protection for the concentration consisting in the acquisition by Enea S.A. of a 50% shareholding in the Special Purpose Vehicle, i.e. Elektrownia Ostrołęka SA. 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 an agreement for the purchase of shares by Enea S.A.

Under the above agreements, Energa SA and Enea S.A. acquired joint control over the company, whose purpose is to build and operate a new coal-fired unit.

On 27 February 2018, the transformation of Elektrownia Ostrołęka SA into a private limited company was registered.

Energa SA and Enea S.A. each hold a 50% stake in Elektrownia Ostrołęka Sp. z o.o. 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 within the powers of a shareholders' meeting require the unanimous consent of both shareholders. Therefore, the investment has been classified as a joint venture and is recognized under the equity method.

Elektrownia Ostrołęka Sp. z o.o. is a privately held company and, therefore, there are no listed market prices for its shares.

On 26 March 2018, an annex to the Investment Agreement was signed defining the maximum expenditure on the part of Energa SA until the issuance of the Notice to Proceed (NTP) for the General Contractor.

On 21 December 2018, as a result of the capacity market auction for 2023 (main auction), a capacity obligation totalling 853 MW was contracted from the Energa Group by Elektrownia Ostrołęka Sp. z o.o. (with a 15-year capacity contract starting in 2023). On 28 December 2018, the Company issued a Notice to Proceed (NTP) with the Project to the General Contractor, i.e. Konsorcjum GE Power Sp. z o.o. as the Consortium Leader and Alstom Power Systems S.A.S.

At the same time, on 28 December 2018, Energa SA, Enea S.A. and Elektrownia Ostrołęka Sp. z o.o. terminated the Investment Agreement of 8 December 2016 amended by Annex 1/2018 of 26 March 2018 and signed the Memorandum of Agreement, whose intention was to conclude a new investment agreement specifying the terms of their co-operation and financing of the project of construction of the new power unit in Ostrołęka in the construction phase. Under the Memorandum of Agreement of 28 December 2018, Energa SA and Enea S.A. declared their financial commitment to the execution of the project of construction of Ostrołęka C Power Plant (the "Project") in the amount not lower than PLN 1 bn in the case of Energa SA and PLN 1 bn in the case of Enea SA. In the enforcement of the Memorandum of Agreement of 28 December 2018, Energa SA and Enea SA already transferred PLN 181 m each to Elektrownia Ostrołęka Sp. z o.o.

On 30 April 2019, Energa SA and Enea S.A. signed a Memorandum of Agreement on the financing of the construction of the Ostrołęka C Power Plant further detailing the declarations of financial commitment made by Energa SA and Enea S.A. in the

Memorandum of Agreement of 28 December 2018. The purpose of the Memorandum of Agreement is to further detail the rules for financing the Project in order to enable its continued implementation without delays. Pursuant to the Memorandum of Agreement, Energa SA and Enea SA agreed to provide Elektrownia Ostrołęka Sp. z o.o. with the funds necessary to implement the Project in accordance with the investment implementation schedule (detailed information on the Memorandum of Agreement is available in Current Report No. 7/2019).

Consequently, Energa SA and Elektrownia Ostrołęka Sp. z o.o. entered into a loan agreement on 17 July 2019, whereby Energa SA granted Elektrownia Ostrołęka Sp. z o.o. a loan of up to PLN 76 m to be repaid by 31 December 2019. The loan was disbursed in two tranches totalling PLN 58 m. On 30 September 2019, Energa SA assigned half of its receivables under the granted loan to Enea SA. The value of the receivables being the object of this assignment was settled by Enea SA. Additionally, according to Annex No. 1 of 23 December 2019 and Annex No. 2 of 31 January 2020 and Annex No. 3 of 30 March 2020 to the aforesaid loan agreement, the lenders confirmed the maximum amount of the loan to be PLN 58 m, extended the deadline for its repayment until 30 June 2020 and expressed their intention to convert the receivables into shares in the share capital of Elektrownia Ostrołęka Sp. z o.o. at a date preceding final repayment of the loan.

A loan agreement was concluded between Energa SA, Enea SA and Elektrownia Ostrołęka Sp. z o.o. on 23 December 2019 constituting partial performance of Energa's obligations under the Memorandum of Agreement of 30 April 2019. The maximum amount of the loan contracted by Elektrownia Ostrołęka Sp. z o.o. is PLN 340 m and will be paid out in tranches upon reasonable request of Elektrownia Ostrołęka Sp. z o.o. associated with the implementation of the Project. The first tranche in the amount of PLN 160 m was disbursed on 23 December 2019, the second tranche in the amount of PLN 17 m was disbursed on 13 January 2020, whereas the third tranche on 22 April 2020. Under the loan agreement, Energa SA proceeded to a conditional sale of 50% of its receivable held against Elektrownia Ostrołęka Sp. z o.o. to Enea SA. The receivables sold will be transferred to Enea SA upon fulfilment of the conditions precedent set out in the Memorandum of Agreement of 30 April 2019 on the later of: 31 January 2021 or the date the full price is paid by Enea SA to Energa SA. The receivables under the loan agreement may be converted by Energa SA and Enea SA to the capital of Elektrownia Ostrołęka Sp. z o.o.

At the same time, Energa SA and Enea SA undertook to negotiate the rules for cooperation in a shareholders' agreement/investment agreement which is to define, on a comprehensive basis, the structure and form of the financing of the Project.

Under the Memorandum of Understanding, Energa SA and Enea SA decided to suspend the financing of the Project involving construction of a new coal-fired unit, i.e. the planned Ostrołęka C power plant in Ostrołęka with the capacity of approx. 1,000 MW (Project) on 13 February 2020. The financing is suspended in particular in connection with the need to conduct and for the duration of conducting analyses regarding further actions in the Project, including its continued financing.

Energa SA and Enea SA assumed that the suspension of the Project's financing would necessitate a suspension by Elektrownia Ostrołęka Sp. z o.o. of the Contract for the construction of Ostrołęka C Power Plant of 12 July 2018 and the Agreement on the reconstruction of the railway infrastructure for Ostrołęka C Power Plant of 4 October 2019. The Memorandum of Agreement does not affect the validity of the existing memoranda of agreement between Energa SA and Enea SA and between Energa SA and Enea SA and Elektrownia Ostrołęka Sp. z o.o., in particular it does not affect the existing arrangements made with regard to the Project's financing and the formula of settlements between the Sponsors, adopted on the basis of the December Memorandum of Agreement and April Memorandum of Agreement.

On 14 February 2020, Elektrownia Ostrołęka Sp. z o.o. presented to the contractors an order to suspend the implementation of the aforesaid contract and of the agreement, the suspension effective as of 14 February 2020.

From the effective date of the Investment Agreement until 31 December 2019, the total value of Energa SA's capital contribution to Elektrownia Ostrołęka Sp. z o.o. (total price of shares acquired by the Company) amounted to PLN 351 m.

#### 2.2.4. ElectroMobility Poland

ElectroMobility Poland SA was established in October 2016 by four Polish power companies: Energa SA, PGE Polska Grupa Energetyczna SA, Enea S.A. and Tauron Polska Energia SA. Each company holds a 25 per cent interest in the share capital. By 31 December 2019, the total value of Energa SA's capital contribution to the company (total par value of the shares acquired) amounted to PLN 17.5 m.

ElectroMobility Poland SA was classified as an associate measured by the equity method.

### 3. Composition of the Parent Company's Management Board

During the year 2019 and until these consolidated financial statements were prepared, the composition of the Management Board of Energa SA was as follows:

- 1) from 1 August 2018 to 30 May 2019:
  - Alicja Barbara Klimiuk - Vice-President of the Management Board for Operational Matters, 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;
- 2) from 31 May 2019 to 16 December 2019:
  - Grzegorz Ksepko - Vice-President of the Management Board for Corporate Matters, acting President of the Management Board;
  - Jacek Kościelniak - Vice-President of the Management Board for Financial Matters;
  - Dominik Wadecki - Vice-President of the Management Board for Operational Matters;
- 3) from 17 December 2019 to 16 January 2020:
  - Jacek Goliński - 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;

- Dominik Wadecki
  - Adrianna Sikorska
- 4) from 17 January 2020 to 9 February 2020:
- Jacek Goliński
  - Grzegorz Ksepko
  - Dominik Wadecki
  - Adrianna Sikorska
- 5) from 10 February 2020 to 14 March 2020:
- Jacek Goliński
  - Marek Kasicki
  - Grzegorz Ksepko
  - Dominik Wadecki
  - Adrianna Sikorska
- 6) from 15 March 2020 to 6 May 2020:
- Jacek Goliński
  - Marek Kasicki
  - Dominik Wadecki
  - Adrianna Sikorska
- 7) from 7 May 2020 until the date of these financial statements:
- Jacek Goliński
  - Marek Kasicki
  - Dominik Wadecki
  - Adrianna Sikorska
  - Iwona Waksmundzka-Olejniczak
- Vice-President of the Management Board for Operational Matters;
  - Vice-President of the Management Board for Communication Matters;
  - President of the Management Board;
  - Vice-President of the Management Board for Corporate Matters;
  - Vice-President of the Management Board for Operational Matters;
  - Vice-President of the Management Board for Communication Matters;
  - President of the Management Board;
  - Vice-President of the Management Board for Financial Matters;
  - Vice-President of the Management Board for Corporate Matters;
  - Vice-President of the Management Board for Operational Matters;
  - Vice-President of the Management Board for Communication Matters;
  - President of the Management Board;
  - Vice-President of the Management Board for Financial Matters;
  - Vice-President of the Management Board for Operational Matters;
  - Vice-President of the Management Board for Communication Matters;
  - President of the Management Board;
  - Vice-President of the Management Board for Financial Matters;
  - Vice-President of the Management Board for Operational Matters;
  - Vice-President of the Management Board for Communication Matters;
  - Vice-President of the Management Board for Corporate Matters.

#### 4. Approval of the financial statements

These consolidated financial statements were approved for publication by the Company's Management Board on 27 May 2020.

#### 5. Basis for the preparation of the financial statements

These 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 consolidated financial statements are presented in millions of zloty ("PLN m").

These consolidated financial statements 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 financial statements, there is no evidence indicating any uncertainty as to the ability of the Group to continue its business activities as a going concern.

In particular, the Company believes that the fact that Polski Koncern Naftowy ORLEN Spółka Akcyjna ("PKN Orlen") announced on 5 December 2019 a call for subscription to the sale of the Company's shares, a detailed description of which is presented in Note 39, does not point to a threat to the Group's continued operation.

According to the PKN ORLEN's intention, acquisition of the shares will allow for, among other things, effective balancing of conventional capacities with planned renewable energy sources, as well as the Company's use of PKN ORLEN's current production surpluses. This shall allow for a reduction of operational costs of energy trading on the Polish Power Exchange. On the other hand, the merger of the customer bases of both groups shall generate the potential to sell additional products and services, especially in the mass customers' segment.

According to PKN Orlen's public statements on the purpose of the takeover, the Company believes that after the acquisition of the shares the Group's existing business will be developed consistently with its current profile.

##### 5.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the European Union ("IFRS EU").

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

The Management Board of the Parent Company used its best knowledge in the application of standards and interpretations as well as measurement methods and principles for the individual items of the consolidated financial statements of the Energa SA Group in accordance with IFRS EU as at 31 December 2019. Due diligence was applied in the preparation of the accompanying supplementary information and notes.

##### 5.2. Functional and presentation currency

The functional currency of the Parent Company and other Polish companies covered by these consolidated financial statements and the presentation currency of these consolidated financial statements is the Polish zloty. For Energa Slovakia s.r.o. and Energa Finance AB (publ), the functional currency of their individual financial statements is euro. For the purpose of these financial statements, the underlying accounts of the above-mentioned companies have been translated into Polish zlotys using the method described in Note 9.5.

#### 6. Material items subject to professional judgment and estimates

The process of applying accounting policies to the areas enumerated below required management to make professional judgements and estimates which affected the amounts in the consolidated

financial statements, including the additional explanatory notes thereto. The assumptions used in making these estimates are based on the Management Board's best knowledge of current and future activities and events in specific areas. Detailed information on the adopted assumptions has been presented in the relevant notes in these consolidated financial statements. The key assumptions for the future and other main sources of uncertainty occurring as at the end of the reporting period, which entail a significant risk of considerable adjustment of the carrying amount of assets and liabilities in the next financial year, are discussed below.

#### **Impairment of property, plant and equipment, intangible assets and goodwill**

The Group assesses whether there is any evidence of impairment of the Cash Generating Units ("CGU") and individual assets.

This analysis covers external factors, including technological, market, economic or legal changes in the environment in which we conduct our business or on the markets where we use the Group's assets to serve our clients, as well as internal factors associated with the physical condition of property, plant and equipment components and changes in the way they are used. If we find any such evidence, we carry out asset impairment tests following the rules described in Note 9.10. Information on the conducted impairment tests is presented in Note 13.

#### **Measurement of provisions**

Provisions for employee benefits (provision for pensions and similar benefits, jubilee bonuses, employee energy tariff, additional allowances for the Company Social Benefit Fund to which employees of Group companies are entitled after their employment period) are estimated using actuarial methods.

Other provisions are measured according to the best estimate of the expenditures necessary to fulfill the existing duties. If the time value of money is relevant, then the provision is equal to the present value of the expenditures expected to be necessary to fulfill this duty.

Detailed information about the adopted assumptions and recognized provisions is presented in Note 25.

#### **Depreciation rates**

Depreciation rates and charges are determined on the basis of the anticipated useful life of a property, plant and equipment component or intangible assets and estimates regarding their residual value. Every year, Group companies revise the adopted periods of useful life, based on the current estimates.

#### **Energy price paths**

Energy price paths developed by independent industry experts are an important element of the estimation of value in use of cash generating centers in the generation segment. They are also used to estimate provisions for post-employment benefits in the form of employee energy tariffs. When forecasting price paths, the Group has used reports prepared upon the Group's commission by an independent specialist. The report includes the assumptions and projections pertaining to the Polish market. Detailed information about the analysis of sensitivity to changes in the paths is disclosed in Notes 13 and 25.

#### **Deferred tax asset**

Deferred tax assets are measured using the tax rates that will be applied at the moment when the asset is utilized, based on the tax regulations in force on the day ending the reporting period. The Group recognizes a deferred tax asset based on the assumption that tax profit would be recorded in the future, allowing the Group to use the asset. This assumption may prove to be unjustified if tax results deteriorate in the future. Details on the deferred tax assets are provided in Note 12.3.

#### **Fair value of financial instruments**

The fair value of financial instruments, for which no active markets exist, is measured using appropriate valuation techniques. The Group applies professional judgment to the selection of such appropriate methods and assumptions. The method used to determine fair value of individual financial instruments is presented in Note 29.3.

#### **Estimation of revenues on sales of electricity and distribution services**

Meter readings of electricity sold to retail customers are made predominantly in the periods different from the reporting periods. Therefore, the entities comprising the Group make estimations of electricity and distribution services sold as at every last day of the reporting period, for the period not covered by meter readings. The amount of revenues recognized as at 31 December 2019 on the basis of the estimations was PLN 317 m (PLN 309 m as at 31 December 2018).

#### **Impairment losses on receivables**

As at the end of the reporting period, the entity evaluates whether there is any objective evidence of impairment of a receivable or a group of receivables. If a recoverable amount of an asset is lower from its carrying amount, then the entity recognizes an impairment loss bringing it down to the present value of planned cash flows. Impairment losses are recognized based on the age analysis of receivables and an analysis of the financial standing of the individual debtors and the history of repayments.

Impairment losses on trade receivables and disputed receivables are based on their historic collectability, which provides the basis for the assessment of risk of credit losses. Credit losses may also be defined based on the ratings awarded to counterparties deemed strategic. The rating is developed on the basis of the internal scoring model which converts probability of default by the counterparty accordingly. The expected credit losses are calculated while taking into consideration the estimates of potential recoveries on account of contributed collaterals. When relying on historic collectability, the expected credit losses for this group of counterparties have been estimated through the allocation to individual categories of receivables of percentage indicators permitting the estimation of the value of receivables due from buyers that are not expected to be collected.

According to the above methodology of calculation of expected credit losses, the value of receivables may be updated also individually, in particular in relation to:

- receivables due from debtors put into liquidation or declared bankrupt;
- receivables contested by debtors and receivables on the repayment of which the debtor is in arrears and where, based on the debtor's assets and financial situation, the repayment of receivables in the contractual amount is unlikely (in such case, bad debt provision may be established in the amount of 100% of the value of the previously recognized debt);

- other overdue receivables as well as not overdue receivables for which default risk is significant according to the Management Board's individual assessment.

The amounts of the impairment losses on receivables are provided in Note 29.4.1.

#### 7. Changes in estimates

During the current reporting period, no changes were made to the scope or methods used for making significant estimates. Changes in estimates were attributable to the events occurring during the reporting period.

#### 8. New standards and interpretations

The Group's accounting policies are applied on a consistent basis except for their changes attributable to amendments to EU IFRS, in particular relating to IFRS 16 "Leases" adopted for the first time in the current reporting period and the change of presentation of liquidation of property, plant and equipment, intangible assets and discontinued assets under construction and non-commissioned intangible assets classified as production assets. As far as IFRS 16 was concerned, the Group elected to apply the standard retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application, as permitted by Appendix C to the standard.

For hedge accounting purposes, the Group applies IAS 39 on a consistent basis.

#### Liquidation

Amortization and depreciation charges also include the net value of liquidated production assets (relating to the core (operating) activities) not fully depreciated at the time of liquidation. The non-depreciated net value is recognized in the amortization and depreciation expense in the month in which the asset is put into liquidation. The above also applies to discontinued non-current assets under construction. The Group considered liquidation to be an erroneous estimate of the economic useful life. In 2019, we present amortization and depreciation expense in the amount of PLN 1,079 m, where depreciation corresponding to liquidation and discontinued investment amounts to PLN 31 m. In 2018, depreciation and amortization expense amounted to PLN 967 m and it did not include liquidation costs. In 2018, the liquidation cost, which would now be recognized as amortization and depreciation expense, amounted to PLN 29 m.

#### IFRS 16 Leases

Under the new standard, what a lease is to the lessee is any contract which conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In order to recognize a contract as a lease, the Group analyses:

- whether an identifiable asset is the subject matter of the contract;
- whether, throughout the entire period of use, the Group has the right to obtain substantially all the economic benefits from use of the identified asset;
- and whether, throughout the entire period of use, the Group has the right to direct the use of the identified asset.

A customer has the right to direct the use of an identified asset if the customer designed the asset in a way that predetermines how and for what purpose the asset will be used or the customer has the right to operate the asset, without the supplier having the right to change those operating instructions.

Identification of a lease agreement necessitates estimates and use of judgment by the Companies' Management Boards that materially impact the value of lease liabilities and right of use assets as at that date. The most important of them include:

- discount rates adopted for measurement of lease liabilities; and
- duration of lease agreements taking into account the possibility of extension of the lease agreement and its early termination.

Depreciation/amortization rates and residual values adopted for individual assets are also part of the estimates that impact the value of recognized right of use assets in subsequent periods.

For the purpose of measurement of lease liabilities, a discount rate is applied using the lessee's marginal interest rate valid as at the lease's start date which reflects the anticipated cost of financing of the purchase of the leased item. The discount rate is set based on a practical solution approved by the standard, consisting in applying a single discount rate to a portfolio of leases of fairly similar characteristics.

The term of lease includes the irrevocable term of lease and the periods during which the option to extend the lease exists (if it can be reasonably assumed that the Company will exercise that option) and the periods during which the option to terminate the lease exists (if it can be reasonably assumed that the Company will not exercise that option). The Company's decision to exercise the option to extend/terminate the lease should take into consideration all relevant facts and circumstances known and controlled by the Company. In the case of agreements/legal titles concerning the establishment of the right to use land such as transmission easement and fee for deployment of devices, concluded for an indefinite term, the Company adopts as the irrevocable term of lease the remaining period of economic usefulness of property, plant and equipment erected on that land, i.e. grid assets.

Application of IFRS 16 had the following impact on the consolidated statement of financial position as at 1 January 2019:

	As at 1 January 2019 (prior to the application of IFRS 16)	Impact of the application of IFRS 16	As at 1 January 2019 (following the application of IFRS 16)
<b>ASSETS</b>			
<b>Non-current assets, of which:</b>	<b>16,182</b>	<b>674</b>	<b>16,856</b>
Property, plant and equipment	14,396	(198)	14,198
Intangible assets	246	(10)	236
Right-of-use assets	-	884	884
<b>Current assets</b>	<b>5,417</b>	<b>-</b>	<b>5,417</b>
<b>TOTAL ASSETS</b>	<b>21,599</b>	<b>676</b>	<b>22,275</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Total equity</b>	<b>10,356</b>	<b>-</b>	<b>10,356</b>
<b>Non-current liabilities, of which:</b>	<b>8,438</b>	<b>637</b>	<b>9,075</b>
Lease liabilities	16	637	653
<b>Current liabilities, of which:</b>	<b>2,805</b>	<b>39</b>	<b>2,844</b>
Lease liabilities	2	39	41
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>21,599</b>	<b>676</b>	<b>22,275</b>

The new standard eliminated operating leases under IAS 17 for lessees, transforming each contract into a finance lease. The main transformations were made in the rent and lease contracts and in the right of perpetual usufruct of land. The introduction of the new standard did not result in any changes from the lessor's perspective.

In 2019, amortization and depreciation on the lease contracts restated as a result of the entry in force of the provisions of IFRS 16 amounted to PLN 58 m and, according to their previous recognition, the costs associated with those contracts would have amounted to PLN 58 m. In 2018, the costs of those contracts amounted to PLN 56 m. They were mainly presented as external services as well as taxes and charges.

The updated accounting policy of the Group envisages:

- non-application of the requirements of IFRS 16 to short-term leases and leases of low-value assets, i.e. below PLN 10,000, with the exception of the right of perpetual usufruct of land;
- recognition of a right-of-use asset and a lease liability at the commencement date at the amount of the initial measurement of the lease liability, i.e. at the present value of the lease payments outstanding at the commencement date;
- the cost of the right-of-use assets shall comprise any initial direct costs incurred by the lessee, an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is used or restoring the underlying asset to the condition required by the terms and conditions of the lease, if the lessee assumes the obligation to incur those costs;
- the cost of the right-of-use assets shall be reduced by any lease incentives received;
- the lease liabilities shall be reduced by any lease incentives payable;
- the Group discounts lease payments using the interest rate implicit in the lease, if that rate can be determined on the basis of the contract. Otherwise, the lessee's incremental borrowing rate shall be used;
- financial costs, i.e. interest, and variable lease payments not included in the measurement of the lease liability, shall be recognized on an ongoing basis in the statement of profit or loss;
- after the commencement date, the lessee shall measure the right-of-use assets applying a cost model, i.e. shall reduce the cost by depreciation charges and impairment losses, and adjust it for any remeasurement of the lease liability to reflect any reassessment or lease payment modification;
- the amortization and depreciation period shall be equal to the lease term unless the leased asset is expected to be bought; in the latter case, the period of the economic useful life of the asset is set straight away.

In June 2019, the International Financial Reporting Interpretations Committee ("Committee") concluded that the contract that gives the right to install the pipeline in underground space is a lease and should, therefore, be accounted for in accordance with IFRS 16.

