ENERGA SA

Condensed interim financial statements prepared in accordance with IAS 34 for the six-month period ended 30 June 2020

CONTENTS

and for the six-month period ended 30 June 2020 (in PLN m)

CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS

	3-month period ended 30 June 2020 (unaudited)	6-month period ended 30 June 2020 (unaudited)	3-month period ended 30 June 2019 (unaudited)	6-month period ended 30 June 2019 (unaudited)
Sales revenues	**16**	**43**	**23**	**46**
Cost of sales	(11)	(31)	(14)	(31)
Gross profit on sales	**5**	**12**	**9**	**15**
Other operating income	4	6	2	4
General and administrative expenses	(25)	(55)	(26)	(52)
Other operating expenses	(2)	(13)	(6)	(10)
Dividend income	-	-	644	644
Other financial income	65	129	58	116
Impairment losses for shares	(157)	(157)	-	-
Other financial costs	(446)	(542)	(104)	(184)
Profit/(loss) before tax	**(556)**	**(620)**	**577**	**533**
Income tax	(2)	10	7	19
Net profit/(loss) for the period	**(558)**	**(610)**	**584**	**552**
Earnings/(loss) per share (in PLN)				
Earnings/(loss) per share (basic and diluted)	(1.35)	(1.47)	1.41	1.33

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 30 June 2020 (unaudited)	6-month period ended 30 June 2020 (unaudited)	3-month period ended 30 June 2019 (unaudited)	6-month period ended 30 June 2019 (unaudited)
Net profit (loss) for the period		**(558)**	**(610)**	**584**	**552**
Items which may be reclassified to profit or loss in the future					
Cash flow hedges	**11.6**	1	(104)	17	(5)
Deferred income tax		-	20	(3)	1
Net other comprehensive income		**1**	**(84)**	**14**	**(4)**
Total comprehensive income		**(557)**	**(694)**	**598**	**548**

and for the six-month period ended 30 June 2020 (in PLN m)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2020 (unaudited)	As at 31 December 2019
ASSETS			
Non-current assets			
Intangible assets		21	14
Right-of-use assets		47	50
Shares in subsidiaries, associates and joint ventures	**8**	6,558	6,715
Bonds	**11.4.1**	1,718	1,719
Other long-term financial receivables		2,445	2,764
Deferred tax assets		64	39
Derivative financial instruments	**11.2**	2	3
Other non-current assets		158	160
		11,013	**11,464**
Current assets			
Cash pooling receivables		1,036	831
Trade receivables and other current financial receivables		543	310
Bonds	**11.4.1**	60	41
Current tax receivables		29	37
Cash and cash equivalents	**9**	205	822
Derivative financial instruments	**11.2**	5	26
Other current assets		39	42
		1,917	**2,109**
TOTAL ASSETS		**12,930**	**13,573**

and for the six-month period ended 30 June 2020 (in PLN m)

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2020 (unaudited)	As at 31 December 2019
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Share capital		4,522	4,522
Reserve capital		1,018	1,018
Supplementary capital		1,661	2,035
Cash flow hedge reserve	**11.6**	(136)	(52)
Non-covered losses		(566)	(330)
Total equity		**6,499**	**7,193**
Non-current liabilities			
Loans and borrowings	**11.4.2**	2,774	2,398
Liabilities on account of the issue of debt securities	**11.4.2**	1,116	1,065
Long-term provisions		79	-
Deferred income and non-current grants		47	52
Derivative financial instruments	**11.6**	64	72
Long-term lease liabilities		39	41
Other non-current financial liabilities		1	-
		4,120	**3,628**
Current liabilities			
Cash pooling liabilities		113	192
Trade and other financial liabilities		17	19
Short-term lease liabilities		13	11
Derivative financial instruments	**11.6**	30	-
Current part of loans and borrowings	**11.4.2**	1,861	2,459
Liabilities on account of the issue of debt securities	**11.4.2**	32	10
Short-term provisions		190	-
Deferred income and grants		9	11
Accruals		14	11
Other current liabilities		32	39
		2,311	**2,752**
Total liabilities		**6,431**	**6,380**
TOTAL EQUITY AND LIABILITIES		**12,930**	**13,573**

and for the six-month period ended 30 June 2020 (in PLN m)