As a result of the issue of the aforementioned decision, the Group analyzed its legal titles to place the distribution infrastructure on someone else's land in terms of their impact on the value of the disclosed lease assets and liabilities. Re-examination was conducted in particular with respect to the provisions of IFRS 16 concerning the identification of an asset, value of individual assets and contractual periodical fees. As a consequence, the right-of-use assets appreciated from PLN 374 m to PLN 884 m as at 1 January 2019.

**Impact of the Act of 28 December 2018 Amending the Excise Tax Act and Certain Other Acts**

In 2019, the Group recognized in its ledgers the impact of the regulations governing electricity prices by incorporating the amount of the price difference and compensation due for the year 2019 in the statement of profit or loss in the revenue from the Price Difference Refund Fund comprised of sales profit before tax and as other current assets in the statement of financial position. The estimated value of VAT invoice corrections reducing the value of sales revenues was recognized by the Group in the statement of financial position as an increase in trade liabilities and as a decrease in sales revenue in the statement of profit or loss.

**8.1. Standards and interpretations applied for the first time in 2019**

In 2019, the Group applied IFRS 16 Leases (applicable to annual periods beginning on or after 1 January 2019) for the first time.

The following amendments to the existing standards published by the IASB and endorsed by the EU became effective in 2019:

- Amendments to IFRS 9 Financial Instruments – Prepayment Features with Negative Set-off (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);
- Amendments to IAS 19 Employee Benefits - Changes to a Defined Benefit Plan (applicable to annual periods beginning on or after 1 January 2019);
- Amendments to various standards Annual Improvements to IFRS Standards (2015-2017 Cycle) – amendments introduced during the annual cycle of improvements to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) aimed mainly at removing inconsistencies and agreeing on the wording (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 to long-term interests in associates and joint ventures (applicable to annual periods beginning on or after 1 January 2019).

The above-mentioned amendments to the standards did not have a material effect on the Group's performance.

**8.2. 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:

- Amendments to References to the Conceptual Framework in IFRS Standards (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 the term “material” (applicable to annual periods beginning on or after 1 January 2020);
- Interest rate benchmark - amendments to IFRS 9, IAS 39 and IFRS 7 (applicable to annual periods beginning on or after 1 January 2020).

**8.3. Standards and interpretations adopted by the IASB, but not yet endorsed by 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 17 Insurance Contracts (applicable to annual periods beginning on or after 1 January 2021).
- Amendment to IFRS 3 Business Combinations, definition of business (applicable to business combinations where the date of acceptance falls at the start of the first annual period beginning on or after 1 January 2020 and to acquisitions of assets occurring on or after the start day of the aforesaid annual period);
- Amendments to IFRS 10 Consolidated Financial Statements, and IAS 28 Investments in Associates and Joint Ventures, relating to sale or handover of assets between the Investor and an Associate or Joint Venture (The European Commission decided to defer the endorsement indefinitely.)
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Effective for annual periods beginning on or after 1 January 2020)
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments and IFRS 7 Financial Instruments: Disclosures (Effective for annual periods beginning on or after 1 January 2020)
- Amendments to IAS 1 Presentation of Financial Statements Classification of Liabilities as Current or Non-current (Effective for annual periods beginning on or after 1 January 2022 Early application is permitted.)

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

**9. Significant accounting policies**

The most significant accounting policies applied by the Group are presented below. The policies have been applied continuously.

**9.1. Principles of consolidation**

These consolidated financial statements include the financial statements of Energa SA and financial data of its subsidiaries prepared in each company for the year ended 31 December 2019.

Subsidiaries are consolidated in the period from the date the Group took control over them and they cease to be consolidated on the date such control ceases. Control is exerted by the Parent Company when, because of its investment, it is subject to exposure

to varying returns, or if it holds rights to the variable returns and can also influence those returns by effecting control over the subsidiary.

The Group also considers whether to treat the part of the entity where the investment was made as a separate entity (a silo). If the Group controls the recognized separate entity then it consolidates the part of the entity where the investment was made.

The Group settles transactions of taking control over subsidiaries undertakings by using the purchase method. A payment transferred within the framework of the transaction is determined as the fair value of transferred assets, accepted obligations towards previous owners of the entity being acquired and equities issued by the acquiring entity.

The identifiable assets and liabilities of the acquired entity are measured as at the acquisition date at fair value. Non-controlling interest in an acquired entity is recognized at the amount of the proportionate percentage (corresponding to the non-controlling interest) of the identifiable, recognized net assets of the acquired entity. The goodwill that is created in a purchase transaction is calculated in accordance with the rules presented in Note 9.9.

The costs related to the purchase of a subsidiary entity are recognized as the costs of the period.

Unrealized profits from transactions concluded within the Group are eliminated in their entirety. Unrealized losses are ignored, unless they constitute a proof of impairment.

Changes in the Group's interest in an investee which do not result in the Group obtaining or losing control thereof are accounted for through equity as transactions between owners.

## 9.2. Business combinations of entities under common control

Business combinations of entities under common control are settled by summing up the various line items of the relevant assets and liabilities as well as the revenues and expenses of the merged companies, after first converting their values using uniform measurement methods and making the relevant exclusions. In the case of the acquired company, all the balance sheet and profit and loss items included in the financial statements of that company are added up in the amounts presented in the Group's consolidated financial statements. The share capital of the company whose assets are transferred to another company, or of the companies that are stricken from the commercial register as a result of the business combination, is subject to exclusion. After effecting this exclusion, the pertinent line items of the equity of the company to which the assets of the merged companies or of the newly-formed company are transferred, are adjusted by the difference between the sum total of assets and liabilities and equity. All the account balances and transactions between the merging entities, including the profits or losses on business operations executed prior to the business combination and included in the assets and liabilities and equity undergoing combination, are also subject to exclusion.

## 9.3. Investments in joint ventures

A joint venture is a joint contractual arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in joint ventures are recognized using the equity method after deducting impairment losses, if any. Application of the equity method involves the initial recognition of the investment at purchase price plus transaction costs. The Group's share in the profit or loss of the entities measured by the equity method (calculated taking into account the impact of the fair value measurement as at the investment purchase date) starting from the purchase date is recognized in the Group's profit or loss, while its share in other comprehensive income of such an entity, starting from the purchase date, is recognized in the Group's other comprehensive income. Unrealized gains and losses on account of transactions between the investor and the joint venture are eliminated in the amount corresponding to the investor's share in such gains/losses.

## 9.4. Investments in associates

Associates are entities on which the Parent Company exerts, directly or through subsidiaries, significant influence but does not have control or joint control over them.

Investments in associates are accounted for under the equity method. Investments in associates are carried in the statement of financial position at purchase price plus transaction cost and subsequent changes in the Parent Company's share in net assets of those entities less impairment losses, if any. The Group's share in the profit or loss of the entities measured by the equity method (calculated taking into account the impact of the fair value measurement as at the investment purchase date) starting from the purchase date is recognized in the Group's profit or loss, while its share in other comprehensive income of such an entity, starting from the purchase date, is recognized in the Group's other comprehensive income. Unrealized gains and losses on account of transactions between the investor and the associate are eliminated in the amount corresponding to the investor's share in such gains/losses.

## 9.5. Conversion of items in foreign currencies

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

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

Foreign exchange differences resulting from this conversion are recognized, respectively, as financial income (cost) items or, in the cases identified in the accounting principles (policies), they are capitalized as assets. Foreign exchange gains/losses on non-cash items such as equity instruments measured at fair value through profit or loss are recognized as changes in fair value.

Assets and liabilities of foreign entities consolidated by the full method are converted to the Group's presentation currency at the rate in effect at the end of the reporting period and their statements of profit or loss are converted at the average annual exchange

rate for the reporting period. Foreign exchange gains/losses resulting from such a conversion are posted directly to other comprehensive income. When a foreign entity is sold, the accumulated deferred exchange differences recognized in other comprehensive income relating to that foreign entity are recognized in the statement of profit or loss.

The following exchange rates were used for measurement purposes at the end of the reporting period:

Exchange rate applicable on the last day of the period		
Currency	31 December 2019	31 December 2018
EUR	4.2585	4.3000

The weighted average exchange rates for the individual financial years were as follows:

Average exchange rate in the period		
Currency	1 January - 31 December 2019	1 January - 31 December 2018
EUR	4.3018	4.2669

### 9.6. Property, plant and equipment

Property, plant and equipment is measured at its net values, i.e. the initial value less accumulated depreciation and impairment losses. The initial value of property, plant and equipment includes their purchase price plus all the costs directly related to the purchase and bringing the asset to the condition necessary for its use. The cost also includes the expected cost of dismantling the property, plant and equipment, removal and restoration of the asset's location to its initial condition; the obligation to incur this cost arises upon installation of the asset or its use for purposes other than the production of inventories. The costs of purchase or manufacturing costs are capitalized until the asset is adapted to the place and conditions needed to begin its operation.

As at the date of purchasing a component of property, plant and equipment, all relevant elements with different useful lives comprising the asset are identified and separated (components). Property, plant and equipment also includes costs of general overhauls, periodic inspections, provided that their value is significant, and cost of replacement of major parts.

Depreciation charges are calculated on the basis of purchase price/manufacturing cost of the property, plant and equipment component less its residual value. Depreciation commences in the month following the month in which the asset becomes available for use. Property, plant and equipment is depreciated based on a depreciation plan defining the expected useful life of the property, plant and equipment item. The depreciation method used reflects the manner in which the business consumes economic benefits provided by the asset.

Depreciation is calculated by the straight-line method for the estimated period of the asset's useful life, i.e. for respective groups of property, plant and equipment:

- Buildings, premises and civil and marine engineering facilities, of which:
  - Buildings 10 - 100 years
  - Premises and civil and marine engineering facilities 5 - 50 years
- Machinery and technical equipment 3 - 50 years
- Vehicles 3 - 14 years
- Office equipment, of which:
  - Computer hardware 1 - 5 years
  - Other 1 - 15 years
- Other property, plant and equipment 2 - 15 years
- Acquired rights of perpetual usufruct of land 40 - 99 years

Depreciation methods, rates and residual values of property, plant and equipment are reviewed at least once a year at the end of each financial year. Any changes resulting from such reviews are recognized as changes in estimates, with possible adjustments of depreciation charges accounted for on a prospective basis.

A property, plant and equipment item may be removed from the statement of financial position after its disposal or when no economic benefits are expected from further usage of such asset. All gains or losses arising from derecognition of an asset (calculated as a difference between the possible net sale price and the carrying amount of the item) are posted to the statement of profit or loss in the period when such derecognition took place.

### 9.7. Intangible assets

The Group classifies as intangible assets any identifiable non-pecuniary asset components devoid of physical form.

Intangible assets are carried at purchase price or manufacturing cost, less accumulated amortization and impairment losses.

Outlays incurred for intangible assets developed in-house, with the exception of the outlays incurred for development work, are not converted into assets and are recognized in the cost of the period in which they were incurred.

Intangible assets with a limited useful life are subject to straight-line amortization throughout their useful lives and subjected to impairment tests each time when there are prerequisites indicating their impairment. Amortization commences in the month following the month in which the asset is available for use. The amortization period and method applied to intangible assets with limited useful lives must be reviewed at least at the end of each reporting period. Any changes in the expected useful life or in the expected consumption of economic benefits from the asset are recognized by changing the amortization period or method accordingly and treated as changes to estimated amounts.

The estimated period of the economic useful life of software, licenses and patents as well as other intangible assets ranges from 2 to 5 years.

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

#### 9.8. Right-of-use assets

The Group recognizes as right-of-use assets the assets that are the object of a lease contract or contract comprising a lease. A contract is a lease or comprises a lease if that contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As at the commencement date of a lease contract, the Group measures a right-of-use asset based on the cost made up of:

- a) the amount of initial valuation of a lease liability (see Note 9.20);
- b) lease payments, if any, made at or prior to the commencement date, less any received lease incentives;
- c) initial direct costs, if any, incurred by the lessee;
- d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is used or restoring the underlying asset to the condition required by the terms and conditions of the lease unless those costs are incurred for the purpose of creation of inventories. The lessee assumes the obligation to cover those costs at the commencement date or as a result of use of the underlying asset over a given period.

After the commencement date of a lease contract, the right-of-use assets are measured using a cost model, i.e. their value is reduced by depreciation charges and impairment losses and adjusted for any remeasurement of the lease liability to reflect any reassessment or lease payment modification.

The Group applies to right-of-use assets the rules of depreciation and amortization analogical to those applied to property, plant and equipment and intangible assets described with the proviso that the period of depreciation/amortization of a right-of-use asset equals the term of the lease contract if buyout of the leased asset is not anticipated. Where the contract provides for the buyout of the leased asset and the Group intends to exercise its right of buyout, the period of amortization/depreciation equal to the period of the economic useful life of the asset is determined.

A right-of-use asset may be removed from the statement of financial position analogically to property, plant and equipment and intangible assets.

The Group presents right-of-use assets in the statement of financial position separately from other assets as an additional item within the group of non-current assets. That rule does not apply to right-of-use assets satisfying the definition of investment property, which are presented in the statement of financial position as investment property.

#### 9.9. Goodwill

Goodwill from the acquisition of a business is initially recognized at purchase price constituting the surplus of the price paid for shares in the acquired business plus the value of non-controlling interest, over the net fair value of identifiable assets, liabilities and contingent liabilities. On initial recognition, goodwill is recognized at purchase price less all the accumulated impairment losses.

Goodwill is not amortized. The impairment test is carried out once a year, or more frequently if necessary.

As at the date of acquisition, the acquired goodwill is allocated to each cash generating unit (or groups of units) which may benefit from merger synergies. An impairment loss is determined by estimating the recoverable amount of the cash generating unit to which the given goodwill has been allocated. If the recoverable amount of a cash generating unit is lower than its carrying amount, then an impairment loss is recognized.

#### 9.10. Impairment of non-financial non-current assets

At the end of every reporting period, the Group determines whether there is any evidence of impairment of any non-financial non-current asset. If such evidence is found or when an annual impairment test must be carried out, the Group estimates the recoverable amount of such asset or cash generating unit ("CGU") to which such asset is allocated.

Recoverable amount of an asset or a cash generating unit is equal to either: its fair value less the cost to sell such an asset or cash generating unit, or its value in use, whichever is higher. Recoverable amount is determined for individual assets, unless the asset does not by itself generate any cash proceeds, which are mostly independent from those generated by other assets or asset groups. If the carrying amount of an asset is greater than its recoverable amount, impairment occurs and the value is written off to match the calculated recoverable amount.

When estimating the value in use, the forecast cash flows are discounted to their present value using the discount rate before the effects of taxation are taken into account, which reflects the current market estimation of time value of money and risk typical for a given asset. Impairment losses on assets used in the continuing activity are recognized in those cost categories, which correspond to the function of the impaired asset.

When estimating the fair value amount less selling cost, the Group takes into account the capacity of the market player to achieve economic benefits through the highest and most effective use of the asset or its sale to another market player, who would ensure the highest and most effective use of that asset.

A previously recognized impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such a case, the carrying amount of the asset is increased to its recoverable amount. The increased amount must not exceed the carrying amount of the asset which would be calculated (after deducting accumulated depreciation) if the impairment loss had not been applied at all to such asset in previous years. A reversal of an asset impairment loss is recognized immediately as income in the statement of profit or loss.

**9.11. External financing expenses**

External financing expenses are capitalized as a portion of the cost of constructing property, plant and equipment. External financing expenses consist of: interest and gains or losses on foreign exchange differences up to the amount corresponding to the interest cost adjustment.

The capitalization of financing expenses commences when measures are taken that are necessary to prepare an asset for usage, capital expenditures and external financing costs are incurred for a given asset. When an investment in an asset is discontinued for a longer period, the capitalization of external financing expenses is suspended. Capitalization is stopped when all the measures required to adapt an asset for usage are in principle concluded.

Current costs of special purpose loans and borrowings, less income from temporary placement of surplus funds, and the relevant portion of current costs of general loans and borrowings are capitalized, where expenditure on property, plant and equipment exceeds the value of special purpose loans and borrowings. Borrowing costs are capitalized in the amount being the product of the capitalization rate and the excess of expenditure on property, plant and equipment over the value of special purpose borrowings. The capitalization rate is determined as a weighted average of the external financing expenses relating to borrowings and loans constituting the Group's liabilities other than special purpose loans and borrowings. The amount of external financing expenses capitalized in a period does not exceed the amount of external financing expenses incurred in the period.

**9.12. Inventories**

Inventories include:

- assets designated for sale in the regular course of business activity;
- assets in production for sale; or
- assets taking the form of raw materials used in the manufacturing process or in the provision of services;
- as well as certificates of origin, certificate of energy efficiency and CO<sub>2</sub> emission allowances.

Inventories are measured at the lower of: purchase price (manufacturing cost) and net realizable value. The purchase prices applied to the valuation at the end of the reporting period cannot be higher than the net realizable value of those assets. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The Group measures the consumption of materials which are identical or considered identical due to similarity of their type and purpose, as follows:

- coal and CO<sub>2</sub> emission allowances – according to the FIFO method;
- materials purchased to fulfill orders – using a detailed price identification method;
- other inventories – according to weighted average cost formula.

**Certificates of origin**

The certificates of origin of electricity generated by the Group in the reporting period are measured on initial recognition at fair value on the date of recognition of that asset, i.e. the date when energy is generated from renewable sources or in the co-firing process, and recognized in sales revenues. Fair value is defined as the average weighted price of the certificates of origin from a given month, determined on the basis of listings on the Polish Power Exchange.

Purchased certificates of origin are measured at purchase price. The certificates held are intended for own use.

**CO<sub>2</sub> emission allowances**

The acquired CO<sub>2</sub> emission allowances are measured at purchase price. The CO<sub>2</sub> emission allowances received free of charge are measured at zero value and recorded off-balance sheet.

**Energy efficiency certificates**

The energy efficiency certificates, the so-called "white certificates", received in the reporting period on initial recognition are measured at fair value established at the date of recognition of the asset, i.e. the date of issuance of the decision by the President of the Energy Regulatory Authority (URE), and recorded in correspondence with deferred income.

The energy efficiency certificates, the so-called "white certificates", purchased in the reporting period on initial recognition are measured at the purchase price.

**9.13. Contract assets**

According to IFRS 15, contract assets relate to the Group's right to consideration in exchange for the goods or services transferred by the Group to the customer. Those are the amounts not invoiced at the reporting date. They are also assessed for impairment as required under IFRS 9.

**9.14. Cash and cash equivalents**

Cash and cash equivalents include:

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

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

Bank deposits with initial maturities exceeding 3 months are presented by the Group as deposits.

Cash is measured at par value. Other cash assets are measured according to the rules applicable to financial instruments.

**9.15. Other assets**

Other non-financial assets recognized by the Group include accruals and deferred income, receivables on account of public and legal settlements (except for settlements on account of corporate income tax, presented as a separate item in the statement of

financial position), surplus of assets over liabilities of the Company Social Benefit Fund and advances paid for future purchases of property, plant and equipment, intangible assets and inventories as well as biological assets. Advances are presented in line with the type of assets to which they refer as non-current or current assets, respectively. As non-pecuniary assets, advances are not discounted.

#### Accruals and deferred income

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

Prepaid expenses and accrued income are amortized over time or in relation to the value of services. The time and manner of settlement is justified by the nature of the cost being settled, in keeping with the conservative valuation principle.

At the end of a reporting period, the Group reviews prepaid expenses and accrued income to find whether the degree of certainty that the entity will achieve economic benefits after the elapse of the current reporting period is sufficient to recognize the item as an asset.

#### 9.16. Assets classified as held for sale

Non-current assets and groups to be sold are classified by the Group as held for sale, if their carrying amount is recovered as a result of a sale transaction rather than from their continued use. This condition is deemed satisfied only when the sale transaction is highly probable and the asset (or group to be sold) is available for immediate sale in its current condition (according to generally accepted commercial terms).

Classification of an asset as held for sale assumes an intention to make a sale transaction within one year from the change in classification.

If the Group intends to make a sale leading to a loss of control over a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale if all of the above criteria are met and regardless of whether the Group retains any non-controlling stakes after the sale transaction.

Non-current assets and groups to be sold classified as held for sale are measured at the lower of the initial carrying amount and the fair value, less cost to sell.

#### 9.17. Equity

The equity is recognized at par value, divided by type and according to the principles laid down by law and in the Parent Company's articles of association.

In the consolidated financial statements, share capital is recognized at the amount stated in the Parent Company's articles of association.

Retained earnings include net result of the current year, results carried forward from previous years, reserve capital and supplementary capital of subsidiaries, arising after the acquisition of control, IFRS transition adjustments and adjustments tied to a change in interests held in subsidiaries after the Parent Company acquired control over them.

#### 9.18. Provisions for employee benefits

In accordance with the regulations applicable in the individual companies, the Group's employees are eligible to claim certain benefits after their employment period and other long-term employee benefits - jubilee bonuses.

The Group recognizes provisions for employee benefits in order to allocate costs to the pertinent periods. The present value of those liabilities at the end of each reporting period is calculated by an actuary using the projected unit credit method. The liabilities are calculated as discounted future payments adjusted for employee turnover, and refer to the period up to the end of the reporting period. Demographic information and information on staff turnover are based on historical data.

#### Provisions for pensions and other post-employment defined benefit plans

The Group recognizes provisions for the following post-employment benefits:

- pension and similar benefits are paid once upon retirement/qualification for disability award;
- cash equivalent resulting from the employee tariff for energy industry employees; and
- benefits from the Company Social Benefit Fund.

Provisions established are recognized in the statement of profit or loss (as operating expenses or financial costs, respectively – discount unwinding), except for actuarial gains and losses. Gains and losses on actuarial calculations are recognized fully in other comprehensive income.

#### Provision for jubilee bonuses

Employees of Group companies are eligible to claim jubilee bonuses paid out after they have worked for a specific number of years.

Provisions established for jubilee bonuses are recognized fully in the statement of profit or loss (as operating expenses or financial costs, respectively – discount unwinding).

#### Provision for employee restructuring

In the previous reporting periods, voluntary departure programs ("PDO") and individual termination rules ("ZIO") were launched in Group companies. As provisions for employee restructuring, the Group recognizes primarily the provisions for benefits for employment termination under a voluntary employment termination program and other employment restructuring measures, based on the expected number of employees to terminate work for Group companies and estimated value of severance awards or compensation. Provisions are recognized when the interested parties are notified of the main elements of the restructuring plan.

**9.19. Other provisions**

Provisions are recognized when the Group has an existing obligation (legal or constructive) as a result of a past event and it is probable that settlement of the obligation by the Group will require an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation. Recognized provisions are classified as operating expenses, other operating expenses, financial costs, as required by the circumstances.

If the time value of money is relevant, then the provision is equal to the present value of the expenditures expected to be necessary to fulfill this duty. A pre-tax discount rate is used that reflects the current market assessments of the time value of money and the risks specific to the liability. The discount rate is not adjusted for risk, since the estimates of future cash flows have been adjusted. If a discounting-based method has been used, then an increase in the provision associated with the passage of time is recognized as financial costs.

**Provision for land reclamation and for property, plant and equipment liquidation costs**

The provision for land reclamation and future costs of property, plant and equipment liquidation is established in the circumstances where the provisions of law require such assets to be dismantled and removed when they are no longer used and their locations to be restored to their previous state. The increase of the provision related to the passage of time (discount unwinding) is recognized in the financial costs. The change in provision resulting from a change of the discount rate or the estimated reclamation/liquidation costs adjusts the value of the property, plant and equipment to which the provision refers.

**Provision for liabilities for gas emissions**

The provision for liabilities for gas emissions is recognized gradually over the annual reporting period, based on actual CO<sub>2</sub> emissions, while taking into account the free emission allowances according to the following rules and order:

- in the part covered by the awarded free allowances (pro rata to the total quantity of free emission allowances awarded for the year) – at zero;
- in the part covered by acquired allowances – at purchase price; and
- in the part not covered by allowances held or receivable – based on the contracted allowance purchase prices and then based on market prices of those allowances at the end of the reporting period.

**Provision for the redemption of property rights (Article 52 of the RES Act)**

The provision for redemption of certificates of origin of electricity generated from renewable energy sources, certificates of origin of electricity generated in the co-generation process and energy efficiency credits, is recognized:

- in the part covered by the certificates of origin held at the end of the reporting period – at the value of certificates held;
- in the part not covered by the certificates of origin held at the end of the reporting period – at the value of contracted property rights and the market value of certificates needed to fulfill the obligation at the end of the reporting period or at the amount of the substitution fee.

**Provision for onerous contracts**

On 30 December 2019, the President of the Energy Regulatory Office approved the electricity sales price for consumers in the G tariff groups for 2020. Due to the fact that the aforementioned approved price does not fully cover the reasonable costs of electricity sold in the G tariff groups, provisions for onerous contracts had to be established by the selected Group companies. Detailed information has been presented in Note 38.

**9.20. Lease liabilities**

Lease liabilities are liabilities arising under lease contracts or contracts comprising a lease.

A contract is a lease or comprises a lease if that contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As at the lease commencement date, lease payments incorporated in the valuation of a lease liability comprise the following fees charged for the right to use the underlying asset during the term of the lease, outstanding at that date:

- fixed lease payments (including basically fixed lease payments) less due lease incentives, if any;
- variable index- or rate-driven lease payments that are initially measured using that index or rate consistently with their value as at the commencement date;
- the amounts whose payment by the Group is expected within the scope of the guaranteed residual value;
- the cost of exercising the purchase option, if it can be assumed with reasonable assurance that the Group will exercise that option;
- fines for terminating the lease, if the terms and conditions of the lease stipulate that the Group may exercise the option to terminate the lease.

After the commencement date, the Group measures the lease liability through:

- an increase in the balance sheet value to reflect the interest on the lease liability;
- a decrease in the balance sheet value to reflect the lease payments made;
- an update of the measurement of the balance sheet value to take into account any reassessment of or amendment to the lease or to reflect the updated basically fixed lease payments.

**9.21. Contract liabilities**

According to IFRS 15, contract liabilities relate to the Group's obligation to transfer to the customer the goods or services in exchange for which the Group has received consideration (or consideration is receivable) from the customer. If the customer pays consideration or the entity is entitled to the amount of the consideration that is unconditional (i.e. a receivable) before the entity transfers the goods or services to the customer, the entity presents the contract as the contract liability on the execution of the payment or when the payment becomes due (whichever happens first).

**9.22. Other liabilities**

Other non-financial liabilities include in particular public tax liabilities and liabilities on account of received advance payments to be settled by deliveries of goods, services or property, plant and equipment. Other non-financial liabilities are recognized at the amount of the required payment.

**9.23. Accrued costs and deferred income****Accrued costs**

Accrued costs are liabilities payable for goods or services received/provided but not paid for, billed or formally agreed with the supplier, including amounts due to the employees. Even though it is sometimes necessary to estimate the amount or payment term of the accruals, the degree of uncertainty is in general considerably lower than in the case of provisions.

Accrued costs, measured at the amount of reliably estimated and probable liabilities due in the current reporting period, resulting in particular from benefits provided to the Group by external contractors, are reported in the statement of financial position as trade liabilities.

**Deferred income**

Deferred income is recorded in keeping with the principle of conservative valuation and of commensurability of income and expenses. The following items are classified as deferred income:

- equivalents of funds received or due from contractors for benefits to be delivered in subsequent reporting periods; and
- cash received in the form of a grant to finance a purchase or production of property, plant and equipment. These are settled by gradually increasing other operating income by an amount corresponding to the depreciation on these assets, in the part financed by the said cash;
- property, plant and equipment accepted free of charge and intangible assets. These revenues are recorded in other operating income and also in depreciation charges on non-current assets received.
- equivalent of awarded energy efficiency certificates, the so-called "white certificates" at the time of decision of the President of the Energy Regulatory Office.

**9.24. Grants**

Grants are recognized when there is sufficient certainty that the Group will meet the conditions associated with such grants and that the grants will be received.

Grants related to assets are captured in deferred income and then written off regularly to the period's revenues for the estimated period of the economic useful life of the related asset.

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

**9.25. Leases****Group as a lessee**

Financial lease agreements, where the lessee is any contract which conveys the right to control the use of an identified asset for a period of time in exchange for consideration, are recognized in the statement of financial position as at the lease commencement date, at the value of discounted future fees. Leasing fees are allocated between financial costs and reduction of principal lease debt balance, in the manner that allows us to receive a fixed interest rate on the outstanding debt. Financial costs are posted directly to the statement of profit or loss.

Property, plant and equipment used under financial lease agreements are depreciated for the period of lease includes the irrevocable term of lease and the periods during which the option to extend the lease exists (if it can be reasonably assumed that the Company will exercise that option) and the periods during which the option to terminate the lease exists (if it can be reasonably assumed that the Company will not exercise that option).

The new IFRS 16 "Leases" abolished the existence of operating leases according to the IAS 17 by transforming each contract into a finance lease. From the point of view of the Group, the primary change is the requirement to recognize in the statement of financial position a financial liability in the case of contracts satisfying the criteria of both a financial and an operating lease. The above change will contribute to an increase in the value of assets and liabilities by PLN 676 m. More detailed description is the note 8.

**9.26. Financial instruments****9.26.1. Financial assets**

**The Group identifies the following categories of financial assets:**

- 1) measured after the initial recognition at amortized cost;
- 2) measured after the initial recognition at fair value through other comprehensive income; and
- 3) measured after the initial recognition at fair value through profit or loss.

**Financial assets measured at amortized cost**

A financial asset is measured at amortized cost if both conditions below have been fulfilled:

- 1) a financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;

- 2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of the principal amount and interest on the principal amount outstanding.

The principal represents the fair value of a financial asset on initial recognition. Interest covers payment for time value of money, credit risk inherent in the outstanding principal over a specific period of time and for other basic risks and costs associated with granting of credits, as well as the profit margin.

#### Financial assets measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both conditions below have been fulfilled:

- 1) a financial asset is held within a business model whose objective is both to collect contractual cash flows and to sell financial assets; and
- 2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of the principal amount and interest on the principal amount outstanding. (which is: SPPI – solely payment of principal and interest).

The principal represents the fair value of a financial asset on initial recognition. Interest covers payment for time value of money, credit risk inherent in the outstanding principal over a specific period of time and for other basic risks and costs associated with granting of credits, as well as the profit margin. Profits or losses arising from changes in fair value are recognized through other comprehensive income. Impairment profits or losses, profits and losses on account of foreign exchange differences and interest calculated using the effective interest rate method are recognized in the profit and loss statement.

#### Financial assets at fair value through profit or loss

A financial asset is measured at fair value through profit or loss if it is not measured at amortized cost or at fair value through other comprehensive income.

A unit may, upon initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if it thus eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would have otherwise arisen as a result of measurement of assets or liabilities or recognition of related profits or losses according to different principles.

These instruments are fair-valued at the at the end of the reporting period. Profit or loss on financial assets classified as portfolio fair-valued through profit or loss is recognized in the profit and loss statement.

The above method is used, among others for loan granted to Elektrownia Ostrołęka Sp. z o.o., for which the SPPI test according to IFRS 9 was not met.

#### 9.26.2. Impairment of financial assets

At the end of each reporting period, the Group evaluates whether there exists evidence of impairment of a financial asset or a group of financial assets. The impairment loss model is currently based on the risk of incurring credit losses. It applies exclusively to the assets recognized at amortized cost as in the case of assets measured at fair value, the assumption is made that fair value is inclusive of the need for revaluation of the asset. The amount of the impairment write-down equals the difference between the carrying value of the financial asset and the present value of estimated future cash flows discounted at the original (i.e. determined at initial recognition) effective interest rate. The carrying value of the asset is reduced through the impairment write-down recognized in the profit or loss statement.

The Group has implemented a model of expected credit losses in relation to receivables in accordance with a simplified method acceptable for use by IFRS 9. The justification for applying the above model is as follows:

- receivables held by the Group did not contain a significant financing element as defined in IFRS 15; there was no significant financing component that could adjust the promised amount of remuneration,
- the receivables met the condition that they would be paid in less than a year.

The simplified model allows to calculate credit losses over the entire lifetime of receivables. The expected credit loss, in accordance with IFRS 9, is calculated taking into account the estimates of potential recoveries from collateral posted. In the case of receivables from contractors, it is expected that data on historical repayment may reflect the credit risk that will be incurred in future periods.

The Group first assesses whether there is evidence of impairment of individual financial assets that are individually material, or evidence of impairment of financial assets that are not individually material. If the analysis shows that there is no objective indication of impairment of an individually assessed financial asset, regardless of whether it is material or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The assets that are individually assessed for impairment and for which an impairment write-down was posted or it was decided that a previously recognized write-down does not change, are not taken into account in the collective assessment of a group of assets for impairment.

If, in a subsequent period, an impairment write-down decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment write-down is reversed. A reversal of an impairment loss is recognized in the statement of profit or loss, provided however that the carrying amount of the asset on the reversal date must not exceed its amortized cost.

#### 9.26.3. Financial liabilities

The Group identifies the following categories of financial liabilities:

- 1) recognized at amortized cost; or
- 2) recognized at fair value through profit or loss.

Financial liabilities measured at fair value through profit or loss, including derivatives being liabilities, are measured after their initial recognition at fair value.

On initial recognition, a unit may irrevocably designate a financial liability as measured at fair value through profit or loss in the following cases:

- 1) if the contract contains one or more embedded derivatives and the underlying contract is not an asset covered by the scope of IFRS 9 as long as:
  - a) the embedded derivative(s) does (do) not change significantly the cash flows that otherwise would have been required consistently with the contractual provisions; or
  - b) it is evident that, without an analysis or after a cursory analysis conducted when considering, for the first time, a similar hybrid instrument, that separation of an embedded derivative (embedded derivatives) is prohibited as, for instance, in the case of an early repayment option built into the loan and permitting its holder to make an early repayment of the loan for the amount close to its amortized cost.
- 2) when this results in obtaining more relevant information as:
  - a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would have otherwise arisen as a result of measurement of assets or liabilities or recognition of related profits or losses according to different principles; or
  - b) the group of financial liabilities or financial assets and financial liabilities is managed and its results are assessed based on fair value, in accordance with the documented risk management strategy or investment strategy, and the information on the group prepared on this basis is communicated inside the Group to key management.

The liabilities measured at amortized cost include, first of all, trade liabilities, liabilities on account of purchase of property, plant and equipment, bank credits, loans and debt securities.

On initial recognition, they are recognized at fair value less transactional costs. After initial recognition, they are measured at amortized cost using the effective interest rate method.

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

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

Financial liabilities fair-valued through profit and loss are measured at fair value, taking into account their market value at the end of the reporting period, net of the costs of sale transaction. Changes in the fair value of these instruments are recognized in the profit or loss statement as financial expenses or income.

The Group derecognizes a financial liability from its statement of financial position if the liability has expired, i.e. when the obligation defined in the respective agreement has been performed, has been canceled or has expired. Replacement of an existing debt instrument with an instrument with substantially different terms, made between the same entities,

is recognized by the Group as expiry of the original liability and recognition of a new financial liability. Similarly, significant modifications of terms and conditions of an agreement relating to the existing financial liability are recognized by the Group as expiry of the original liability and recognition of a new financial liability. The resulting exchange differences arising from the respective carrying values are recognized in the profit and loss statement.

#### 9.26.4. Hedge accounting

For hedge accounting purposes, the Group applies IAS 39 on a consistent basis. The Group may decide to designate selected derivatives as hedges under cash flow hedge accounting under any identified hedge relationship. The Group allows the use of cash flow hedge accounting only if certain criteria are met, i.e.:

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

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

Changes in the fair value measurement of derivative financial instruments designated as cash flow hedges, to the extent they are an effective hedge, are recognized in other comprehensive income, whereas any ineffective portion of the hedge is recognized in the statement of profit or loss.

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

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

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

#### Presentation

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

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

#### 9.27. Income tax

Income tax recognized in the statement of profit or loss includes the actual tax liability for the reporting period and a change in deferred tax assets and deferred tax liabilities which are not recognized in equity or other comprehensive income.

##### Current tax

The actual tax liability for the reporting period is calculated by Group companies according to the applicable provisions of the corporate income tax act.

For companies comprising a tax capital group (see Note 12.4), income tax is calculated on income earned in the fiscal year equal to the surplus of aggregated income of all companies comprising the group over their aggregate losses.

##### Deferred tax

In connection with temporary differences between the value of assets and liabilities carried in accounting ledgers and their tax value and tax loss that may be deducted in the future, the entity calculates and recognizes deferred tax assets and liabilities.

The deferred tax liability is established for all positive temporary differences, except for cases where the deferred tax liability follows from:

- initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, not affecting, at the moment of the transaction, either gross financial result before tax or taxable income (loss); and
- positive temporary differences connected with investments in subsidiaries and associates, and interests in joint ventures, in which it is possible to control the reversal of the temporary differences and it is probable that those differences will not reverse in the foreseeable future.

Deferred tax assets are recognized with respect to all negative temporary differences to the extent to which it is probable that there will be sufficient taxable profits against which to deduct the negative temporary differences, except for:

- cases where a deferred tax asset results from an initial recognition of an asset or liability under a transaction other than business combination, which at the moment of the transaction has no effect on financial result before tax or taxable profit (loss); and
- negative temporary differences connected with investments in subsidiaries and associates, and interests in joint ventures, where deferred tax assets are recognized only to the extent that it is probable that those temporary differences will be reversed in the foreseeable future and that there will be sufficient taxable profits against which to utilize the benefits of the negative temporary differences.

Deferred tax assets and liabilities are presented in the statement of financial position, after netting at the level of individual entities comprising the Group.

#### 9.28. Revenue on the sale of products, goods and services

Sales revenues are recognized when and to the extent reflecting satisfaction by the Group of an obligation to make a performance (provide a service) or deliver goods. An obligation is performed when the customer takes control of the asset being handed over. Sales revenues are recognized in the amount of the transactional price, i.e. in the amount expected to be paid, that is at the fair value of consideration (payment received or due), net of discounts, rebates, VAT, excise duty and other sales taxes or fees.

The revenue covers only inflows of gross economic benefits received in or due to be paid into the Group's own account.

When inflows of cash or equivalents are deferred, the fair value of the payment may be lower than the nominal value of cash or equivalents received or due. In such cases, the Group's units determine the fair value of the payment by discounting any future inflows.

The difference between the fair value and the nominal value of the payment is recognized as interest income.

Revenue is recognized when the significant risk and benefits stemming from ownership title in goods and products have been transferred to the buyer and when recovery of the due amount is probable and when the amount of revenues may be measured reliably and incurred costs may be reliably estimated. In the case of goods, revenue is recognized when the Group is no longer permanently involved in managing the goods being sold, to the extent in which it usually performs this function in relation to the goods in which it holds ownership title, or exercises effective control over them.

Revenue includes specifically:

- 1) amounts due from sale of: electricity, heat, certificates of origin for electricity generated from renewable sources, certificates of generation of electricity in co-generation (CHP), emission allowances, transmission and distribution services and core business services determined on the basis of the net price after adjustments for granted discounts and rebates and excise tax; and
- 2) amounts due from sale of materials and products based on the net price, after adjustments for granted discounts and rebates.

The moment of domestic sale is deemed to be the date the performance is made consistently with the sale and purchase agreement (shipment or placement of delivery at the recipient's disposal, receipt of the service) and, in the case of retail sale, the date of a cash, credit card or cheque payment, whereas in the case of sale of electricity and heat, the moment of sale is deemed to be the delivery of electricity or heat to the recipient.

If a company of the Group or the Group acts as an agent collecting amounts on behalf of the principal, the company or the Group's revenue are its commissions. A company of the Group or the Group acts as an agent if it is not exposed to any significant risk and does not enjoy the benefits derived from the sale of goods or provision of services. One of the elements indicating that a company acts as an agent is the fact that the amount the company receives as payment has been previously agreed, being a fixed amount of the fee calculated on a transaction or a specified percentage of the amount invoiced to the customer.

An example of agency activity may be the sale of a service of distribution of electricity to end users through a company engaged in electricity trading.

Revenue from the sale of electricity purchased by the companies in the Balancing Market is presented as revenue from the sale of goods.

Revenue from connection fees is recognized in the period in which the connection fees are due.

Revenue from provision of an uncompleted service in the period from the date of conclusion of the contract until the end of the reporting period – after the deduction of the revenue that impacted the financial result in the previous reporting periods – is determined on a pro rata basis to the degree of its completion if this degree can be determined reliably.

Rental and operating lease revenue is recognized with the use of straight-line method over the lease term in relation to existing agreements.

Revenue from recharging is recognized as revenue from core operating activity.

Sales revenue adjustments are allocated to the period to which they relate until the approval of the financial statements for publication.

### 9.29. Operating expenses

Cost of sales includes:

- cost of manufacturing products and providing services incurred in a reporting period, adjusted for a change in product inventories and adjusted by the cost of manufacturing products for own needs;
- value of electricity and materials sold, at purchase prices;
- recognition/reversal of impairment losses on property, plant and equipment, intangible assets, investment properties, inventories, trade receivables and contract assets.

Selling and distribution expenses include expenses related to customer service and customer acquisition as well as marketing and advertising expenses.

General and administrative expenses include expenses related to the governance and administration of the Group as a whole and the companies comprising the Group.

### 9.30. Other operating income and expenses

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

- disposals of property, plant and equipment, intangible assets;
- recognition and reversal of provisions, except for provisions tied to financial operations or recognized in operating expenses;
- giving or receiving assets, including cash, free of charge, also as a donation; and
- damages, penalties and fines, and other expenses not related to ordinary business.

### 9.31. Financial income and costs

Financial income and costs cover, in particular, income and costs pertaining to:

- disposal of financial assets;
- restatement of financial instruments;
- revenues from profit-sharing in other entities;
- interest;
- changes in the amount of provision resulting from the approaching date of incurring the cost (unwinding discount effect);
- foreign exchange differences resulting from operations performed during the reporting period and book valuation of assets and liabilities at the end of the reporting period, except for exchange differences recognized in the initial value of property, plant and equipment, to the extent they are recognized as adjustment of interest expense;
- other items related to financing activity.

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

Dividends are recognized as at the time the shareholders' right to receive them is established.

### 9.32. Earnings per share

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

### 9.33. Statement of cash flows

The statement of cash flows is prepared using the indirect method.

### 9.34. Change in the presentation of comparative data

The Group made presentation changes in the consolidated statement of financial position as at 31 December 2018. What changed was the presentation of rights of perpetual usufruct of land held by the Group.

The amounts of the adjustments made are presented in the table below:

	As at 31 December 2018 (as previously reported)	Adjustments	As at 31 December 2018 (restated data)
<b>ASSETS</b>			
Property, plant and equipment	14,335	61	14,396
Intangible assets	307	(61)	246
<b>TOTAL</b>	<b>14,642</b>	<b>-</b>	<b>14,642</b>

## NOTES ON OPERATING SEGMENTS

### 10. Business lines (operating segments)

The Group presents business segment information in accordance with IFRS 8 *Operating Segments* for the current and comparative reporting periods. The organization and management of the Group are divided into segments distinguished according to the type of products offered. The Group's reporting is divided into the following business segments called business lines, according to the Group's glossary:

- 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 repair and maintenance activities directly associated with the production of energy;
- Sales – trading in electricity (wholesale and retail) and lighting services;
- Other – shared services centers in the accounting, HR and payroll, administration and ICT areas, as well as financing activity, real estate management, logistics, supply and security areas. The Parent Company has also been classified as belonging to the Other business line.

The key measures used by the Management Board of Energa SA to assess the performance of the business lines are net profit and EBITDA, i.e. operating profit/(loss) (calculated as the profit/(loss) before tax adjusted by the share in profit/(loss) of entities 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 of operations and measurement of the business lines' assets and liabilities are consistent with the rules used to prepare the consolidated financial statements. The share in the profit/(loss) of the entities measured by the equity method is recognized in consolidation eliminations and adjustments.

Transactions between the business lines are entered into on an arm's length basis.

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 business.

The tables below show the breakdown of revenues and expenses for the period from 1 January to 31 December 2019 and assets and liabilities as at 31 December 2019, by individual reporting segments, together with appropriate comparative information.

Due to the first application of IFRS 16 in 2019, the lease liabilities increased significantly that, starting from 1 January 2019, were included in financial liabilities. In the published financial statements for the year 2018, financial liabilities presented by business line covered solely liabilities on account of loans, borrowings and issued bonds. Lease liabilities were not presented due to their

immateriality. In the financial statements as at 31 December 2019, data broken down by business line for the year 2018 were duly restated while incorporating in the financial liabilities item also lease liabilities existing as at 31 December 2018, i.e. prior to first-time application of IFRS 16.