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings/non-covered losses	Total equity
As at 1 January 2020		**4,522**	**1,018**	**2,035**	**(52)**	**(330)**	**7,193**
Cash flow hedges	**11.6**	-	-	-	(84)	-	(84)
Net loss for the period		-	-	-	-	(610)	(610)
Total comprehensive income for the period		**-**	**-**	**-**	**(84)**	**(610)**	**(694)**
Retained earnings distribution		-	-	(374)	-	374	**-**
As at 30 June 2020 (unaudited)		**4,522**	**1,018**	**1,661**	**(136)**	**(566)**	**6,499**
As at 1 January 2019		**4,522**	**1,018**	**1,540**	**(34)**	**539**	**7,585**
Cash flow hedges	**11.6**	-	-	-	(4)	-	(4)
Net profit for the period		-	-	-	-	552	552
Total comprehensive income for the period		**-**	**-**	**-**	**(4)**	**552**	**548**
Retained earnings distribution		-	-	495	-	(495)	**-**
As at 30 June 2019 (unaudited)		**4,522**	**1,018**	**2,035**	**(38)**	**596**	**8,133**

Condensed interim financial statements as at and for the six-month period ended 30 June 2020 (in PLN m)

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	6-month period ended 30 June 2020 (unaudited)	6-month period ended 30 June 2019 (unaudited)
Cash flows from operating activities			
Profit/(loss) before tax		**(620)**	**533**
Adjustments for:			
Profit/(loss) on foreign exchange		105	(3)
Loss on investing activities		162	27
Amortization and depreciation		8	9
Net interest and dividends		195	(624)
Changes in working capital:			
Change in provisions		269	-
Change in receivables		(35)	51
Change in liabilities excluding loans, borrowings and bonds		79	84
Change in prepayments and accruals		(4)	(5)
		159	**72**
Income tax paid		**(88)**	**(117)**
Net cash from operating activities		**71**	**(45)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(11)	(36)
Proceeds from bond redemption by subsidiaries		2	322
Purchase of shares in subsidiaries, associates and joint ventures		-	(181)
Cash pooling expenditures		(284)	(1,741)
Dividends received		-	636
Interest received		84	169
Loan repayment		142	-
Loans granted		(180)	-
Capital contributions		(15)	(35)
Other		11	9
Net cash from investing activities		**(251)**	**(857)**
Cash flows from financing activities			
Repayment of loans and borrowings		(3,116)	(92)
Receipts from loans		2,782	-
Interest paid		(101)	(75)
Repayment of lease liabilities		(5)	(5)
Net cash from financing activities		**(440)**	**(172)**
Net decrease in cash and cash equivalents		**(620)**	**(1,074)**
Cash and cash equivalents at the beginning of the period		**826**	**2,065**
Cash and cash equivalents at the end of the period	**9**	**206**	**991**

ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY INFORMATION

1. General information

The condensed interim separate financial statements of Energa SA ("Company") cover the 6-month period ended 30 June 2020 and contain relevant comparative data.

Energa SA is entered in the Register of Entrepreneurs of the National Court Register held by the District Court Gdańsk-Północ in Gdańsk, 7th Commercial Division of the National Court Register under KRS number 0000271591. The Company's REGON statistical number is 220353024.
On 26 February 2020, Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN SA") 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 SA was completed on 30 April 2020. As a result of the call, PKN ORLEN SA 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.

As at 30 June 2020, the Company is controlled by PKN ORLEN SA. Since December 2013, the Company's shares have been publicly traded.

The core business of the Company is that of a holding company. The Company is the parent entity of the Energa SA Group (the "Group"). In order to achieve full understanding of the financial position and results of the Company as the parent entity in the Group, these financial statements should be read in conjunction with the condensed interim consolidated financial statements for the period ended 30 June 2020. These statements are available on the Company's website.

2. Composition of the Company's Management Board

Until these financial statements were prepared, the composition of the Management Board of Energa SA was as follows:

1) 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 - Vice-President of the Management Board for Operational Matters,
- Adrianna Sikorska - Vice-President of the Management Board for Communication Matters,

2) from 17 January 2020 to 9 February 2020:
- Jacek Goliński - President of the Management Board,
- Grzegorz Ksepko - Vice-President of the Management Board for Corporate Matters,
- Dominik Wadecki - Vice-President of the Management Board for Operational Matters,
- Adrianna Sikorska - Vice-President of the Management Board for Communication Matters,

3) from 10 February 2020 to 14 March 2020:
- Jacek Goliński - President of the Management Board;
- Marek Kasicki - Vice-President of the Management Board for Financial Matters,
- Grzegorz Ksepko - Vice-President of the Management Board for Corporate Matters,
- Dominik Wadecki - Vice-President of the Management Board for Operational Matters,
- Adrianna Sikorska - Vice-President of the Management Board for Communication Matters,