Year ended on 31 December 2019 or as at 31 December 2019	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
<b>Revenue</b>							
Sales to external clients	4,048	6,209	1,069	153	11,479	-	11,479
Sales between business lines	65	344	287	446	1,142	(1,142)	-
Revenue from Price Difference Refund Fund	-	693	-	-	693	-	693
<b>Total business line revenues</b>	<b>4,113</b>	<b>7,246</b>	<b>1,356</b>	<b>599</b>	<b>13,314</b>	<b>(1,142)</b>	<b>12,172</b>
<b>EBITDA</b>	<b>1,648</b>	<b>182</b>	<b>262</b>	<b>(56)</b>	<b>2,036</b>	<b>3</b>	<b>2,039</b>
Amortization and depreciation	839	52	176	31	1,098	(19)	1,079
Impairment of non-financial non-current assets	-	(1)	496	2	497	4	501
<b>Operating profit or loss</b>	<b>809</b>	<b>131</b>	<b>(410)</b>	<b>(89)</b>	<b>441</b>	<b>18</b>	<b>459</b>
Net financial income/costs	(137)	(7)	(50)	157	(37)	(685)	(722)
Share of profit/(loss) of entities measured using the equity method	-	-	-	-	-	(496)	(496)
<b>Profit or loss before tax</b>	<b>672</b>	<b>124</b>	<b>(460)</b>	<b>68</b>	<b>404</b>	<b>(1,163)</b>	<b>(759)</b>
Income tax	(125)	(34)	(17)	(63)	(239)	(3)	(242)
<b>Net profit or loss</b>	<b>547</b>	<b>90</b>	<b>(477)</b>	<b>5</b>	<b>165</b>	<b>(1,166)</b>	<b>(1,001)</b>
<b>Assets and liabilities</b>							
Cash and cash equivalents	8	62	15	1,376	1,461	-	1,461
<b>Total assets</b>	<b>13,987</b>	<b>2,658</b>	<b>4,099</b>	<b>14,869</b>	<b>35,613</b>	<b>(14,646)</b>	<b>20,967</b>
Financial liabilities	4,958	92	866	6,468	12,384	(4,723)	7,661
<b>Other business line information</b>							
Capital expenditure	1,334	44	175	38	1,591	(17)	1,574

Year ended on 31 December 2018 or as at 31 December 2018 (restated)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
<b>Revenue</b>							
Sales to external clients	3,971	5,235	1,023	108	<b>10,337</b>	-	<b>10,337</b>
Sales between business lines	57	294	233	521	<b>1,105</b>	(1,105)	-
<b>Total business line revenues</b>	<b>4,028</b>	<b>5,529</b>	<b>1,256</b>	<b>629</b>	<b>11,442</b>	<b>(1,105)</b>	<b>10,337</b>
<b>EBITDA</b>	<b>1,704</b>	<b>(85)</b>	<b>329</b>	<b>(70)</b>	<b>1,878</b>	<b>(1)</b>	<b>1,877</b>
Amortization and depreciation	760	39	166	20	<b>985</b>	(18)	<b>967</b>
Impairment of non-financial non-current assets	-	3	(267)	(2)	<b>(266)</b>	-	<b>(266)</b>
<b>Operating profit or loss</b>	<b>944</b>	<b>(127)</b>	<b>430</b>	<b>(88)</b>	<b>1,159</b>	<b>17</b>	<b>1,176</b>
Net financial income/costs	(138)	9	(51)	542	<b>362</b>	(675)	<b>(313)</b>
Share of profit/(loss) of entities measured using the equity method	-	-	-	-	-	90	<b>90</b>
<b>Profit or loss before tax</b>	<b>806</b>	<b>(118)</b>	<b>379</b>	<b>454</b>	<b>1,521</b>	<b>(568)</b>	<b>953</b>
Income tax	(159)	18	(73)	8	<b>(206)</b>	(3)	<b>(209)</b>
<b>Net profit or loss</b>	<b>647</b>	<b>(100)</b>	<b>306</b>	<b>462</b>	<b>1,315</b>	<b>(571)</b>	<b>744</b>
<b>Assets and liabilities</b>							
Cash and cash equivalents	38	45	12	2,629	<b>2,724</b>	-	<b>2,724</b>
<b>Total assets</b>	<b>13,890</b>	<b>2,379</b>	<b>4,556</b>	<b>16,108</b>	<b>36,933</b>	<b>(15,334)</b>	<b>21,599</b>
Financial liabilities	4,579	46	925	7,656	<b>13,206</b>	(6,023)	<b>7,183</b>
<b>Other business line information</b>							
Capital expenditure	1,368	45	238	28	<b>1,679</b>	(11)	<b>1,668</b>

Year ended 31 December 2019	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
<b>Revenues on sales of products, goods for resale and materials, including:</b>	<b>51</b>	<b>6,363</b>	<b>1,245</b>	<b>230</b>	<b>7,889</b>	<b>(777)</b>	<b>7,112</b>
Electricity	44	6,251	939	-	7,234	(618)	6,616
Certificates of origin	2	-	98	-	100	(4)	96
Gas	-	180	-	-	180	(1)	179
Other products, goods for resale and materials	5	6	208	230	449	(154)	295
Excise tax	-	(74)	-	-	(74)	-	(74)
<b>Revenues on sales of services, including:</b>	<b>4,062</b>	<b>190</b>	<b>111</b>	<b>369</b>	<b>4,738</b>	<b>(365)</b>	<b>4,367</b>
Distribution and transit services	3,926	-	31	-	3,957	(41)	3,916
Customer connection fees	64	-	-	-	64	-	64
Rental income	36	4	65	2	107	(15)	92
Other services	36	186	15	367	604	(309)	295
<b>TOTAL</b>	<b>4,113</b>	<b>6,553</b>	<b>1,356</b>	<b>599</b>	<b>12,621</b>	<b>(1,142)</b>	<b>11,479</b>
of which:							
Revenue from goods, products and materials transferred or services provided on a continuous basis	3,970	6,357	970	-	11,297	(660)	10,637
Revenue from products, goods for resale and materials transferred or services provided at a specific time	143	196	386	599	1,324	(482)	842
In the revenue presented for the year 2019, the estimated revenue from the completion of contracts amounts to PLN 182 m.							
Year ended 31 December 2018	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
<b>Revenues on sales of products, goods for resale and materials, including:</b>	<b>53</b>	<b>5,354</b>	<b>1,136</b>	<b>322</b>	<b>6,865</b>	<b>(766)</b>	<b>6,099</b>
Electricity	48	5,510	857	-	6,415	(510)	5,905
Certificates of origin	-	48	62	-	110	1	111
Gas	-	129	-	-	129	(1)	128
Other products, goods for resale and materials	5	3	217	322	547	(256)	291
Excise tax	-	(336)	-	-	(336)	-	(336)
<b>Revenues on sales of services, including:</b>	<b>3,975</b>	<b>175</b>	<b>120</b>	<b>307</b>	<b>4,577</b>	<b>(339)</b>	<b>4,238</b>
Distribution and transit services	3,859	-	31	-	3,890	(37)	3,853
Customer connection fees	42	-	-	-	42	-	42
Rental income	36	3	59	2	100	(17)	83
Other services	38	172	30	305	545	(285)	260
<b>TOTAL</b>	<b>4,028</b>	<b>5,529</b>	<b>1,256</b>	<b>629</b>	<b>11,442</b>	<b>(1,105)</b>	<b>10,337</b>
of which:							
Revenue from goods, products and materials transferred or services provided on a continuous basis	3,907	5,303	888	-	10,098	(548)	9,550
Revenue from products, goods for resale and materials transferred or services provided at a specific time	121	226	368	629	1,344	(557)	787

## NOTES TO CONSOLIDATED STATEMENT OF PROFIT OR LOSS

## 11. Revenues and expenses

## 11.1. Costs by nature

	Year ended 31 December 2019	Year ended 31 December 2018
Depreciation and amortization of property, plant and equipment, intangible assets and investment properties	1,079	967
Impairment losses on property, plant and equipment, intangible assets and investment property (including advances paid)	497	(266)
Consumption of materials and energy	881	772
External services	1,391	1,342
Taxes and fees	543	529
Employee benefit expenses	1,190	1,063
Impairment loss on trade receivables and contract assets	36	58
Other costs by nature	80	91
Change in product inventories	(2)	3
Cost of producing services for own needs	(213)	(208)
Cost of products and materials sold	6,192	4,642
<b>Total operating expenses</b>	<b>11,674</b>	<b>8,993</b>
of which:		
Cost of sales	10,930	8,284
Selling and distribution expenses	380	354
General and administrative expenses	364	355

## 11.2. Cost of depreciation and impairment losses on non-financial non-current assets recognized in the statement of profit or loss

	Year ended 31 December 2019	Year ended 31 December 2018
<b>Items included in cost of sales:</b>	<b>1,491</b>	<b>643</b>
Depreciation of property, plant, equipment and right-of-use assets	963	870
Impairment loss on property, plant and equipment	495	(266)
Amortization of intangible and right-of-use assets	33	37
Impairment loss for intangible assets	-	2
<b>Items included in selling and distribution expenses:</b>	<b>46</b>	<b>37</b>
Depreciation of property, plant, equipment and right-of-use assets	23	13
Amortization of intangible and right-of-use assets	23	24
<b>Items included in general and administrative expenses:</b>	<b>39</b>	<b>21</b>
Depreciation of property, plant, equipment and right-of-use assets	20	6
Amortization of intangible and right-of-use assets	16	16
Depreciation of investment property	1	1
Impairment losses on investment property	2	(2)

### 11.3. Employee benefit expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries	830	759
Social security contributions	158	146
Post-employment benefits and jubilee bonuses	73	37
Other employee benefit expenses, including:	129	121
Energy tariff – current costs	11	12
Company Social Benefit Fund - charges for the current financial year	33	26
Employee Pension Plan	42	41
Employee training	7	9
Expenses related to health and safety	6	6
Other	30	27
<b>TOTAL</b>	<b>1,190</b>	<b>1,063</b>

### 11.4. Other operating income

	Year ended 31 December 2019	Year ended 31 December 2018
Profit on disposal of property, plant and equipment/intangible assets	1	-
Penalties, fines, indemnities received	36	38
Grants	19	18
Release of impairment losses for current assets	3	1
Reversal of provisions (e.g. court cases)	167	21
Reimbursement of tax	-	2
Redeemed liabilities	1	-
Revenues related to illegal energy consumption	10	15
Infrastructure acquired free of charge	5	5
Other	3	4
<b>TOTAL</b>	<b>245</b>	<b>104</b>

### 11.5. Other operating expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Loss on disposal/liquidation of property, plant and equipment/intangible assets	-	37
Cost of remedying chance losses	41	27
Donations	10	11
Recognition of impairment losses for current assets	9	-
Recognition of provisions	169	149
Indemnities	29	34
Costs related to illegal energy consumption	3	3
Litigation expenses	4	7
Goodwill impairment loss	4	-
Lump sum tax on disbursed interest	13	-
Other	2	4
<b>TOTAL</b>	<b>284</b>	<b>272</b>

**11.6. Financial income**

	Year ended 31 December 2019	Year ended 31 December 2018
Income on financial instruments, including:	<b>40</b>	<b>67</b>
Interest income	37	64
Revaluation of financial assets (including reversal of impairment losses)	-	3
Foreign exchange differences	3	-
Other financial income	-	2
<b>TOTAL</b>	<b>40</b>	<b>69</b>

**11.7. Financial costs**

	Year ended 31 December 2019	Year ended 31 December 2018
Costs of financial instruments, including:	<b>324</b>	<b>354</b>
Interest expenses	300	321
Revaluation of financial assets (including reversal of impairment losses)	20	23
Foreign exchange differences	3	9
Loss on disposal of investment	1	1
Other financial costs, of which:	<b>438</b>	<b>28</b>
Revaluation of investments accounted for using the equity method	372	-
Lease interest	33	-
Actuarial and other interest	29	21
Other	4	7
<b>TOTAL</b>	<b>762</b>	<b>382</b>

**12. Income tax****12.1. Tax liabilities**

Major components of income tax liability for the year ended 31 December 2019 are as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
<b>Statement of profit or loss</b>		
Current income tax expense	(33)	(232)
Adjustments to income tax for prior years	7	2
Deferred tax	(216)	21
<b>Tax burden recognized in the statement of profit or loss</b>	<b>(242)</b>	<b>(209)</b>
<b>Statement of comprehensive income</b>		
Deferred tax	20	11
<b>Tax gain recognized in the statement of comprehensive income</b>	<b>20</b>	<b>11</b>

With regard to income tax, the Group was principally subject to the general regulations in 2019. Except for the Energa Tax Group (see description in Note 12.4), there were no other occurrences that would require calculation of tax liabilities using methods different from the general regulations in this respect.

The expiration date of the right to settle a tax loss by Energa Group companies is no later than 31 December 2024.

As at 31 December 2019, the total amount of temporary differences related to investments in subsidiaries, for which no deferred tax liabilities have been recognized, is PLN 2,961 m.

**12.2. Reconciliation of the effective tax rate**

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

	Year ended 31 December 2019	Year ended 31 December 2018
<b>Profit or loss before tax</b>	<b>(759)</b>	<b>953</b>
<b>Tax liability at Poland's statutory rate of 19%</b>	<b>144</b>	<b>(181)</b>
Adjustments to income tax for prior years	7	2
Tax liability on permanently non tax-deductible expenses	(217)	(21)
Tax liability on permanently non-taxable income	16	5
Tax liabilities on profit-sharing in entities measured using the equity method	(94)	17
Tax losses	-	(2)
Temporary differences for which no deferred tax asset was recognized	(1)	(29)
Adjustment of assets to value for realization in the future	(97)	-
<b>Tax liability at the effective tax rate in the statement of profit or loss</b>	<b>(242)</b>	<b>(209)</b>

The total amount of temporary differences related to investments in subsidiaries, for which deferred tax assets were not recognized, as at 31 December 2019 is PLN 938 m.

The current tax liability is calculated on the basis of applicable tax regulations. Application of those regulations differentiates between the tax profit (loss) and accounting net profit (loss) in connection with exclusion of non-taxable revenues and non-deductible expenses and items of income or expense which are never taxable. Tax liabilities are calculated on the basis of tax rates applicable in the given financial year. A 19% tax rate was applicable in 2019 and 2018. Current regulations do not provide for differentiated tax rates for future periods.

The tax year and the period for which these financial statements are prepared correspond to a calendar year.

### 12.3. Deferred income tax

The deferred tax results from the following items:

	As at 31 December 2019	As at 31 December 2018
<b>Deferred tax assets</b>	<b>717</b>	<b>662</b>
On the difference between the tax and carrying value of property, plant and equipment, intangible assets and inventories	230	130
On the difference between the tax and carrying value of financial assets and liabilities	213	99
Infrastructure acquired free of charge	18	17
On provisions for post-employment benefits	84	66
On provisions for jubilee bonuses	49	41
On provisions for redemption of property rights	18	82
On provisions for reclamation and decommissioning costs of property, plant and equipment	15	12
On provisions for gas emission liabilities	33	30
Unpaid employee salaries and benefits	5	4
On other provisions	68	90
Accrued expenses	44	47
Tax losses	28	34
Other	9	10
Adjustment of assets to value for realization in the future	(97)	-
<b>Set-off</b>	<b>(455)</b>	<b>(349)</b>
<b>Deferred tax assets after set-off</b>	<b>262</b>	<b>313</b>

	As at 31 December 2019	As at 31 December 2018
<b>Deferred tax liability</b>	<b>1,193</b>	<b>942</b>
on the difference between the tax and carrying value of property, plant and equipment and intangible assets	1,016	858
Accrued revenues	34	35
On the difference between the tax and carrying value of energy certificates	7	6
On the difference between the tax and carrying value of financial assets and liabilities	128	35
Other	8	8
<b>Set-off</b>	<b>(455)</b>	<b>(349)</b>
<b>Deferred tax liability after set-off</b>	<b>738</b>	<b>593</b>

The Company did not include in its statement of financial position the deferred tax asset on the value of outstanding tax losses incurred in 2015–2019 for the total amount of PLN 28 m.

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

	Year ended 31 December 2019	Year ended 31 December 2018
<b>Deferred tax assets</b>		
<b>At the beginning of the reporting period</b>	<b>662</b>	<b>610</b>
<i>Increases</i>	235	197
recognized in profit or loss	219	191
recognized in other comprehensive income	16	3
other	-	3
<i>Decreases</i>	(83)	(145)
recognized in profit or loss	(83)	(99)
recognized in capital on account of implementation of IFRS 9 and IFRS 15	-	(46)
<b>At the end of the reporting period</b>	<b>814</b>	<b>662</b>
<b>Adjustment of assets to value for realization in the future</b>		
<b>At the beginning of the reporting period</b>	<b>-</b>	<b>-</b>
<i>Increases</i>	(97)	-
<i>Decreases</i>	-	-
<b>At the end of the reporting period</b>	<b>(97)</b>	<b>-</b>
<b>Set-off</b>	<b>(455)</b>	<b>(349)</b>
<b>Deferred tax assets at the end of the reporting period, after set-off</b>	<b>262</b>	<b>313</b>
<b>Deferred tax liability</b>		
<b>At the beginning of the reporting period</b>	<b>942</b>	<b>881</b>
<i>Increases</i>	267	78
recognized in profit or loss	267	78
<i>Decreases</i>	(16)	(17)
recognized in profit or loss	(12)	(7)
recognized in other comprehensive income	(4)	(8)
other	-	(2)
<b>At the end of the reporting period</b>	<b>1,193</b>	<b>942</b>
<b>Set-off</b>	<b>(455)</b>	<b>(349)</b>
<b>Deferred tax liability at the end of the reporting period, after set-off</b>	<b>738</b>	<b>593</b>

**12.4. ENERGA Tax Group**

On 25 September 2017, Energa SA together with its related parties: Energa-Operator SA, Energa-Obrót SA, Energa Wytwarzanie SA (renamed Energa OZE SA on 3 September 2019), Energa Informatyka i Technologie Sp. z o.o., Energa Centrum Usług Wspólnych Sp. z o.o., Energa-Operator Logistyka Sp. z o.o., Energa Oświetlenie sp. z o.o., Enspirion Sp. z o.o., ENSA PGK1 Sp. z o.o. (renamed Energa Invest Sp. z o.o. on 12 October 2017), ENSA PGK3 Sp. z o.o. (renamed Energa Ochrona Sp. z o.o. on 27 October 2017), ENSA PGK8 Sp. z o.o. (renamed CCGT Gdańsk Sp. z o.o. on 1 August 2019), EOB PGK1 Sp. z o.o. (renamed CCGT Grudziądz Sp. z o.o. on 1 August 2019), EOB PGK2 Sp. z o.o. (renamed Centrum Badawczo-Rozwojowe im. M. Faradaya Sp. z o.o. on 13 December 2017) signed a PGK Energa 2018 tax group agreement. The agreement was registered by the Head of the Pomorski Tax Authority on 26 October 2017. Energa SA was selected as the company representing the 2018 Energa Tax Group in respect to the duties arising from the Corporate Income Tax Act and the Tax Ordinance Act.

2018 Energa Tax Group launched its activity on 1 January 2018. The agreement was concluded for 3 fiscal years, that is until 31 December 2020. Energa Tax Group charged income tax on the total income generated from two sources of revenue, namely income on capital gains and income on other revenue. The surplus of total income generated by all companies making up Energa Tax Group from a given source of revenue over their total losses incurred on this source of revenue constitutes the income on the source of revenue.

## NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## 13. Property, plant and equipment

	Own land	Right of perpetual usufruct of land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
<b>Gross value</b>								
As at 1 January 2019 (restated)	101	89	13,947	6,739	339	951	867	23,033
As at 1 January 2019 after partial reclassification as right-of-use assets	101	39	13,779	6,734	334	951	867	22,805
Direct purchase	-	-	-	-	-	-	1,487	1,487
Settlement of property, plant and equipment under construction	1	-	907	427	48	108	(1,491)	-
Sale, disposal	-	-	(2)	(3)	(8)	(45)	-	(58)
Liquidation	-	(34)	(386)	(50)	(1)	(2)	(3)	(476)
Received free of charge	-	-	13	-	-	-	-	13
Reclassification between groups	4	(4)	1	1	-	(2)	-	-
Capitalized financing expenses	-	-	-	-	-	-	13	13
Provision for land reclamation and liquidation costs	-	-	10	4	-	-	-	14
Other changes	-	-	1	-	-	(1)	(6)	(6)
<b>As at 31 December 2019</b>	<b>106</b>	<b>1</b>	<b>14,323</b>	<b>7,113</b>	<b>373</b>	<b>1,009</b>	<b>867</b>	<b>23,792</b>
<b>Accumulated depreciation and impairment losses</b>								
As at 1 January 2019 (restated)	-	(28)	(5,163)	(2,582)	(240)	(589)	(35)	(8,637)
As at 1 January 2019 after partial reclassification as right-of-use assets	-	(35)	(5,128)	(2,582)	(239)	(589)	(35)	(8,608)
Amortization and depreciation and net liquidation value	-	-	(520)	(312)	(26)	(93)	-	(951)
Recognition of impairment losses	-	-	(144)	(367)	-	(4)	-	(515)
Other increases in impairment losses	-	-	-	-	-	-	-	-
Reversed impairment losses	-	-	7	13	-	-	-	20
Other decreases in impairment losses	-	-	15	21	-	-	-	36
Sale, disposal	-	-	1	3	8	44	-	56
Liquidation	-	34	385	45	1	2	-	467
Reclassification between groups	-	-	2	(2)	-	-	-	-
Other changes	-	-	(16)	(19)	-	-	-	(35)
<b>As at 31 December 2019</b>	<b>-</b>	<b>(1)</b>	<b>(5,398)</b>	<b>(3,200)</b>	<b>(256)</b>	<b>(640)</b>	<b>(35)</b>	<b>(9,530)</b>
<b>Net value as at 1 January 2019</b>	<b>101</b>	<b>61</b>	<b>8,784</b>	<b>4,157</b>	<b>99</b>	<b>362</b>	<b>832</b>	<b>14,396</b>
<b>Net value as at 31 December 2019</b>	<b>106</b>	<b>-</b>	<b>8,925</b>	<b>3,913</b>	<b>117</b>	<b>369</b>	<b>832</b>	<b>14,262</b>

Restated data	Own land	Right of perpetual usufruct of land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
<b>Gross value</b>								
<b>As at 1 January 2018</b>	<b>98</b>	<b>88</b>	<b>13,037</b>	<b>6,267</b>	<b>312</b>	<b>885</b>	<b>859</b>	<b>21,546</b>
Direct purchase	-	-	-	2	1	-	1,600	1,603
Settlement of property, plant and equipment under construction	3	-	973	499	33	88	(1,596)	-
Sale, disposal	-	-	(3)	(3)	(7)	(17)	-	(30)
Liquidation	-	-	(72)	(28)	(1)	(3)	(7)	(111)
Received free of charge	-	-	9	-	-	-	-	9
Reclassification between groups	-	-	(2)	2	-	(1)	-	(1)
Disposal of subsidiary	-	-	-	-	-	-	13	13
Provision for land reclamation and liquidation costs	-	-	4	1	-	-	-	5
Other changes	-	1	1	(1)	1	(1)	(2)	(1)
<b>As at 31 December 2018</b>	<b>101</b>	<b>89</b>	<b>13,947</b>	<b>6,739</b>	<b>339</b>	<b>951</b>	<b>867</b>	<b>23,033</b>
<b>Accumulated depreciation and impairment losses</b>								
<b>As at 1 January 2018</b>	<b>-</b>	<b>(25)</b>	<b>(4,838)</b>	<b>(2,476)</b>	<b>(222)</b>	<b>(521)</b>	<b>(30)</b>	<b>(8,112)</b>
Amortization for the period	-	(3)	(475)	(298)	(26)	(90)	-	(892)
Recognition of impairment losses	-	-	(1)	-	-	-	(5)	(6)
Other increases in impairment losses	-	-	(4)	-	-	-	-	(4)
Reversed impairment losses	-	-	108	164	-	-	-	272
Other decreases in impairment losses	-	-	2	3	-	-	-	5
Sale, disposal	-	-	2	3	6	17	-	28
Liquidation	-	-	43	24	1	3	-	71
Reclassification between groups	-	-	1	(1)	-	1	-	1
Other changes	-	-	(1)	(1)	1	1	-	-
<b>As at 31 December 2018</b>	<b>-</b>	<b>(28)</b>	<b>(5,163)</b>	<b>(2,582)</b>	<b>(240)</b>	<b>(589)</b>	<b>(35)</b>	<b>(8,637)</b>
<b>Net value as at 1 January 2018</b>	<b>98</b>	<b>63</b>	<b>8,199</b>	<b>3,791</b>	<b>90</b>	<b>364</b>	<b>829</b>	<b>13,434</b>
<b>Net value as at 31 December 2018</b>	<b>101</b>	<b>61</b>	<b>8,784</b>	<b>4,157</b>	<b>99</b>	<b>362</b>	<b>832</b>	<b>14,396</b>

**Impairment tests for property, plant and equipment**

In 2019, property, plant and equipment and goodwill were assessed for any internal and external triggers of impairment of recoverable amount. In connection with changes occurring in its regulatory and market environment in Q2 and Q4 2019, and the resulting updates of projected price paths, certain indications have been identified that may result in a change in the recoverable amount of the Group's property, plant and equipment.

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

- adoption of price forecasts for electricity, coal, CO<sub>2</sub> emission allowances, certificates of origin and capacity market rates for the Polish market, based on a report prepared for the Group by an independent agency;
- adoption of costless CO<sub>2</sub> emission allowances for 2019-2021 as specified in the Regulation of the Council of Ministers of 31 March 2014 (Item 439) and 8 April 2014 (Item 472);
- keeping of capital expenditures at the levels allowing for maintenance of the production capacity of the existing non-current assets as a result of investment of replacement nature, including capital expenditures to adjust industrial emission levels to the requirements of Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions and the Commission Implementing Decision (EU) 2017/1442 establishing best available techniques (BAT) conclusions which was published on 17 August 2017;
- entry into force of the Regulation on the internal electricity market, introducing, among others, restrictions on support under the capacity market mechanism for existing fossil fuel generating units emitting above 550 g CO<sub>2</sub> per kWh of electricity and above 350 kg CO<sub>2</sub> on average per year per kWh of installed capacity;
- maintenance of the Polish capacity mechanism until 2020 included;
- maintenance of support for production of energy from the existing renewable sources in the form of revenue from property rights and incorporation for some installations of the won auctions for sale of electricity from renewable energy sources in accordance with the Renewable Energy Sources Act of 20 February 2015, as amended (Journal of Laws 2017 No. 0, Item 1148);
- adoption of assumptions concerning the revenue from the capacity market in accordance with the regulations of the Capacity Market Act of 8 December 2017, with the rates adopted on the basis of the auctions held and won in 2019 and for the years that go beyond the contracted period based on the price paths; and
- adoption of the length of forecasts for the individual CGUs in such a way to ensure that the cash flow used to calculate residual value was as similar as possible to the cash flows expected in the subsequent years.

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

The impairment tests for wind farms were conducted as at 31 December 2019. The tests were conducted for the full useful life, which allowed for a more reliable valuation of the units, the total useful life of which is known and predictable. For that type of installation, it is set at 25 years counting from the moment a wind farm is commissioned. Calculations to determine the value in use cover the period from January 2020 until the last year of the wind farm's operation. The discount rates set on the basis of the pre-tax weighted-average cost of capital (WACC), used for the calculation in December 2019, fell within the range from 7.64% to 8.08% (on average 6.02% after tax).

Based on the impairment tests conducted, a need was identified to reverse the impairment losses on wind farms in the amount of PLN 16.9 m. The recoverable amount was set at PLN 874.1 m.

**Photovoltaic farms (CGU PV Delta, PV Czernikowo)**

The impairment tests for photovoltaic farms were conducted as at 31 December 2019. The tests were conducted for the full useful life, which allowed for a more reliable valuation of the units, the total useful life of which is known and predictable. For that type of installation, it is set at 25 years counting from the moment a wind farm is commissioned. Calculations to determine the value in use cover the period from January 2020 until December 2039. The discount rates set on the basis of the pre-tax weighted-average cost of capital (WACC), used for the calculation, fell within the range from 6.84% to 7.45% (on average 6.02% after tax).

Based on the impairment tests conducted, a need was identified to reverse impairment losses on the photovoltaic farms in the amount of PLN 1.5 m. The recoverable amount was set at PLN 19.1 m.

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

The impairment test for CGU CHP Elbląg (including the BB20 installation) was conducted as at 31 December 2019. The value in use was calculated on the basis of financial projections for the period of January 2020 - December 2031 and residual value. The standard projection period of 5 years was extended until 2031.

because of the support for the BB20 unit available in the form of green certificates. The year 2031 is the first representative period, which may be used to calculate the residual value. The discount rate set on the basis of the pre-tax weighted-average cost of capital (WACC), used for the calculation, was 7.30% (5.96% after tax). 2.0% growth rate was used to extrapolate the cash flows forecast beyond 2031; this is not higher than the average long-term inflation rates in Poland.

Based on the results of the test, a need was found to recognize impairment losses on CGU CHP Elbląg in the amount of PLN 78.1 m. The recoverable amount was set at PLN 152.7 m.

**Kalisz Combined Heat and Power Plant (CGU CHP Kalisz)**

The impairment test for CGU CHP Kalisz was conducted as at 31 December 2019. The CGU's recoverable amount was set on the basis of fair value based on financial projections for the period of January 2020 - December 2024 and residual value. The discount rate set on the basis of the pre-tax weighted-average cost of capital (WACC), used for the calculation, was 9.72% (8.49% after tax), including the investor's bonus for the purpose of fair value measurement. A growth rate of 2.0% was adopted to extrapolate cash flow projections beyond the period covered by the detailed planning, which does not exceed the average long-term inflation rates in Poland.

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

**Ostrołęka B Power Plant (CGU Ostrołęka B)**

The impairment test for CGU Ostrołęka B was conducted as at 31 May 2019 and again as at 31 December 2019. The conduct of the test in Q2 2019 was prompted by occurrence of changes in the legislative environment in connection with the entry into force of the Regulation on the internal electricity market and the ensuing failure by the power plant to meet the emissions requirements which led to loss of revenue from the capacity market after 2025. The conduct of the test in Q4 2019 was prompted by an update of price paths.

The value in use in the Q4 2019 test was calculated on the basis of financial projections for the period of January 2020 - December 2031 and residual value. To calculate value in use of CGU Ostrołęka B:

- allowance was made for the support in the form of a five-year capacity contract for the years 2021–2025; thereafter, a restriction was envisaged in terms of support under the capacity market mechanism in connection with the power plant's failure to meet the emissions requirement referred to in the first part of the document (due to the need for recognizing the same, the projection was extended beyond the five-year period customarily adopted in that type of valuations);
- the normalized flow was adopted for calculation of the residual value, i.e. at a level representative of the years going beyond the projection period, and a growth rate of 2.0%, based on the average value of long-term inflationary growth rates in Poland;
- a discount rate calculated on the basis of the weighted average cost of capital (WACC) at 6.84% (6.38% after tax) was adopted.

Based on the results of the test, a need was found to recognize impairment losses on CGU Ostrołęka B in the amount of PLN 167.0 m as at 31 December 2019.

Based on the results of the test, a need was found to recognize impairment losses on CGU Ostrołęka B in the amount of PLN 270 m as at 31 May 2019.

In view of the above, the aggregate amount of impairment losses on that CGU made throughout 2019 amounted to PLN 437 m and the recoverable amount was set at PLN 425.7 m as at 31 December 2019.

**Sensitivity analysis**

The estimated impact of the change of selected parameters on the overall valuation of the above-mentioned assets is presented below. The sensitivity analysis shows that the factors with the highest impact on the estimated value in use of the tested CGUs are electricity prices, discount rates, coal prices and EUA prices. Their change, taken into consideration throughout the forecast period, could give rise to the need to recognize additional impairment losses or reverse the same at the values estimated below. Consequently, it should be borne in mind that the risk of revaluation of the assets' value arises in the case of change of market conditions.

Parameter	Value and direction of change	Impact on appraisal value of CGU [PLN m]		Change in impairment loss/reversal amount [PLN m]
		Increase in value	Decrease in value	
Electricity prices	[+ 1%]	291.2		279.0
	[- 1%]		(292.0)	(281.1)
Discount rates	[+ 0.5 p.p.]		(146.7)	(131.5)
	[- 0.5 p.p.]	186.6		164.5
Coal prices	[+ 1%]		(121.3)	(121.1)
	[- 1%]	121.3		121.1
EUA prices	[+ 1%]		(115.2)	(114.2)
	[- 1%]	115.2		114.2

## 14. Intangible assets

	Development costs	Software, licenses and patents	Other intangible assets	Intangible assets not in use	Total
<b>Gross value</b>					
As at 1 January 2019 (restated)	-	781	74	82	937
As at 1 January 2019 after partial reclassification as right-of-use assets	-	771	74	82	927
Direct purchase	-	16	-	37	53
Settlement of intangible assets not in use	1	56	4	(61)	-
Sale, disposal	-	(3)	-	-	(3)
Liquidation	-	(21)	-	(1)	(22)
Reclassification between groups	-	(4)	(7)	11	-
<b>As at 31 December 2019</b>	<b>1</b>	<b>815</b>	<b>71</b>	<b>68</b>	<b>955</b>
<b>Accumulated depreciation and impairment losses</b>					
As at 1 January 2019 (restated)	-	(625)	(41)	(25)	(691)
As at 1 January 2019 after partial reclassification as right-of-use assets	-	(625)	(41)	(25)	(691)
Amortization and depreciation and net liquidation value	-	(56)	(8)	-	(64)
Decrease in impairment losses	-	2	-	-	2
Liquidation	-	20	-	-	20
Reclassification between groups	-	(5)	6	-	1
<b>As at 31 December 2019</b>	<b>-</b>	<b>(664)</b>	<b>(43)</b>	<b>(25)</b>	<b>(732)</b>
<b>Net value as at 1 January 2019</b>	<b>-</b>	<b>156</b>	<b>33</b>	<b>57</b>	<b>246</b>
<b>Net value as at 31 December 2019</b>	<b>1</b>	<b>151</b>	<b>28</b>	<b>43</b>	<b>223</b>

Restated data	Software, licenses and patents	Other intangible assets	Intangible assets not in use	Total
<b>Gross value</b>				
<b>As at 1 January 2018</b>	<b>748</b>	<b>71</b>	<b>81</b>	<b>900</b>
Direct purchase	12	-	40	52
Settlement of intangible assets not in use	34	3	(37)	-
Sale, disposal	(3)	-	-	(3)
Liquidation	(10)	-	-	(10)
Other changes	-	-	(2)	(2)
<b>As at 31 December 2018</b>	<b>781</b>	<b>74</b>	<b>82</b>	<b>937</b>
<b>Accumulated depreciation and impairment losses</b>				
<b>As at 1 January 2018</b>	<b>(569)</b>	<b>(31)</b>	<b>(25)</b>	<b>(625)</b>
Amortization for the period	(64)	(10)	-	(74)
Increase in impairment losses	(2)	-	-	(2)
Sale, disposal	2	-	-	2
Liquidation	8	-	-	8
<b>As at 31 December 2018</b>	<b>(625)</b>	<b>(41)</b>	<b>(25)</b>	<b>(691)</b>
<b>Net value as at 1 January 2018</b>	<b>179</b>	<b>40</b>	<b>56</b>	<b>275</b>
<b>Net value as at 31 December 2018</b>	<b>156</b>	<b>33</b>	<b>57</b>	<b>246</b>

## 15. Right-of-use assets

	Land	Rights of perpetual usufruct of land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant and equipment	Software, licenses and patents	Total
<b>Gross value</b>								
As at 1 January 2019 (reclassification from property, plant and equipment and intangible assets)	132	85	-	5	5	-	10	237
First-time recognition as at 1 January 2019	377	183	100	5	7	4	-	676
Direct purchase	-	1	3	3	4	-	10	21
Liquidation	-	(27)	-	-	-	-	-	(27)
<b>As at 31 December 2019</b>	<b>509</b>	<b>242</b>	<b>103</b>	<b>13</b>	<b>16</b>	<b>4</b>	<b>20</b>	<b>907</b>
<b>Accumulated depreciation and impairment losses</b>								
As at 1 January 2019 (reclassification from property, plant and equipment and intangible assets)	-	(28)	-	-	(1)	-	-	(29)
Amortization and depreciation and net liquidation value	(20)	(6)	(16)	(3)	(4)	(1)	(8)	(58)
Liquidation	-	27	-	-	-	-	-	27
<b>As at 31 December 2019</b>	<b>(20)</b>	<b>(7)</b>	<b>(16)</b>	<b>(3)</b>	<b>(5)</b>	<b>(1)</b>	<b>(8)</b>	<b>(60)</b>
<b>Net value as at 1 January 2019</b>	<b>132</b>	<b>57</b>	<b>-</b>	<b>5</b>	<b>4</b>	<b>-</b>	<b>10</b>	<b>208</b>
<b>Net value as at 31 December 2019</b>	<b>489</b>	<b>235</b>	<b>87</b>	<b>10</b>	<b>11</b>	<b>3</b>	<b>12</b>	<b>847</b>

The costs associated with leases of low-value assets stand at PLN 0.2 m as at 31 December 2019, whereas the costs associated with variable lease fees not included in measurement of lease liabilities amount to PLN 5.6 m and the costs associated with short-term leases are PLN 2.5 m.

**16. Goodwill**

An impairment test was conducted as at 31 December 2019 for the company established in 2009 as a result of the transaction of purchase of Energa Ciepło Ostrołęka district heating assets. The test was conducted using the discounted cash flows method based on financial projections of the asset to which goodwill is assigned for the period of January 2020 - December 2024 and residual value. The discount rate set on the basis of the pre-tax weighted-average cost of capital (WACC), used for the calculation, was 6.32% (5.43% after tax). A growth rate of 2.0% was adopted to extrapolate cash flow projections beyond the period covered by the detailed planning, which does not exceed the average long-term inflation rates in Poland.

Based on the results of the test, a need was found to recognize impairment losses on the full goodwill arising as a result of the transaction of purchase of Energa Ciepło Ostrołęka district heating assets in the amount of PLN 3.5 m.

	As at 31 December 2019	As at 31 December 2018
<b>Net value as at 1 January 2019</b>	<b>15</b>	<b>15</b>
Recognition of impairment losses	(4)	-
<b>Net value as at 31 December 2019</b>	<b>11</b>	<b>15</b>

**17. Investments in joint ventures and associates measured by the equity method**

The key information about investments in joint ventures and associates has been presented in Note 2.2.

Investments measured by the equity method	As at 31 December 2019	As at 31 December 2018
Polska Grupa Górnicza S.A.	199	642
Elektrownia Ostrołęka Sp. z o.o.	-	262
Polimex-Mostostal S.A.	123	109
ElectroMobility Poland S.A.	14	16
<b>Total</b>	<b>336</b>	<b>1,029</b>

Below we present condensed financial information of the companies measured by the equity method and reconciliation of the financial information to the carrying amount of shares in the companies recognized in the Group's consolidated financial statements. Data for 2019 are based on financial data of companies. In the case of Polimex-Mostostal S.A., ElektroMobility Poland S.A. and Elektrownia Ostrołęka Sp. z o.o. the data was audited, in the case of Polskiej Grupy Górniczej S.A. until the date of adoption of the financial statement, the indicated financial data are preliminary comparable data of ElektroMobility Poland SA pertaining to the abridged statement of comprehensive income are presented for the period from 19 October 2016 to 30 September 2018, in the case of balance sheet data as at 30 September 2018.

Condensed statement of comprehensive income	Polska Grupa Górnicza S.A.	Elektrownia Ostrołęka Sp. z o.o.	Polimex- Mostostal S.A.	ElectroMobility Poland S.A.
For the period ended 31 December 2019				
Revenue	9,012	-	1,589	-
Amortization and depreciation	-	-	35	-
Interest income	-	-	4	-
Interest expenses	-	-	28	-
<b>(Loss)/profit before tax from continuing operations</b>	<b>(482)</b>	<b>(1,039)</b>	<b>68</b>	<b>(4)</b>
Income tax	(55)	-	6	-
<b>Net (loss)/profit on continuing operations</b>	<b>(427)</b>	<b>(1,039)</b>	<b>62</b>	<b>(4)</b>
<b>Net profit on discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other comprehensive income</b>	<b>(35)</b>	<b>-</b>	<b>4</b>	<b>-</b>
<b>Total comprehensive income</b>	<b>(462)</b>	<b>(1,039)</b>	<b>66</b>	<b>(4)</b>
Dividends paid	-	-	-	-

Condensed statement of comprehensive income	Polska Grupa Górnicza S.A.	Elektrownia Ostrołęka Sp. z o.o.	Polimex- Mostostal S.A.	ElectroMobility Poland S.A.
For the period ended 31 December 2018				
Revenue	9,371	-	1,519	-
Amortization and depreciation	-	-	24	-
Interest income	-	1	5	-
Interest expenses	-	-	26	-
<b>(Loss)/profit before tax from continuing operations</b>	<b>625</b>	<b>(5)</b>	<b>73</b>	<b>(8)</b>
Income tax	132	-	1	-
<b>Net (loss)/profit on continuing operations</b>	<b>493</b>	<b>(5)</b>	<b>72</b>	<b>(8)</b>
<b>Net profit on discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other comprehensive income</b>	<b>6</b>	<b>-</b>	<b>1</b>	<b>-</b>
<b>Total comprehensive income</b>	<b>499</b>	<b>(5)</b>	<b>73</b>	<b>(8)</b>
<b>Dividends paid</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Condensed balance sheet	Polska Grupa Górnicza S.A.	Elektrownia Ostrołęka Sp. z o.o.	Polimex- Mostostal S.A.	ElectroMobility Poland S.A.
As at 31 December 2019				
Cash and cash equivalents	555	7	285	39
Other current assets (excl. cash)	1,671	31	649	2
<b>Total current assets</b>	<b>2,226</b>	<b>38</b>	<b>934</b>	<b>41</b>
<b>Non-current assets</b>	<b>10,220</b>	<b>65</b>	<b>731</b>	<b>23</b>
Financial liabilities (excl. trade liabilities)	476	1	163	-
Other current liabilities (incl. trade liabilities)	3,564	85	597	6
<b>Total current liabilities</b>	<b>4,040</b>	<b>86</b>	<b>760</b>	<b>6</b>
Financial liabilities	2,510	-	170	-
Other liabilities	2,185	171	94	-
<b>Total non-current liabilities</b>	<b>4,695</b>	<b>171</b>	<b>264</b>	<b>-</b>
<b>Net assets</b>	<b>3,711</b>	<b>154</b>	<b>641</b>	<b>58</b>

Condensed balance sheet	Polska Grupa Górnicza S.A.	Elektrownia Ostrołęka Sp. z o.o.	Polimex- Mostostal S.A.	ElectroMobility Poland S.A.
As at 31 December 2018				
Cash and cash equivalents	583	57	396	20
Other current assets (excl. cash)	2,176	38	826	1
<b>Total current assets</b>	<b>2,759</b>	<b>95</b>	<b>1,222</b>	<b>21</b>
<b>Non-current assets</b>	<b>9,528</b>	<b>473</b>	<b>713</b>	<b>3</b>
Financial liabilities (excl. trade liabilities)	175	21	22	1
Other current liabilities (incl. trade liabilities)	3,504	3	818	1
<b>Total current liabilities</b>	<b>3,679</b>	<b>24</b>	<b>840</b>	<b>2</b>
Financial liabilities	2,316	21	388	-
Other liabilities	2,119	-	150	-
<b>Total non-current liabilities</b>	<b>4,435</b>	<b>21</b>	<b>538</b>	<b>-</b>
<b>Net assets</b>	<b>4,173</b>	<b>523</b>	<b>557</b>	<b>22</b>

Condensed financial information	Polska Grupa Górnicza S.A.	Elektrownia Ostrołęka Sp. z o.o.	Polimex- Mostostal S.A.	ElectroMobility Poland S.A.
2019				
<b>Net assets of the joint venture/associate at the beginning of the period</b>	<b>4,173</b>	<b>523</b>	<b>557</b>	<b>22</b>
Net profit/(loss) for the period	(427)	(1,039)	62	(4)
Other comprehensive income	(35)	-	4	-
Recapitalization by investors	-	361	-	40
Other differences	-	1	18	-
<b>Net assets of the joint venture/associate at the end of the period</b>	<b>3,711</b>	<b>(154)</b>	<b>641</b>	<b>58</b>
Stake held by the Group in the joint venture/associate	15.32%	50.00%	16.48%	25.00%
Interest in the joint venture/associate	568	-	106	14
Goodwill	-	-	17	-
Other differences	2	-	-	-
Investment write-off	(371)	-	-	-
<b>Carrying amount of shares</b>	<b>199</b>	<b>-</b>	<b>123</b>	<b>14</b>

Condensed financial information	Polska Grupa Górnicza S.A.	Elektrownia Ostrołęka Sp. z o.o.	Polimex- Mostostal S.A.	ElectroMobility Poland S.A.
2018				
<b>Net assets of the joint venture/associate at the beginning of the period</b>	<b>3,374</b>	<b>206</b>	<b>456</b>	<b>-</b>
Net profit/(loss) for the period	493	(5)	72	(8)
Other comprehensive income	6	-	1	-
Recapitalization by investors	300	322	-	30
Other differences	-	-	28	-
<b>Net assets of the joint venture/associate at the end of the period</b>	<b>4,173</b>	<b>523</b>	<b>557</b>	<b>22</b>
Stake held by the Group in the joint venture/associate	15.32%	50.00%	16.48%	25.00%
Interest in the joint venture/associate	640	262	92	6
Goodwill	1	-	17	-
Other differences	1	-	-	10
<b>Carrying amount of shares</b>	<b>642</b>	<b>262</b>	<b>109</b>	<b>16</b>

Dividend payments to PGG shareholders is restricted by the bond issue program agreement ("Agreement") signed between PGG and its bondholders. The Agreement and the terms and conditions of issue of participation bonds allow for a dividend payment only when all of the following conditions are satisfied:

- in the settlement period when the dividend is paid out, a cash sweep redemption installment will be paid (a cash sweep may be effected in 2019 or later and will constitute in total 60% of the surplus cash flow for the previous financial year);
- there is no default on the specified financial ratios;
- the payment will not cause a default on the specified forecast financial ratios; and
- the dividend will be paid out to shareholders and holders of participation bonds pro rata to their involvement in financing PGG.

In the case of dividend payments to shareholders of Polimex Mostostal SA, Elektrownia Ostrołęka SA and ElectroMobility Poland SA, there are no specific restrictions on dividend distributions.

#### Impairment of investments in joint ventures and associates measured by the equity method

##### Polska Grupa Górnicza S.A.

As at 31 December 2019, the share in PGG's net loss of - PLN 65 m for the year 2019 was reflected in the measurement of investment in the joint venture in PGG in accordance with the reporting package submitted to the shareholders by that company. PGG's negative net result was, among other things, the effect of recognition of impairment losses on the held property, plant and equipment. In February 2020, an average salary growth of 6% starting from January 2020 onward was agreed between PGG Management Board and trade unions. Such substantial increase in employee costs generating risk of deterioration of future cash flows prompted PGG's statutory auditor to revise the assumptions adopted for measurement of property, plant and equipment as at the end of 2019, which in turn led to PGG refusing to approve its 2019 financial statements. Based on the valuation prepared by an external advisor, the Group exercising joint control over PGG, identified the need for recognizing impairment losses of the investment. The fair value of shares was determined using the discounted cash flows method and the assumptions included,

among other things, the impact of the salary increases approved in February 2020. The value of investment in joint-venture in PGG measured in the consolidated financial statements using the equity method was covered by an analogical revaluation write-down. Taking into consideration the new value based on the measurement, impairment losses of PLN 372 m were recognized on the investment. At the same time, it should be added that the key factor impacting the level of generated cash flows was the business climate in the coal market reflected, among other things, in the prices of that fuel and extraction volumes. Furthermore, measurement of PGG's value was substantially impacted by the discount rate adopted for calculation using the discounted cash flows method. The table below presents the impact of variability of those factors on the value from measurement of the block of shares. This is essential given that the negative effects of COVID-19 coronavirus pandemic which generates the risk of decline in extraction volumes and coal sales, risk of default on the dates of completion of investment projects assuring production capacity at the desired level, risk of price erosion and many other risks impacting PGG's business have not been incorporated in that measurement.

Factor's impact on measurement of block of PGG shares / investment in joint venture in PGG	Year ended 31 December 2019
Decline in coal extraction by 1%	(58)
Decline in coal prices by 1%	(54)
Increase of discount rate by 1pp	(21)

#### Elektrownia Ostrołęka Sp. z o.o.

A Memorandum of Agreement on Further Actions within the Ostrołęka C Project was concluded between the Sponsors of the project of construction of 1,000MW Ostrołęka C coal-fired power plant (Energa SA and Enea SA) on 13 February 2020. Under the Memorandum of Agreement, the project's financing was suspended due to occurrence of major factors of the market environment combined with the difficulties in sourcing external funding. It was agreed that a number of further analyses, including those of the project's technical and economic parameters, needed to be carried out. In connection with recognition by Elektrownia Ostrołęka Sp. z o.o. of the evidence of impairment of property, plant and equipment previously created in the Ostrołęka C, the company deemed it necessary to conduct the assets impairment test according to IAS 36. Based on the fair value measurement of the project's property, plant and equipment, impairment losses of PLN 1,027 m were identified and, consequently, the company's net assets amounted to - PLN 154 m. In view of the above, the investment in joint venture within Elektrownia Ostrołęka Sp. z o.o. was covered in full by the impairment write-down.

#### 18. Inventories

	31 December 2019			31 December 2018		
	Historical cost	Impairment losses	Net value	Historical cost	Impairment losses	Net value
Energy certificates of origin	413	-	413	420	-	420
Materials	143	(1)	142	103	(1)	102
CO2 emission allowances	178	-	178	130	-	130
Semi-finished products and production in progress	-	-	-	-	-	-
Merchandise	23	-	23	35	-	35
<b>TOTAL</b>	<b>757</b>	<b>(1)</b>	<b>756</b>	<b>688</b>	<b>(1)</b>	<b>687</b>

Group companies recognize impairment losses on inventories based on the loss of their economic usefulness determined by aging and turnover, down to the amount of the achievable net sale price.

#### 19. CO2 emission allowances

Emission volumes and greenhouse gas emission allowances awarded free of charge are presented in the table below:

CO <sub>2</sub> emission allowances	Year ended 31 December 2019	Year ended 31 December 2018
	(000s of tons)	
<b>CO<sub>2</sub> emissions from all installations (thousands of tons), including:</b>	<b>2,174</b>	<b>2,640</b>
Number of emission allowances received free of charge	506	666
Number of emission allowances paid for	1,668	1,974
<b>Cost of the obligation to redeem CO<sub>2</sub> emission allowances (PLN m)</b>	<b>175</b>	<b>164</b>

#### 20. Cash and cash equivalents

Cash at bank bears interest based on variable interest rates negotiated with the banks, which are driven by the applicable interest rates for overnight deposits. Short-term deposits are made for various periods, from one day to three months, depending on the Group's current cash needs and earn interest at interest rates negotiated individually with banks.

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

	As at 31 December 2019	As at 31 December 2018
Cash at bank and in hand	926	1,621
Short-term deposits up to 3 months	535	1,103
<b>Total cash and cash equivalents presented in the statement of financial position</b>	<b>1,461</b>	<b>2,724</b>
Unrealized foreign exchange differences and interest	(4)	2
<b>Total cash and cash equivalents reported in the statement of cash flows</b>	<b>1,457</b>	<b>2,726</b>
<i>including restricted cash</i>	<i>91</i>	<i>68</i>

## 21. Other assets

### 21.1. Other non-current assets

	As at 31 December 2019	As at 31 December 2018
Long-term prepayments and accrued expenses	84	74
Investment property	39	34
Advances for property, plant and equipment under construction and intangible assets	21	3
Long-term receivables	-	7
<b>TOTAL</b>	<b>144</b>	<b>118</b>

### 21.2. Other current assets

	As at 31 December 2019	As at 31 December 2018
VAT receivables	161	77
Advances for deliveries	105	23
Deferred costs	88	79
Compensation due from Price Difference Refund Fund	55	-
Other tax receivables	-	7
Other current assets	-	2
<b>TOTAL</b>	<b>409</b>	<b>188</b>

## 22. Share capital and other components of equity

### 22.1. Share capital

As at 31 December 2019, the share capital of Energa SA amounted to PLN 4,522 m and was divided into shares as specified below:

	As at 31 December 2019	As at 31 December 2018
AA series bearer shares with par value of PLN 10.92 each	269,139,114	269,139,114
BB series registered shares with par value of PLN 10.92 each	144,928,000	144,928,000
<b>Total number of shares</b>	<b>414,067,114</b>	<b>414,067,114</b>

**22.2. Major shareholders**

	Year ended 31 December 2019	Year ended 31 December 2018
<b>State Treasury</b>		
share in capital	51.52%	51.52%
share in voting rights	64.09%	64.09%
<b>Other shareholders</b>		
share in capital	48.48%	48.48%
share in voting rights	35.91%	35.91%

**22.3. Shareholders' rights**

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

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

**22.4. Reserve capital**

Reserve capital was created as a result of the share capital reduction made in connection with the reverse split of the Parent Company's shares in 2013 and upon distribution of the Parent Company's net profit for 2015. Reserve capital may be used only to cover future losses or to raise the Parent Company's share capital.

**22.5. Supplementary capital**

Supplementary capital was created from allowances from profit generated by the Parent Company in previous reporting periods.

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

**22.6. Cash flow hedge reserve**

The cash flow hedge reserve follows from the valuation of cross-currency interest rate swap (CCIRS) transactions concluded to hedge the FX risk associated with Eurobonds issued by the subsidiary, Energa Finance AB (publ), and with hybrid bonds issued by Energa SA and IRS interest rate swaps concluded to hedge the interest rate risk associated with the external financing used (see the description in Note 29.6).

**22.7. Retained earnings and restrictions on dividend payment**

The Group's retained earnings include amounts that are not subject to distribution, or cannot be paid out as dividend by the Parent Company. This refers, in particular, to the retained earnings of subsidiaries (taking into account consolidation adjustments), adjustments resulting from the transition of the Parent Company's financial statements from the Accounting Act to IFRS EU and actuarial gains and losses from the measurement of provisions for post-employment benefits recognized in other comprehensive income.

**22.8. Non-controlling interest**

As at 31 December 2019, equity attributable to non-controlling interest refer to minority shareholders of companies in the generation business line, in particular Energa Elektrownie Ostrołęka SA.

**23. Earnings or losses 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.

	Year ended 31 December 2019	Year ended 31 December 2018
Net profit or loss attributable to the shareholders of the Parent Company	(952)	739
<b>Net profit or loss attributable to ordinary shareholders of the Parent Company</b>	<b>(952)</b>	<b>739</b>
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
<b>Earnings or loss per share (basic and diluted) (in PLN)</b>	<b>( 2.30)</b>	<b>1.79</b>

**24. Dividends**

In 2019, the Group realized a net loss. Until the date of approval of these financial statements for publication, no decision on how to cover the net loss for the year 2019 was made.

On 25 June 2019, the Annual General Meeting adopted a resolution on the distribution of profit for 2018, which was allocated in whole to the supplementary capital.

**25. Provisions****25.1. Provisions for employee benefits**

The Group measures provisions for post-employment benefits and for jubilee bonuses (see description in Note 9.18) using actuarial methods.

The amounts of provisions for employee benefits and the reconciliation of changes to the balances are presented in the tables below.

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	TOTAL
<b>As at 1 January 2019</b>	<b>132</b>	<b>186</b>	<b>31</b>	<b>218</b>	<b>567</b>
Current service cost	8	4	1	16	29
Past service cost	(1)	-	-	(1)	(2)
Actuarial gains and losses	31	34	19	46	130
financial	21	36	17	24	98
demographic	5	5	1	13	24
other	5	(7)	1	9	8
Benefits paid	(6)	(9)	(1)	(25)	(41)
Interest costs	4	6	1	7	18
<b>As at 31 December 2019, including:</b>	<b>168</b>	<b>221</b>	<b>51</b>	<b>261</b>	<b>701</b>
<b>Short-term</b>	<b>13</b>	<b>9</b>	<b>1</b>	<b>25</b>	<b>48</b>
<b>Long-term</b>	<b>155</b>	<b>212</b>	<b>50</b>	<b>236</b>	<b>653</b>

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	TOTAL
<b>As at 1 January 2018</b>	<b>123</b>	<b>167</b>	<b>29</b>	<b>215</b>	<b>534</b>
Current service cost	5	3	1	9	18
Past service cost	-	7	2	(1)	8
Actuarial gains and losses, of which arising from changes in assumptions:	6	11	(1)	11	27
financial	2	7	(1)	2	10
demographic	3	1	1	8	13
other	1	3	(1)	1	4
Benefits paid	(6)	(8)	(1)	(23)	(38)
Interest costs	4	6	1	7	18
<b>As at 31 December 2018, including:</b>	<b>132</b>	<b>186</b>	<b>31</b>	<b>218</b>	<b>567</b>
<b>Short-term</b>	<b>11</b>	<b>10</b>	<b>1</b>	<b>22</b>	<b>44</b>
<b>Long-term</b>	<b>121</b>	<b>176</b>	<b>30</b>	<b>196</b>	<b>523</b>

Key assumptions adopted by the actuary to calculate the liability amounts at the end of the reporting period are as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Discount rate	2.00%	3.25%
Employee turnover rate	3.21%	3.88%
Expected salary growth rate	3.00%	3.00%
Expected growth rate of the base of the Company Social Benefit Fund charge	4.00%	3.60%
Expected energy equivalent growth rate	1.43%	1.20%

Based on data received from the actuary, the Group estimates that the change in assumptions would affect the amount of provisions for pension and similar benefits, jubilee bonuses, the company social benefit fund and the energy tariff as follows:

Actuarial provisions	Carrying amount PLN	Analysis of sensitivity to discount rate changes		Analysis of sensitivity to salary growth rate changes		Analysis of sensitivity to energy equivalent changes	
		deviation in PLN					
		+0.5 p.p.	-0.5 p.p.	+0.5%	-0.5%	+0.5%	-0.5%
<b>As at 31 December 2019</b>							
Provision for pension and similar benefits	168	(9)	9	8	(7)	-	-
Energy tariff	221	(15)	17	-	-	17	(15)
Company Social Benefit Fund	52	(4)	5	5	(4)	-	-
Jubilee bonuses	260	(10)	11	10	(10)	-	-
<b>TOTAL</b>	<b>701</b>	<b>(38)</b>	<b>42</b>	<b>23</b>	<b>(21)</b>	<b>17</b>	<b>(15)</b>
<i>Contribution to profit before tax</i>		10	(11)	(10)	10	-	-
<b>As at 31 December 2018</b>							
Provision for pension and similar benefits	132	(6)	7	7	(6)	-	-
Energy tariff	186	(12)	13	-	-	13	(12)
Company Social Benefit Fund	31	(2)	3	2	(2)	-	-
Jubilee bonuses	218	(8)	8	8	(8)	-	-
<b>TOTAL</b>	<b>567</b>	<b>(28)</b>	<b>31</b>	<b>17</b>	<b>(16)</b>	<b>13</b>	<b>(12)</b>
<i>Contribution to profit before tax</i>		8	(8)	(8)	8	-	-

## 25.2. Other provisions

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emission	Obligation concerning property rights	Other provisions	TOTAL
<b>As at 1 January 2019</b>	<b>114</b>	<b>63</b>	<b>158</b>	<b>433</b>	<b>249</b>	<b>1,017</b>
Interest costs	-	2	-	-	-	2
Recognized	44	13	177	265	165	664
Reversed	(28)	-	(2)	(4)	(144)	(178)
Used	(2)	-	(159)	(598)	(78)	(837)
<b>As at 31 December 2019, including:</b>	<b>128</b>	<b>78</b>	<b>174</b>	<b>96</b>	<b>192</b>	<b>668</b>
<i>Short-term</i>	<b>114</b>	<b>-</b>	<b>174</b>	<b>96</b>	<b>151</b>	<b>535</b>
<i>Long-term</i>	<b>14</b>	<b>78</b>	<b>-</b>	<b>-</b>	<b>41</b>	<b>133</b>

The amount of the recognized provision for land reclamation and liquidation costs in 2019 arises mainly from a change in the discount rate to 2.11%.

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emission	Obligation concerning property rights	Other provisions	TOTAL
<b>As at 1 January 2018</b>	<b>114</b>	<b>57</b>	<b>46</b>	<b>299</b>	<b>71</b>	<b>587</b>
Interest costs	-	2	-	-	-	2
Recognized	16	4	161	438	249	868
Reversed	(14)	-	-	(6)	(20)	(40)
Used	(2)	-	(49)	(298)	(51)	(400)
<b>As at 31 December 2018, including:</b>	<b>114</b>	<b>63</b>	<b>158</b>	<b>433</b>	<b>249</b>	<b>1,017</b>
<i>Short-term</i>	<b>114</b>	<b>-</b>	<b>158</b>	<b>433</b>	<b>193</b>	<b>898</b>
<i>Long-term</i>	<b>-</b>	<b>63</b>	<b>-</b>	<b>-</b>	<b>56</b>	<b>119</b>

The amount of the recognized provision for land reclamation and liquidation costs in 2018 arises mainly from a change in the discount rate to 2.79%.

**Provision for land reclamation and liquidation costs**

In 2008, Energa Elektrownie Ostrołęka SA recognized the provision for ash landfills reclamation, which will be amortized until 2050.

This category also presents provisions for the dismantling costs of the following wind farms:

- FW Bystra – provision recognized in 2012 and amortized until 2037;
- FW Karścino – provision recognized in 2009 and amortized until 2034;
- FW Karcino – provision recognized in 2010 and amortized until 2035;
- FW Myślino – provision recognized in 2015 and amortized until 2040;
- FW Parsówek – provision recognized in 2016 and amortized until 2041.

**Provisions for legal claims**

As a result of transition to a different political system, in the 1990s, serious problems arose in the present legal and economic system with transmission installations built in the former legal system on private properties. The main purpose of the provisions for legal claims are the court cases relating to power infrastructure located on private land without the necessary legal titles. The balance of these provisions was PLN 67 m at the end of 2019, whereas it amounted to PLN 75 m in 2018.

The remaining balance of provisions relates to litigations involving penalties imposed by the Energy Regulatory Office and discontinuation of enforcement of agreements on sale of property rights derived from certificates of origin.

**Other provisions**

This category contains mainly provisions for excise tax, that is tax liability calculated on the volumes of electricity sold to end users, groundless remuneration for Lasy Państwowe (State Forests) and provision for onerous contracts (see Note 38).

**26. Other liabilities****26.1. Other non-current financial liabilities**

	As at 31 December 2019	As at 31 December 2018
Derivative financial instruments	72	40
Other	10	5
<b>TOTAL</b>	<b>82</b>	<b>45</b>

**26.2. Other current liabilities**

	As at 31 December 2019	As at 31 December 2018
<b>Liabilities on account of taxes, customs duties, social security, wages and salaries and others</b>	<b>93</b>	<b>127</b>
VAT	15	18
Liabilities on account of social security insurance	53	50
Excise tax	1	35
Personal income tax	17	18
Environmental and other fees	5	5
Other	2	1
<b>Other non-financial liabilities</b>	<b>139</b>	<b>141</b>
Amounts paid by business partners relating to future periods and advances received	86	84
Payroll liabilities	51	37
Liabilities under grants received	-	18
Other	2	2
<b>TOTAL</b>	<b>232</b>	<b>268</b>

**27. Deferred income and grants**

	As at 31 December 2019	As at 31 December 2018
Grants received	221	206
Property, plant and equipment received free of charge	84	75
Rental income	12	13
Accruals for annual bonus and other employee bonuses	110	100
Accruals for unused holiday leaves	33	33
Awards for Management Boards	13	24
Other prepayments and accruals	11	10
<b>TOTAL, of which:</b>	<b>484</b>	<b>461</b>
<b>Long-term</b>	<b>296</b>	<b>274</b>
<b>Short-term</b>	<b>188</b>	<b>187</b>

As at 31 December 2019, the Group recognizes as grants: primarily, the valuation effect of the preferential loan from the European Investment Bank in the amount of PLN 60 m, which is recognized over the loan repayment period (see descriptions in Notes 9.22 and 29.5) and co-financing of PLN 27 m received to execute the biomass-fired power unit building project in Elbląg, which is recognized over the depreciation period of the assets until 2054. Additionally, companies from the Generation business line received funding from the National Fund for Environmental Protection and Water Management in the amount of PLN 30 m to rebuild district heating networks. Furthermore, Energa-Operator SA secured co-financing for the "Rebuilding of district heating networks to meet Smart Grid standards through installation of intelligent grid metering and automation to mobilize consumers to improve efficient energy consumption and effective management of the electricity and heating system to improve security of supply" project.

**28. Social assets and liabilities of the Company Social Benefit Fund**

Pursuant to the Social Benefit Fund Act of 4 March 1994, as amended, the Company Social Benefit Fund is established by employers (companies) employing more than 20 employees on a full time equivalent basis. Entities belonging to the Group create such funds and make periodic contributions thereto. The funds of Energa SA Group companies contain no property, plant and equipment. The purpose of the Funds is to subsidize the social activity of the individual Group companies, grant loans to employees and subsidize other social expenses, such as co-payments to employee holidays.

Group companies have offset the Fund's assets with their liabilities towards the Fund on the individual level, because these assets do not constitute separate assets of the companies.

The table below presents the structure of the Funds' assets, liabilities and expenses.

	As at 31 December 2019	As at 31 December 2018
Loans granted to employees	7	8
Cash	4	3
Fund's liabilities	11	11
<b>Balance after set-off</b>	<b>-</b>	<b>-</b>
Charges to the fund in the period	33	26

## NOTES ON FINANCIAL INSTRUMENTS

## 29. Financial instruments

## 29.1. Carrying amount of financial instruments by category and class

As at 31 December 2019	Measured at fair value through profit or loss for the period	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IFRS 9	TOTAL
<b>Assets</b>					
Trade receivables	-	-	1,489	-	1,489
Contract assets	-	-	313	-	313
Cash and cash equivalents	-	-	1,461	-	1,461
Other financial assets	183	24	186	-	393
Loans granted to employees	178	-	-	-	178
Derivative financial instruments	5	24	-	-	29
Other	-	-	186	-	186
<b>TOTAL</b>	<b>183</b>	<b>24</b>	<b>3,449</b>	<b>-</b>	<b>3,656</b>
<b>Liabilities</b>					
Loans and borrowings	-	-	2,440	-	2,440
Preferential loans and borrowings	-	-	1,376	-	1,376
Loans and borrowings	-	-	1,064	-	1,064
Bonds issued	-	-	4,545	-	4,545
Trade liabilities	-	-	802	-	802
Contract liabilities	-	-	139	-	139
Other financial liabilities	-	72	206	676	954
Liabilities for the purchase of property, plant and equipment, and intangible assets	-	-	160	-	160
Derivative financial instruments	-	72	-	-	72
Dividend liabilities	-	-	2	-	2
Lease liabilities	-	-	-	676	676
Other	-	-	44	-	44
<b>TOTAL</b>	<b>-</b>	<b>72</b>	<b>8,132</b>	<b>676</b>	<b>8,880</b>

As at 31 December 2018	Measured at fair value through profit or loss for the period	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IFRS 9	TOTAL
<b>Assets</b>					
Trade receivables	-	-	1,429	-	1,429
Contract assets	-	-	363	-	363
Cash and cash equivalents	-	-	2,724	-	2,724
Other financial assets	14	52	21	-	87
Derivative financial instruments	12	52	-	-	64
Other	2	-	21	-	23
<b>TOTAL</b>	<b>14</b>	<b>52</b>	<b>4,537</b>	<b>-</b>	<b>4,603</b>
<b>Liabilities</b>					
Loans and borrowings	-	-	2,573	-	2,573
Preferential loans and borrowings	-	-	1,474	-	1,474
Loans and borrowings	-	-	1,099	-	1,099
Bonds issued	-	-	4,592	-	4,592
Trade liabilities	-	-	617	-	617
Contract liabilities	-	-	129	-	129
Other financial liabilities	-	40	302	19	361
Liabilities for the purchase of property, plant and equipment, and intangible assets	-	-	255	-	255
Derivative financial instruments	-	40	-	-	40
Dividend liabilities	-	-	2	-	2
Other	-	-	45	19	64
<b>TOTAL</b>	<b>-</b>	<b>40</b>	<b>8,213</b>	<b>19</b>	<b>8,272</b>

## 29.2. Items of income, expenses, profits and losses recognized in the statement of comprehensive income, by category of financial instruments

Year ended 31 December 2019	Assets measured at fair value through profit or loss for period	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Hedging derivatives	TOTAL
Interest income/(cost)	(3)	37	(324)	27	(263)
Foreign exchange differences	-	-	36	(36)	-
Reversal of impairment losses/increase in value	-	46	-	-	46
Recognition of impairment losses/decrease in value	-	(82)	-	-	(82)
Other	(21)	-	-	-	(21)
<b>Net profit/(loss)</b>	<b>(24)</b>	<b>1</b>	<b>(288)</b>	<b>(9)</b>	<b>(320)</b>
Other comprehensive income	-	-	-	(22)	(22)
<b>Comprehensive income</b>	<b>(24)</b>	<b>1</b>	<b>(288)</b>	<b>(31)</b>	<b>(342)</b>

Year ended 31 December 2018	Assets measured at fair value through profit or loss for period	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Hedging derivatives	TOTAL
Interest income/(cost)	-	59	(233)	(83)	(257)
Foreign exchange differences	-	-	(122)	113	(9)
Reversal of impairment losses/increase in value	-	53	-	-	53
Recognition of impairment losses/decrease in value	(11)	(109)	-	-	(120)
Other	(12)	-	-	-	(12)
<b>Net profit/(loss)</b>	<b>(23)</b>	<b>3</b>	<b>(355)</b>	<b>30</b>	<b>(345)</b>
Other comprehensive income	-	-	-	(44)	(44)
<b>Comprehensive income</b>	<b>(23)</b>	<b>3</b>	<b>(355)</b>	<b>(14)</b>	<b>(389)</b>

**29.3. Fair value of financial instruments****29.3.1. Financial instruments measured at fair value on an ongoing basis**

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

The table below presents an analysis of financial instruments measured at fair value, classified according to a three-level hierarchy:

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

	31 December 2019	31 December 2018
	Level 2	Level 2
<b>Assets</b>		
Hedging derivatives (CCIRS I)	22	49
Hedging derivatives (CCIRS II)	2	3
Other derivatives	5	12
Loans granted	178	-
<b>Liabilities</b>		
Hedging derivatives (CCIRS III)	35	23
Hedging derivatives (CCIRS IV)	34	15
Hedging derivatives (IRS)	3	2

The fair value measurement of receivables under the loan granted to Elektrownia Ostrołęka Sp. z o.o. was estimated on the basis of an analysis of future cash flows discounted using market interest rates valid as at the balance sheet date, adjusted by a 10% margin reflecting the risk inherent in the loan-financed project.

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

Other derivatives include options to purchase shares in Polimex-Mostostal SA. The options were purchased from Towarzystwo Finansowe Silesia Sp. z o.o. under the agreement of 18 January 2017 and refer to the purchase, in three tranches, of a total of 9 million shares of Polimex-Mostostal SA, at the nominal price of PLN 2 per share. The option exercise dates were set at: 30 July 2020, 30 July 2021 and 30 July 2022. The fair value measurement of the call options to purchase shares of Polimex-Mostostal SA was carried out using the Black-Scholes model. The measurement took account of 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.

**29.3.2. 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
<b>As at 31 December 2019</b>	<b>4,545</b>	<b>3,482</b>	<b>1,062</b>
Eurobonds	3,470	3,482	-
hybrid bonds	1,075	-	1,062
<b>As at 31 December 2018</b>	<b>4,585</b>	<b>3,518</b>	<b>1,074</b>
Eurobonds	3,500	3,518	-
hybrid bonds	1,085	-	1,074

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 31 December 2019, which are determined based on transactions on the Luxembourg stock exchange and over-the-counter trading, while in the case of hybrid bonds based on the analysis of future cash flows discounted using the interest rates in effect as at 31 December 2019.

**29.4. Description of significant items in the various categories of financial instruments****29.4.1. Financial assets****Assets measured at amortized cost**

The main item of the category of financial instruments recognized as assets measured at amortized cost category are trade receivables contract receivables.

Trade receivables and contract receivables	Not overdue	Overdue (days)					Total
		<30	30-90	90-180	180-360	>360	
<b>As at 31 December 2019</b>							
Before impairment losses	1,573	132	50	16	31	310	<b>2,112</b>
Impairment losses	(24)	(4)	(4)	(6)	(17)	(255)	<b>(310)</b>
<b>After impairment losses</b>	<b>1,549</b>	<b>128</b>	<b>46</b>	<b>10</b>	<b>14</b>	<b>55</b>	<b>1,802</b>
<b>As at 31 December 2018</b>							
Before impairment losses	1,561	131	50	22	36	305	<b>2,105</b>
Impairment losses	(23)	(6)	(8)	(14)	(24)	(238)	<b>(313)</b>
<b>After impairment losses</b>	<b>1,538</b>	<b>125</b>	<b>42</b>	<b>8</b>	<b>12</b>	<b>67</b>	<b>1,792</b>

**Hedging derivatives**

Hedging derivatives, CCIRS and IRS, are described in detail in Note 29.6.

**Financial assets at fair value through profit or loss**

The Group classified its investments in the portfolio of financial assets, consisting primarily of the option to purchase Polimex-Mostostal shares and a loan granted to Elektrownia Ostrołęka Sp. z o.o., as financial assets measured at fair value through profit or loss.

**Impairment losses on financial assets**

	Impairment loss on trade receivables and contract assets	Impairment losses for bonds, treasury bills and other debt instruments	Impairment losses for shares and loans
<b>Impairment losses as at 1 January 2019</b>	<b>313</b>	<b>36</b>	<b>-</b>
Recognition of impairment losses	82	-	372
Used	(39)	-	-
Unused amounts written off (reversal of the allowance)	(46)	-	-
<b>Impairment losses as at 31 December 2019</b>	<b>310</b>	<b>36</b>	<b>372</b>
<b>Impairment losses as at 1 January 2018</b>	<b>281</b>	<b>25</b>	<b>-</b>
Recognition of impairment losses	109	11	-
Used	(26)	-	-
Unused amounts written off (reversal of the allowance)	(51)	-	-
<b>Impairment losses as at 31 December 2018</b>	<b>313</b>	<b>36</b>	<b>-</b>

**29.4.2. Financial liabilities**

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

	Loans and borrowings	Liabilities on account of the issue of debt securities	Total financing liabilities
<b>As at 31 December 2018</b>	<b>2,573</b>	<b>4,592</b>	<b>7,165</b>
Disbursement	852	-	852
Repayment/Redemption	(990)	(3)	(993)
Foreign currency differences	-	(42)	(42)
Payment of interest	(52)	(139)	(191)
Other changes	57	137	194
<b>As at 31 December 2019</b>	<b>2,440</b>	<b>4,545</b>	<b>6,985</b>

\* The interest paid recognized in the consolidated statement of cash flows includes also the amounts relating to the instruments securing interest payments associated with held financial liabilities in the amount of PLN 97 m and PLN 33 m associated with lease liabilities.

**Loans and borrowings**

	As at 31 December 2019	As at 31 December 2018
<b>Currency</b>	PLN	
<b>Reference rate</b>	WIBOR, rediscount rate	
<b>Amount of the loan/borrowing</b>	<b>2,440</b>	<b>2,573</b>
<b>of which maturing in:</b>		
up to 1 year (short-term)	393	189
1 to 3 years	786	826
3 to 5 years	764	735
over 5 years	497	823

As at 31 December 2019 and 31 December 2018, the amount of credit limits available to the Group was PLN 5,311 m (45.9% used) and PLN 3,512 m (72.2% used), respectively.

Detailed information on contracted loans and borrowings is presented in Note 29.5.

**Liabilities under bonds issued**

	As at 31 December 2019	As at 31 December 2018
<b>Currency</b>	PLN	
<b>Reference rate</b>	WIBOR	
<b>Value of the issue</b>	-	7
<b>of which maturing in:</b>		
up to 1 year (short-term)	-	7

	As at 31 December 2019	As at 31 December 2018
<b>Currency</b>	EUR	
<b>Reference rate</b>	fixed	
<b>Value of the issue</b>		
in currency	1,067	1,066
in PLN	4,545	4,585
<b>of which maturing in:</b>		
up to 1 year (short-term)	2,219	101
1 to 3 years	-	2,150
3 to 5 years	532	538
over 5 years	1,794	1,796

Detailed information on bonds issued is provided in Note 29.5.

### 29.5. 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 financing obtained.

Financing institution	Type of liability	Purpose of financing	Agreement date	Financing limit	Available financing amount	Nominal debt as at 31-12-2019	Repayment date
European Investment Bank	Loan	Energa-Operator SA CapEx Program	16-12-2009	1,050	-	463	15-12-2025
European Investment Bank	Loan	Energa-Operator SA CapEx Program	10-07-2013	1,000	-	829	15-09-2031
European Bank for Reconstruction and Development	Loan	Energa-Operator SA CapEx Program	29-04-2010	1,076	-	463	18-12-2024
European Bank for Reconstruction and Development	Loan	Energa-Operator SA CapEx Program	26-06-2013	800	-	476	18-12-2024
Nordic Investment Bank	Loan	Energa-Operator SA CapEx Program	30-04-2010	200	-	54	15-06-2022
Bondholders	Eurobonds	General corporate purposes	19-03-2013	2,129 <sup>1</sup>	-	2,129 <sup>1</sup>	19-03-2020
Bondholders	Eurobonds	General corporate purposes	07-03-2017	1,278 <sup>1</sup>	-	1,278 <sup>1</sup>	07-03-2027
PKO Bank Polski SA	Credit limit	General corporate purposes	12-10-2011	300	300	-	07-06-2021
PKO Bank Polski SA	Bonds	Energa Elektrownie Ostrołęka SA CapEx Program	30-05-2012	100	33	-	31-12-2022
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	31	169 <sup>2</sup>	19-09-2022
Bank PEKAO SA	Renewable loan	General corporate purposes	13-10-2011	500	500	-	29-05-2020
Bank PEKAO SA	Loan	Energa Elektrownie Ostrołęka SA CapEx Program	30-05-2012	85	-	9	29-05-2022
Nordic Investment Bank	Loan	Myślino Wind Farm construction	23-10-2014	68	-	42	15-09-2026
NFOSiGW	Loan	Energa-Obrót SA's CapEx Program	25-03-2011	-	-	-	31-12-2020
WFOŚiWG	Loan	Energa Wytwarzanie SA's CapEx Program	23-12-2014	3	-	3	30-06-2021
WFOŚiWG	Loan	Elektrownia CCGT Gdańsk Sp. z o.o. CapEx Program	27-06-2014	7	-	7	30-06-2024
NFOSiGW	Loan	Energa Elektrownie Ostrołęka SA CapEx Program	30-08-2018	134	45	89	20-12-2028
European Investment Bank	Hybrid bonds	Energa-Operator SA CapEx Program	04-09-2017	1,065 <sup>3</sup>	-	1,065 <sup>3</sup>	12-09-2037

		financing of Energa SA corporate goals, including financing of its everyday activity and financing of its investment program, excluding capital expenditures in coal- fired power generation				
Syndicated loan	Revolving loan		17-09-2019	2,000	2,000	- 17-09-2024 <sup>4</sup>
<b>TOTAL</b>				<b>11,995</b>	<b>2,909</b>	<b>7,076</b>

<sup>1</sup> liability under Eurobonds in the total amount of EUR 800 m converted using the average NBP exchange rate of 31 December 2019

<sup>2</sup> value of guarantee limits granted to Energa Group companies based on the concluded execution agreements (utilization of the global limit)

<sup>3</sup> hybrid bonds liability of EUR 250 m converted using the average NBP exchange rate of 31 December 2019

<sup>4</sup> the loan is granted for a term of 5 years from the date of signing of the contract which may be extended by one-year periods twice

## 29.6. 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 the FX risk under the above loans, in 2013, 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 the 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 in relation to CCIRS I and II will continue until March 2020 and in relation to CCIRS III until February 2027.

In September 2017, Energa SA issued hybrid bonds for the total amount of EUR 250 m. In order to hedge the FX 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 the 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 under the bonds issued. The Company expects that the hedged cash flows will continue until September 2027.

### Interest rate risk hedging

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

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

In April and June 2018, the Company additionally entered into 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;
- loan agreement concluded with EIB in 2009 – PLN 100 m.

In August 2019, the Company concluded another IRS transaction for:

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

As hedged positions under the hedging relationships, the Group designated the risk related to the WIBOR 3M interest rate arising from interest payments on the financial liabilities stated above in the period no longer than two years from the date of the hedging transactions. In the case of the transaction pertaining to the 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 the hedging instruments. 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 the held hedging instruments serve to hedge cash flows and relate to the financial instruments allocated to the same risk category. The presented hedging instruments relate to the liabilities arising under loans between Energa Finance AB and Energa SA, hybrid bonds from the European Investment Bank and credits from the European Investment Bank and the European Bank for Reconstruction and Development.

The fair value of hedging instruments was:

	Value	Recognition in the statement of financial position	Change in fair value of hedging instrument adopted as the basis for recognition of ineffectiveness of hedging in given period	Nominal amounts of hedging instrument (EUR m/PLN m)
<b>As at 31 December 2019</b>				
CCIRS I	22	Assets – Other financial assets	None	400
CCIRS II	2	Assets – Other financial assets	None	25
CCIRS III	35	Liabilities – Other financial liabilities	None	200
CCIRS IV	34	Liabilities – Other financial liabilities	None	250
IRS	3	Liabilities – Other financial liabilities	None	600
<b>As at 31 December 2018</b>				
CCIRS I	49	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	15	Liabilities – Other financial liabilities	None	250
IRS	2	Liabilities – Other financial liabilities	None	450

The Group continued to apply hedge accounting in accordance with IAS 39; at the same time, no ineffectiveness was identified in the audited 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 18 m.

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

Change in the cash flow hedge reserve during the reporting period	Year ended 31 December 2019	Year ended 31 December 2018
<b>At the beginning of the reporting period</b>	<b>(34)</b>	<b>2</b>
Amount recognized in the cash flow hedge reserve in the period, equal to the change in the fair value of hedging instruments	(59)	81
Accrued interest transferred from the reserve to financial income/costs	1	(12)
Remeasurement of hedging instruments, transferred from the reserve to financial income/costs	36	(113)
Income tax on other comprehensive income	4	8
<b>At the end of the reporting period</b>	<b>(52)</b>	<b>(34)</b>

As at 31 December 2019, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

### 29.7. Security for the repayment of liabilities

At the end of the reporting period and as at 31 December 2018, there were no material assets securing repayment of liabilities or contingent liabilities.

### 30. Financial risk management principles and objectives

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

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

- market risk;
- liquidity risk; and
- credit risk.

The Management Board verifies and agrees the principles of managing these risks. On 20 December 2017, the Management Board of Energa SA signed with Energa SA Group companies a Cooperation Agreement, whose integral elements include the Energa Group Liquidity Management Policy and the Energa Group Market Risk Management Policy (for FX risk and interest rate risk). The two documents have been introduced across the Energa Group, which allows the holding company to manage these risk groups effectively. Both documents define financial risk management procedures for individual Group companies and introduce appropriate reporting obligations.

#### 30.1. Market risk

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

- interest rate risk;
- foreign exchange risk;
- commodity price risk.

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

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

#### Interest rate risk

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

The Group identifies exposure to the risk of WIBOR interest rate changes, which involves primarily long-term financial debt. The Group's financial policy envisages that the risk of changing interest rates is mitigated by keeping a portion of debt at fixed rates. Additionally, at the holding company level the Energa Group has entered into a number of transactions hedging the interest rate risk (IRS). As at 31 December 2019, 73% (2018: 70%) of financial debt recorded in the statement of financial position (loans and borrowings and liabilities on account of the bonds issued) bore a fixed interest rate or was hedged against interest rate risk with IRS transactions.

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

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

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

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

Financial assets and liabilities	31 December 2019		Interest rate risk sensitivity analysis as at 31 December 2019			
	Carrying amount PLN	Value at risk PLN	WIBOR		EURIBOR	
			WIBOR +50 bp	WIBOR -50 bp	EURIBOR R +20 bp	EURIBOR -20 bp
<b>Assets</b>						
Cash and cash equivalents	1,461	1,461	7	(7)	-	-
Other derivatives	5	5	-	-	-	-
<b>Liabilities</b>						
Preferential loans and borrowings	1,376	1,376	7	(7)	-	-
Loans and borrowings granted on market terms	1,064	1,064	5	(5)	-	-
Bonds and debt securities issued	4,545	-	-	-	-	-
<b>Change in profit before tax</b>			<b>19</b>	<b>(19)</b>	<b>-</b>	<b>-</b>
Hedging derivatives (assets)	24	24	2	(2)	(1)	1
Hedging derivatives (liabilities)	72	72	63	(65)	(25)	26
<b>Change in other comprehensive income</b>			<b>65</b>	<b>(67)</b>	<b>(26)</b>	<b>27</b>

Financial assets and liabilities	31 December 2018		Interest rate risk sensitivity analysis as at 31 December 2018			
	Carrying amount	Value at risk	WIBOR		EURIBOR	
	PLN	PLN	WIBOR +50 bp	WIBOR -50 bp	EURIBOR +20 bp	EURIBOR -20 bp
<b>Assets</b>						
Cash and cash equivalents	2,724	2,724	14	(14)	-	-
Other derivative assets	12	12	-	-	-	-
<b>Liabilities</b>						
Preferential loans and borrowings	1,474	1,474	7	(7)	-	-
Loans and borrowings granted on market terms	1,099	1,099	5	(5)	-	-
Bonds and debt securities issued	4,592	7	-	-	-	-
<b>Change in profit before tax</b>			<b>26</b>	<b>(26)</b>	<b>-</b>	<b>-</b>
Hedging derivatives (assets)	52	52	11	(11)	(5)	5
Hedging derivatives (liabilities)	40	40	70	(72)	(29)	30
<b>Change in other comprehensive income</b>			<b>81</b>	<b>(83)</b>	<b>(34)</b>	<b>35</b>

#### Currency risk

The Group is exposed to foreign currency risk on account of trade and financial transactions that it concludes. The risk arises as a result of the Group companies entering into purchase or sale transactions or incurring financial liabilities in currencies other than the valuation currency or holding financial assets in such currencies. The Group identifies primarily the exposure to the risk of changes in the EUR/PLN exchange rate.

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

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

Financial assets and liabilities	31 December 2019		FX risk sensitivity analysis as at 31 December 2019	
	Carrying amount	Value at risk	EUR/PLN	
	PLN	PLN	EUR/PLN rate +4.00%	EUR/PLN rate -4.00%
<b>Assets</b>				
Trade receivables and contract assets	1,802	3	0	(0)
Cash and cash equivalents	1,461	619	25	(25)
Hedging derivatives (assets)	24	1,842	74	(74)
<b>Liabilities</b>				
Trade liabilities	802	5	(0)	0
Bonds and debt securities issued	4,545	4,545	(182)	182
Hedging derivatives (liabilities)	72	2,202	88	(88)
<b>Change in profit before tax</b>			<b>(8)</b>	<b>8</b>
<b>Change in other comprehensive income*</b>			<b>13</b>	<b>(13)</b>

Financial assets and liabilities	31 December 2018		FX risk sensitivity analysis as at 31 December 2018	
	Carrying amount	Value at risk	EUR/PLN	
	PLN	PLN	EUR/PLN rate +8.00%	EUR/PLN rate -8.0%
<b>Assets</b>				
Trade receivables and contract assets	1,792	7	-	-
Cash and cash equivalents	2,724	695	42	(42)
Hedging derivatives (assets)	52	1,928	116	(116)
<b>Liabilities</b>				
Trade liabilities	617	3	-	-
Bonds and debt securities issued	4,592	4,585	(275)	275
Hedging derivatives (liabilities)	40	2,196	132	(132)
<b>Change in profit before tax</b>			<b>(8)</b>	<b>8</b>
<b>Change in other comprehensive income*</b>			<b>22</b>	<b>(22)</b>

\* in respect to hedging derivatives

With regard to trade transactions, the Group is not exposed, to a material extent, to the exchange rate risk because the Group's cash settlements are mainly in PLN.

With regard to financial transactions, the Group is exposed to currency exchange risk because of the issued Eurobonds. To hedge that risk, the Group has entered into cross-currency interest rate swap (CCIRS) transactions and has implemented hedge accounting (see the description in Note 29.6).

#### Commodity risk

The Group is exposed to risks tied to variation in prices of commodities used in the operating activity.

The most significant risk is the risk of changing purchase prices of electricity and certificates of origin on the wholesale market in long-, medium- and short-term contracts executed by Energa-Obrót SA on the Polish market.

Accordingly, it is important to refer the actual risk exposure to the assumed financial result for the year. Market risk exposure arises on all open positions (transactions) and it is mitigated using the Value at Risk (VaR) risk management model. The model mitigates market risk related, among others, to volatility of electricity prices, prices of CO<sub>2</sub> certificates or property rights. The model assumes that risk is incurred within the acceptable boundaries only for an open position of the product portfolio, by imposing risk exposure limits on each portfolio and for Energa-Obrót SA as a whole. Value at Risk (VaR) is regularly monitored and reported to make sure that it does not exceed the set levels and takes into account, among others, the open position volume (difference between volume sold and bought), volatility of product prices and correlation between individual products in the portfolio.

Additionally, to mitigate the risk associated with the volatility of electricity purchase prices on the wholesale end user contracting market, the following hedging measures are taken:

- the open position on the electricity portfolio is minimized; this involves coordination and optimization of the purchasing and selling process to ensure that the difference between volumes purchased and sold does not exceed the pre-defined levels;
- contracts are concluded in specific proportions and for different products;
- volume limits are set for the open position for participation on selected markets, minimizing risk related to large fluctuations of electricity prices on the market.

#### 30.2. Credit risk

In the Group, credit risk is defined as the probability that a counterparty defaults on its financial obligations. The credit risk is minimized through actions aimed at the value-based assessment of risk, monitoring of the financial condition of counterparties and securing the trade credit using any available tools such as bank guarantees, sureties, assignments, mortgages, safety deposits, prepayments, submission to enforcement in a notarized deed, promissory notes, registered pledges etc.

The credit risk is mitigated for counterparties with the largest turnovers or for the portfolio of wholesale accounts and the portfolio of strategic accounts. The following are of special importance in this respect: credit rating, trade limits, special provisions in agreements with counterparties and obtaining security from clients with a low credit rating.

In the Group, appropriate procedures have been established to minimize the risk of counterparties' insolvency. For the wholesale energy market, respective procedures determine the limits of possible sales of electricity without requiring securities. For any transactions in excess of the above limit, securities such as a bank guarantee are required.

For sales to strategic and business clients, the procedures impose the duty to rate clients' creditworthiness. For clients with a low credit rating, the sales may begin on the condition that security acceptable to the seller is obtained.

Moreover, thanks to the ongoing monitoring of the status of receivables, the Group's exposure to the risk of uncollectable receivables is minor.

Uncollectable receivables are understood as the value of anticipated loss due to untimely or incomplete repayment of debt by the customers, estimated on a monthly basis, for all receivables and throughout the life of a receivable. The Group defines uncollectable receivables in relation to actual events at the time of default on an obligation by a contractor after the lapse of the first day from the receivable's maturity date.

Below are presented disclosures relating to credit risk broken down by rating category and other categories relating to trade receivables and contract assets:

	As at 31 December 2019			As at 31 December 2018		
	Weighted average credit losses	Value gross	Impairmen t loss	Weighted average credit losses	Value gross	Impairmen t loss
Highest client rating	0.0%	684	-	0.0%	736	-
Medium client rating	0.2%	139	-	0.0%	114	-
Lowest client rating	0.7%	60	(1)	8.0%	39	(3)

	As at 31 December 2019			As at 31 December 2018		
	Weighted average credit losses	Value gross	Impairmen t loss	Weighted average credit losses	Value gross	Impairmen t loss
Clients with no rating in sales business line	1.7%	737	(13)	1.9%	789	(15)
Disputed receivables	82.2%	320	(263)	77.8%	320	(249)
Other receivables	19.7%	173	(34)	43.0%	107	(46)

With respect to the Group's other financial assets, such as cash and cash equivalents and certain derivatives, the Group's credit risk arises when the other party to a contract is unable to make a payment and the maximum exposure to this risk equals the carrying amount of such instruments. At the same time, we deem those to be low credit risk assets.

In the financial area, credit risk is mitigated through ongoing monitoring of the ratings of financial institutions and by limiting the risk of concentrating cash surpluses in a single financial institution.

No significant concentrations of credit risk exist within the Group.

The carrying amount of financial instruments, by category and class, is presented in Note 29.1.

### 30.3. Liquidity risk

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

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

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

Detailed information on contracted external financing obtained by the Group is set out in Note 29.5.

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

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>31 December 2019</b>					
Interest-bearing loans and borrowings	114	337	1,681	528	<b>2,660</b>
Bonds	2,226	41	788	1,964	<b>5,019</b>
Trade liabilities	937	4	-	-	<b>941</b>
Other financial liabilities	201	34	123	596	<b>954</b>
<b>TOTAL</b>	<b>3,478</b>	<b>416</b>	<b>2,592</b>	<b>3,088</b>	<b>9,574</b>
<b>31 December 2018</b>					
Interest-bearing loans and borrowings	62	207	1,777	883	<b>2,929</b>
Bonds	97	44	3,033	2,036	<b>5,210</b>
Trade liabilities	742	4	-	-	<b>746</b>
Other financial liabilities	293	7	21	40	<b>361</b>
<b>TOTAL</b>	<b>1,194</b>	<b>262</b>	<b>4,831</b>	<b>2,959</b>	<b>9,246</b>

The Group's financial assets are comprised mainly of cash and cash equivalents and trade receivables. The structure of cash and cash equivalents is presented in Note 20. Aging analysis of trade receivables is presented in Note 29.4.1.

## NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

### 31. Statement of cash flows

#### Loss on investing activities

	Year ended 31 December 2019	Year ended 31 December 2018
Result on disposal of property, plant and equipment and intangible assets	-	37
Impairment losses on property, plant and equipment and intangible assets	497	(264)
Impairment losses on Goodwill, shares and loans	389	-
Revaluation of financial assets	-	14
Other	7	9
<b>TOTAL</b>	<b>893</b>	<b>(204)</b>

#### Change in receivables and contract assets

	Year ended 31 December 2019	Year ended 31 December 2018
Change in trade receivables	(60)	414
Change in contract assets	50	(363)
Change in VAT receivables	(83)	29
Change in advances for deliveries	(83)	(11)
Change in other financial receivables	(154)	-
Change in other non-financial receivables	(54)	-
Adjustment for impact of IFRS 9 implementation	-	(10)
Other	7	(12)
<b>TOTAL</b>	<b>(377)</b>	<b>47</b>

## Change in liabilities excluding loans and borrowings

	Year ended 31 December 2019	Year ended 31 December 2018
Change in trade liabilities	185	(175)
Change in contract liabilities	10	129
Change in other financial liabilities	(65)	-
Change in other current liabilities	(36)	(54)
Adjustment by the change in investment commitments	96	-
Adjustment by the change in liabilities on measurement of hedging derivatives	(32)	38
Adjustment by the change in liabilities under grants received and reimbursed	-	11
Other	12	(15)
<b>TOTAL</b>	<b>170</b>	<b>(66)</b>

## Change in provisions

	Year ended 31 December 2019	Year ended 31 December 2018
Change in non-current provisions	144	92
Change in current provisions	(358)	371
Adjustment by the change in actuarial provisions recognized in other comprehensive income	(84)	(17)
Other	(14)	(5)
<b>TOTAL</b>	<b>(312)</b>	<b>441</b>

## Change in prepayments and accruals

	Year ended 31 December 2019	Year ended 31 December 2018
Change in prepayments and accruals	6	(52)
Tangible assets received free of charge	(13)	(10)
Subsidies received	(16)	(10)
<b>TOTAL</b>	<b>(23)</b>	<b>(72)</b>

## OTHER NOTES

## 32. Capital expenditure commitments

At the end of the current reporting period, the Group's commitments to incur expenditure on the purchase of property, plant and equipment and non-current intangible assets, which were not yet recognized in the statement of financial position, were about PLN 3,576 m, of which:

- the projects included in the development plan of Energa-Operator SA to satisfy the present and future demand for electricity in the years 2017-2022 (agreed upon with the President of the Energy Regulatory Office) – approx. PLN 3,274 m;
- the projects carried out at Ostrołęka B Power Plant (including, but not limited to, upgrade of power units, construction of a flue gas denitrification and desulphurization installation) – approx. PLN 45 m;
- the Przykona Wind Farm project – approx. PLN 24 m;
- combined cycle power plants in Grudziądz and Gdańsk – approx. PLN 41 m;
- biomass-fired unit's steam boiler optimization project implemented in Energa Kogeneracja Sp. z o.o. – approx. PLN 12 m;
- investment liabilities and liabilities due to loans to Elektrownia Ostrołęka Sp. z o.o. – approx. PLN 180 m.

## 33. Information on related entities

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

## 33.1. Transactions involving parties related to the State Treasury

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

Transactions with parties related to the State Treasury were entered into in the ordinary course of business 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.

### 33.2. Transactions with joint ventures and associates

Energa SA Group companies' sales to associates and joint ventures in the period ended 31 December 2019 and in the corresponding period of the previous year were reported at an immaterial level. In 2019, purchases from associates and joint ventures amounted to PLN 231 m (in the corresponding period of the previous year, the level of purchases from associates and joint ventures was PLN 249 m). As at 31 December 2019, receivables were reported at PLN 178 m and included specifically receivables under the loans granted to Elektrownia Ostrołęka (Ostrołęka Power Plant) joint venture. Details of the aforesaid transactions have been provided in Note 2.2.3. Receivables in the comparable period were immaterial. The liabilities as at 31 December 2019 amounted to PLN 22 m, compared to PLN 34 m as at 31 December 2018. All above transactions pertaining to the year 2019, excluding the aforesaid borrowings, were concluded primarily with Polska Grupa Górnicza Sp. z o.o. and involved mostly coal purchases.

### 33.3. Transactions with the Parent Company's Management Board members

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

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

	Year ended 31 December 2019	Year ended 31 December 2018
Management Board of the Parent Company	5	4
Supervisory Board of the Parent Company	<1	<1
Management Boards of subsidiaries	26	30
Supervisory Boards of subsidiaries	4	3
Other key management	23	22
<b>TOTAL</b>	<b>58</b>	<b>59</b>

### 34. Liabilities under financial lease agreements

The future minimum lease payments for the agreements and the present value of the minimum net lease payments are as follows:

	Lease payments payable as at			
	31 December 2019		31 December 2018	
	Minimum lease payments	Current value of payments	Minimum lease payments	Current value of payments
Up to 1 year	71	39	3	2
Within 1 to 5 years	225	113	17	16
Over 5 years	1,061	524	-	-
<b>Total minimum lease payments</b>	<b>1,357</b>	<b>676</b>	<b>20</b>	<b>18</b>
Less financial costs	681	-	1	-
<b>Present value of minimum lease payments</b>	<b>676</b>	<b>676</b>	<b>19</b>	<b>18</b>

Due to the amount of liabilities disclosed in accordance with the new IFRS 16 "Leasing" and the application of the simplified retrospective method by the Group, it is not possible to compare the data at the end of 2019 and 2018.

### 35. Capital management

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

The Group monitors its basic debt ratio, that is net debt to EBITDA, estimated on the consolidated basis. As at the balance sheet date, this ratio was 2.8.

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

	As at 31 December 2019	As at 31 December 2018
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Interest-bearing loans and borrowings	2,440	2,573
Bonds and debt securities issued	4,545	4,592
Cash and cash equivalents, excluding restricted cash	(1,370)	(2,656)
<b>Net debt</b>	<b>5,615</b>	<b>4,509</b>
<b>EBITDA</b>	<b>2,039</b>	<b>1,877</b>
<b>Net debt / EBITDA</b>	<b>2.75</b>	<b>2.40</b>

### 36. Contingent assets and liabilities

#### 36.1. Contingent liabilities

As at 31 December 2019, the Group identifies contingent liabilities of PLN 325 m (PLN 449 m as at 31 December 2018), including mainly the contingent liabilities relating to legal claims filed against Energa Group companies likely to be effectively dismissed by the companies or for which no cash outflow can be reliably estimated and no provision has been recognized for those claims.

Legal claims relating to the power infrastructure of Energa-Operator SA located on private land account for the largest item of contingent liabilities. The Group recognizes provisions for filed legal claims. If there is uncertainty as to the validity of the amount of the claim or legal title to land, the Group recognizes contingent liabilities. As at 31 December 2019, the estimated value of those claims recognized as contingent liabilities is PLN 250 m, compared with PLN 210 m on 31 December 2018. Considering the available legal opinions, the estimated amounts represent a risk of liability of less than 50%.

Another issue is also the agreement to co-finance the project *Construction of a Biomass-Fired Power Unit by Energa Kogeneracja Sp. z o.o. in Elbląg*, which sets out the performance ratios relating to the volume of electricity and heat produced in the years 2014 to 2018. In order to secure performance of the obligations under the co-financing agreement, Energa Kogeneracja Sp. z o.o. issued a blank promissory note for up to PLN 40 m, including interest.

#### 36.2. Contingent assets

At the end of the reporting period and as at 31 December 2018, there were no material contingent assets.

### 37. Employment structure

The average headcount in the Group was as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Blue collar employees	3,522	3,309
Non-blue collar employees	6,361	6,147
<b>TOTAL</b>	<b>9,883</b>	<b>9,456</b>

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

#### Fulfilment of the redemption duty arising from the Act on Renewable Energy Sources of 20 February 2015

Effective from 20 July 2017, an amendment was made to the Act on Renewable Energy Sources of 20 February 2015 (hereinafter the RES Act) designed to link the amount of the unit substitute fee (Article 56 of the RES Act) to the market prices of property rights arising from the certificates of origin.

According to the statement of reasons for the above amendment, the value of the unit substitute fee (hereinafter "USF") should be determined by taking into consideration the annual weighted average price of property rights (Article 47(3)(2) of the RES Act) for the calendar year to which the redemption duty applies and this value is fixed for the duty year regardless of whether or not that duty will be enforced in the given year or by 30 June of the year following the duty year. After the end of the year of sale of electricity to consumers to which the redemption duty applies, the USF applicable to the given year and the (annual and monthly) market prices are compared in accordance with Article 47(2) of the RES Act. The key interpretation doubt arising from this Act is whether it is permitted to use the unit substitute fee for 2018 after meeting the conditions set out in the RES Act.

Energa-Obrót SA has obtained three independent legal opinions confirming the existence of a number of material arguments pointing to the possibility of enforcing the redemption duty for the year 2018 through the payment of the substitute fee as the market preconditions for such measures have been satisfied in the period from 1 January 2019 to 30 June 2019.

Consequently, on 31 December 2018, the Management Board of Energa-Obrót SA decided, by way of Resolution 247/IV/2018, to enforce the redemption duty arising from the RES Act for the year 2018 with respect to the property rights derived from the green certificates of origin (Article 47(2) of the RES Act) through payment of the substitute fee. Energa-Obrót SA paid the substitution fee on 31 January 2019 and made a complementary payment in June 2019 in connection with recognition of the ultimate volume for the redemption duty for the year 2018. Thus, Energa-Obrót SA satisfied in full the redemption duty for the year 2018 with no possibility to make further adjustments for that period in compliance with Articles 67 and 68 of the RES Act and upheld its position on the prospects for the exercise of the redemption duty through the payment of the substitute fee.

Communication No. 12/2019 of the President of the Energy Regulatory Office (hereinafter "ERO President") concerning the manner of enforcement of the duty referred to in Article 52(1) of the RES Act in the year 2019 was published on 1 February

2019. According to the aforesaid Communication, the companies covered by the provision are obliged to enforce the redemption duty exclusively by obtaining green certificates of origin and presenting them for redemption.

Adoption of the interpretation consistent with the communication of the President of the Energy Regulatory Office and the position of the Ministry of Finance would result in 2018 in:

- an increase in the cost of sales by PLN 118 m in connection with the increased cost of redemption of green certificates of origin; and
- an increase in the sales revenues by PLN 15 m in connection with the acquisition of the right to deduct excise tax,

which would be tantamount to a decrease in profit before tax by PLN 103 m.

In Energa-Obrót SA's opinion, the arguments presented by the President of the Energy Regulatory Office are not reflected in the legal acts in terms of purposefulness of their underlying assumptions in the impact on the formation of the energy market and the measures taken by the President of the Energy Regulatory Office himself in setting the costs at the level justified by the electricity tariff. In the communication, the President of the Energy Regulatory Office presents a different view, while relying on the uniform legal basis, as regards the possibility for the enforcement of the redemption duty through the payment of the substitute fee with respect to the property rights arising from blue and green certificates. The key argument in favor of recognizing the Company's position as correct is the interpretation of Article 59(1) of the RES Act in connection with the Regulation of the Minister of Energy concerning determination of the volume of the quantitative share of the sum of electricity derived from redeemed certificates of origin or payment of the substitute fee in a given year. Both legal acts use the term "given year" in relation to the year for which the duty is to be enforced. Furthermore, Article 67 of the RES Act allows for the enforcement of the said duty for a given year by the 30 June of the calendar year following the year to which the duty applies. The same interpretation of legal regulations has been obtained by Energa-Obrót SA based on the aforesaid opinions.

Given the conflicting views, a potential risk exists that the President of the Energy Regulatory Office may institute administrative proceedings. As provided for in the Energy Act, the maximum amount of the fine imposed by the President of the Energy Regulatory Office may not exceed 15% of the revenue resulting from the licensed activity conducted by Energa-Obrót SA in the tax year preceding the year in which the fine was imposed. The fine referred to in the previous sentence is the maximum administrative fine, however, it should be emphasized, that in the history of Energa-Obrót SA, the President of the Energy Regulatory Office has never imposed financial penalties in the maximum amount permitted by law. At present, there are no known instances (or court decisions) of the President of the Energy Regulatory Office imposing an administrative fine for failing to enforce the obligation to redeem property rights under Article 47(2) of the RES Act.

It should be stressed that no administrative proceedings have been instituted by the ERO President in the said case as of the date of signing of these statements. At the same time, Energa-Obrót SA is unable to reliably assess probability of materialization of the risk of institution of administrative proceedings and imposition of a fine by the ERO President, and the amount of such potential fine.

#### Act Amending the Excise Tax Act and Certain Other Acts

The Act Amending the Excise Tax Act and Certain Other Acts came into force on 1 January 2019 (hereinafter the "Act"). The Act limited prices for end customers in 2019 to a level not higher than the price on 30 June 2018. At the same time, it reduced the excise tax on electricity from PLN 20 to PLN 5 per MWh. Moreover, the Act envisaged that Zarządca Rozliczeń S.A. would cover the difference between the price indicated in the electricity tariff/price list and the weighted average price of electricity on the wholesale market. The relevant implementing legislation was to detail the payment formula.

The presented amendments were intended to mitigate the effects of a rapid rise in electricity production costs, mainly as a result of the increase in CO<sub>2</sub> emission allowance prices. The rise in prices on the wholesale market translated into a rise in sales prices to end customers in subsequent periods.

As guided by the Act, the Group brought its sales prices for customers in line with the Act's requirements, including for tariff customers from the G group.

Due to vagueness of the provisions of the Act and the absence of implementing legislation, the Group recognized a provision for onerous contracts only in relation to the G tariff in the amount of PLN 136.3 m in December 2018. The Group believes that it was possible to reliably determine the reference price only for this type of contracts. The provision was estimated based on the final price for the G group tariff customer in 2019 and the unit direct cost including the planned purchase price of electricity, property rights and excise tax. The calculations assumed that the volume of sales in 2019 would amount to 3.8 TWh.

On 5 March 2019, the Act Amending the Act on Amending the Excise Tax Act and Certain Other Acts of 21 February 2019 (hereinafter referred to as the "Amendment to the Act", "Amendment") was published in the Journal of Laws. The Amendment envisaged that the prices used by trading companies (electricity sellers) for end customers were to correspond in 2019 to the tariff of 31 December 2018 approved by the ERO President or, if the price was determined otherwise, that they could not be higher than the price applicable to the given end customer on 30 June 2018. The Amendment to the Act also clarified the compensation system.

The second amendment to the Act on the Excise Tax Act and Certain Other Acts (hereinafter the "Second Amendment") was passed on 13 June 2019 and subsequently published in the Journal of Laws on 28 June 2019. The second amendment assumes introduction of two separate systems for regulating the issue of price setting and assistance in the form of compensations for the companies trading in electricity and buyers of electricity in 2019.

Under the amended Act, regulation of the Minister of Energy on the method of calculation of the price difference and financial compensation and on the method of determining the benchmark prices was published on 23 July 2019, defining, among other things, the method of setting prices and rates of electricity charges for end customers in force on 30 June 2018, to the level of which the Group was obliged to reduce prices in 2019.

According to the Regulation, the Group reduced the price of electricity for selected groups of end customers and filed two motions with Zarządca Rozliczeń SA one after another:

- for a refund of the price difference by reason of reduction of prices in settlements with the customers during the period from 1 January 2019 to 30 June 2019 – the Group received a funds transfer totaling PLN 526.1 m; and
- for disbursement of a financial compensation by reason of reduction of prices in settlements with the customers during the period from 1 July 2019 to 31 October 2019 – the Group received a funds transfer totaling PLN 111.6 m.

As at 31 December 2019, the Group posted the aggregate amount of PLN 692.8 m in the Revenue from the Price Difference Refund Fund.

On 31 January 2020, the Group filed a motion with Zarządca Rozliczeń SA for disbursement of a financial compensation due to the reduction of electricity prices in settlements with the customers during the period from 1 November 2019 to 31 December 2019. On 28 February 2020, the Group received due compensation in the amount of PLN 51.9 m.

By the end of September 2020, the Group is also under the obligation to make adjustments to the compensations disbursed by Zarządca Rozliczeń SA, if any.

It should be mentioned that, in 2019, the Group released the provision for the contracts giving rise to burdens relating to the G tariff recognized in December 2018.

Deferred tax liabilities in Sweden

In May 2020 Swedish Supreme Administrative Court („NSA”) issued a ruling in three cases resulting from an appeal lodged by companies conducting financial activity on the Swedish market against a decision of Tax Interpretation Council („Council”) regarding the tax treatment of repayment of receivables due to intercompany loans granted by these entities, whose accounting currency is the euro. NSA decided to reject applications for tax rulings. This means that, że NSA did not assess the questions asked in cases and the previous interpretations of the Council were repealed.

In connection with the above decision of the NSA, due to the fact that the subsidiary Energa Finance AB (publ) has intra-group receivables in euro and its accounting currency is euro, the Group decided, based on IFRIC 23 Uncertainty as to the tax treatment of income on recognition in provision for deferred tax in the amount of PLN 102 m for future potential tax liabilities of Energa Finance AB (publ) that may arise in connection with exchange rate differences arising as a result of repayment of intragroup loans granted by the company.

### 39. Significant subsequent events

#### Transaction of purchase of a majority block of shares of Energa SA by PKN ORLEN

A call to subscribe to the sale of Energa SA's shares was announced by PKN ORLEN SA on 5 December 2019. The price of the shares in the call was set at PLN 7 per share and was subsequently raised to PLN 8.35 per share on 15 April 2020.

On 26 February 2020, PKN ORLEN filed a motion with the European Commission constituting a notice of concentration in connection with the planned assumption of control over the Company and on 31 March 2020 obtained the European Commission's decision approving the concentration. Thus, the call's legal condition was fulfilled.

On 18 April 2020, PKN ORLEN signed an agreement with the State Treasury in connection with the planned assumption of control over the Company.

The process of settlement of the transaction of purchase of the Company's shares by PKN ORLEN was completed on 30 April 2020. As a result of the call, PKN ORLEN purchased 331,313,082 shares of the Company that account for 80.01% of its share capital and 85.20% of the overall number of votes at the Company's general meeting.

Thus, PKN ORLEN took control of the Company.

Following the call, on 10 December 2019 Fitch Ratings announced that Energa SA had been placed on its watch list with a negative outlook. Fitch Ratings justifies placement of the Company on the said list, among other things, by the risk of the Company being closely connected to a capital group with a lower rating (BBB- compared to the Company's rating of BBB) following the takeover of the Company's shares by PKN ORLEN and the risk of breach of the change of control clauses in the Company's financing agreements.

Energa Group has signed financing agreements with a number of domestic and international banks. As at the date of announcement of the call, change of control and current rating downgrading clauses were part of the financing documentation.

The Company promptly took measures aimed at securing approvals of financing institutions for departures from currently applicable terms of financing with regard to potential breaches of change of control clauses or current rating downgrading clauses, with the intention to secure formal approvals for the events triggered by the enforcement of the call. As at the balance sheet date, none of the credit institutions approached by the Company responded negatively to the Company's motions. As at the date of preparation of these statements, the Company has secured a formal approval or signed annexes to the financing agreements that foresee departures from the terms of financing defined in the loan agreement with regard to change of control and current rating downgrading clauses with the majority of financing institutions, which is: . with European Bank for Reconstruction and Development, Nordic Investment Bank and five financial institutions granting a syndicated loan to the Company.

#### Global coronavirus pandemic

On 11 March 2020, the World Health Organization declared the SARS-CoV-2 coronavirus pandemic. On 14 March 2020, the state of epidemiological threat was declared in the territory of the Republic of Poland. On 20 March 2020, the state of epidemic was announced in the territory of the entire country.

The SARS-CoV-2 coronavirus pandemic causing COVID-19 illness is a phenomenon that will undoubtedly have a huge impact on the global economy. It can be assumed that the pandemic will significantly influence the economic situation of Poland and erode domestic GDP growth in 2020.

It should be kept in mind that the dynamics of the events associated with the coronavirus epidemic contributes to the forecasting of economic consequences being burdened with a high risk of adopting incorrect assumptions. Given the dynamics of developments in economy and lack of adequate data volumes, no proper estimation of financial effects for the Group can be prepared.

The key thing is how quickly the economy will resume its high activity once the lockdown period is over.

At present, the pandemic is forcing the states' governments to take measures aimed at mitigating the coronavirus' adverse impact on the economy. Owing to the rapid and firm preventive measures implemented by the Polish government, one can hope that the period of lower economic activity will not last long. Nonetheless, it is the global economic situation and primarily the developments taking place in Poland's main trade partners that will undoubtedly influence the business climate in the country.

In the current market conditions, the Group identifies the following potential market risks:

- declining demand for electricity, especially from end customers from A, B and C tariff groups;
- Decreasing, as a result of lower domestic demand, production of electricity from conventional sources, including specifically Ostrołęka B power plant operating in the forced mode imposed by the Transmission System Operator;
- lower proceeds from current receivables for electricity due to the extraordinary measures taken in Poland, which may involve deterioration in liquidity of trading companies selling electricity to end users;
- deteriorating payment discipline of customers due to their deteriorating financial situation;
- eroding work performance, possibly arising from sick leaves, compulsory quarantine and implemented work reorganization designed to prevent the spread of the virus, also through the use of remote work;
- Increased costs in the short term due to the need to purchase personal protection equipment for personnel;
- The need for Energa-Obrót SA to submit new collaterals securing its purchase transactions to the Commodity Clearing House (Izba Rozliczeniowa Giełd Towarowych SA or IRGiT) within the framework of topping up security deposits as a direct result of the currently observed decline in electricity prices. It should be stressed, however, that a broader range of tools enabling submission of non-cash collaterals to IRGiT has been implemented currently within the scope of introduction of shielding measures by the Polish Government in connection with the pandemic meant, among other things, to hedge against liquidity risk in the companies trading on the Polish Power Exchange.

Meanwhile, the Group has not stated the epidemic's direct impact on its 2019 results. The observed impact of a pandemic in the period to March is immaterial besides Energa Elektrownie Ostrołęka Sp. z o.o., where the risk of a decrease in production volume was identified.

Relying on scenario-based analyses, the Group does not identify a risk of default on its obligations or terms of financing agreements in the area of financing activity. The Group also takes measures to secure liquidity in connection with the changes in its market environment and the expiry of credit commitments in 2020. The related intensive discussions are being held with the financial institutions and the risk of their failure has not been identified.

In the face of the aforesaid risks, the Group monitors closely on an ongoing basis the developments in multiple areas of its operations and undertake actions to minimize negative impact of the coronavirus outbreak on its financial situation.. Different scenarios are being analyzed continuously and adequate remediation measures and activities mitigating the consequences of materialization of individual risks are being developed.

The Group has the capabilities to effectively counteract possible occurrence of unfavorable phenomena within the short, medium and long time horizon. Risks associated with possible revenue erosion and timely collection of revenue with the concurrent need for servicing credit liabilities shall be mitigated through an appropriate curbing of costs and investment outlays.

Consequently, there is no evidence of any threat to the Company continuing as a going concern.

#### Guarantee limits

On 16 March 2020, Energa SA signed with Energa Obrót SA and Bank Gospodarstwa Krajowego Annex No. 3 to the Agreement on Granting of Guarantees within Credit Facility No. 4619-01092 of 9 April 2019 whereby Bank Gospodarstwa Krajowego raised the awarded guarantee limit up to PLN 700 m, making it available by 9 April 2021.

#### Changes in the composition of the Group

ECARB Sp. z o.o. in organization with its registered office in Gdańsk was established on 27 January 2020. The motion to incorporate the company was submitted to the competent court on 4 March 2020. Meanwhile, on 11 May 2020, Energa SA signed an agreement for the sale of 1,275 shares in the company with Energa OZE SA. As a result of that transaction, Energa SA holds 64.6% of shares and Energa OZE SA holds 35.4% of shares in the share capital of ECARB Sp. z o.o.

Signed by Energa SA Management Board Members:

Jacek Goliński .....

President of the Management Board

Adrianna Sikorska .....

Vice-President of the Management Board for Communication Matters

Marek Kasicki .....

Vice-President of the Management Board for Financial Matters

Dominik Wadecki .....

Vice-President of the Management Board for Operational Matters

Iwona Waksmundzka-Olejniczak .....

Vice-President of the Management Board for Corporate Matters

Signed by the person responsible for the preparation of the financial statements:

Magdalena Kamińska .....

Vice- Director of the Finance Department

Bartłomiej Bieńkowski .....

Head of the Financial Reporting and Tax Sub-Department

Gdańsk, 27 March 2020