4) from 15 March 2020 to 6 May 2020:
- Jacek Goliński - President of the Management Board;
- Marek Kasicki - Vice-President of the Management Board for Financial Matters,
- Dominik Wadecki - Vice-President of the Management Board for Operational Matters,
- Adrianna Sikorska - Vice-President of the Management Board for Communication Matters,

5) from 7 May 2020 until the date of these financial statements:
- Jacek Goliński - President of the Management Board;
- Marek Kasicki - Vice-President of the Management Board for Financial Matters,
- Dominik Wadecki - Vice-President of the Management Board for Operational Matters,
- Adrianna Sikorska - Vice-President of the Management Board for Communication Matters,
- Iwona Waksmundzka-Olejniczak - Vice-President of the Management Board for Corporate Matters.

3. Approval of the financial statements

These financial statements and consolidated financial statements of the Group were approved for issue by the Company's Management Board on 29 July 2020.

4. Basis for preparation of the financial statements

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

These financial statements have been prepared based on the assumption that Energa SA would continue as a going concern in the foreseeable future. As at the date of these financial statements there is no evidence indicating that the continuation of the Company's business activities as a going concern may be at risk.

4.1 Statement of compliance

These financial statements have been prepared in accordance with the International Accounting Standard 34: Interim financial reporting as endorsed by the European Union ("EU"). They do not contain all the information required in the full financial statements according to the International Financial Reporting Standards ("IFRS"), however, selected explanatory notes are included to explain the events and transactions that are relevant to the understanding of the changes in the Company's financial position and performance since the most recent annual separate financial statements as at and for the year ended 31 December 2019.

4.2 Functional and presentation currency

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

5. Significant accounting policies

The Company's accounting policy is applied consistently. Its significant accounting policies are the same as those described in the 2019 financial statements, except for changes resulting from amendments in EU IFRSs.

6. New standards and interpretations

6.1 Standards and interpretations applied in 2020 for the first time

The following amendments to the existing standards published by the International Accounting Standards Board ("IASB") and endorsed in the EU came into force in 2020:

- Amendments to References to the Conceptual Framework in IFRS Standards (applicable to annual periods beginning on or after 1 January 2020);
- Amendment to IFRS 3 "Business Combinations", definition of business (applicable to business combinations where the date of takeover 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 IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – definition of material (applicable to annual periods beginning on or after 1 January 2020);
- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7 (applicable to annual periods beginning on or after 1 January 2020).

6.2 Standards and interpretations adopted by the IASB but not yet endorsed in the EU

IFRS as endorsed in the EU do not currently differ from the regulations adopted by the IASB, with the exception of the following standards, amendments to standards and interpretations, which as at the date of approving these financial statements have not yet been adopted for application:

- IFRS 17 "Insurance Contracts" (applicable to annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1 "Presentation of Financial Statements" – classification of liabilities as short-term or long-term (applicable to annual periods beginning on or after 1 January 2023).
- Amendments to: IFRS 3 "Business Combinations", IAS 16 "Property, Plant and Equipment", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", under the annual amendment procedure, 2018-2020 cycle (applicable to annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 16 "Leases" – Covid-19-Related Lease Concessions (applicable to annual periods beginning on or after 1 June 2020);
- Amendments to IFRS 4 "Insurance Contracts" – deferment of IFRS 9 "Financial Instruments" (applicable to annual periods beginning on or after 1 January 2021).

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

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

Due to the inherent nature of the holding business, the Company's financial revenue fluctuates heavily during the year; it depends on the dates of resolutions to pay out dividends by the companies in which the Company holds shares, unless such resolutions indicate other record dates.

and for the six-month period ended 30 June 2020 (in PLN m)

EXPLANATORY NOTES TO CONDENSED INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION

8. Shares in subsidiaries, associates and joint ventures

Name and legal form	Registered office	Value of shares in ledgers of Energa SA	Share of Energa SA in the share capital, in all votes and in management (%)
Subsidiaries			
Energa-Operator SA	Gdańsk	4,471	100.00
Energa OZE SA	Gdańsk	989	100.00
Energa-Obrót SA	Gdańsk	331	100.00
Energa Kogeneracja Sp. z o.o.	Elbląg	234	64.59
ENERGA Oświetlenie Sp. z o.o.	Sopot	234	100.00
Energa Invest Sp. z o.o.	Gdańsk	68	100.00
CCGT Grudziądz Sp. z o.o.	Grudziądz	41	100.00
Energa Informatyka i Technologie Sp. z o.o.	Gdańsk	37	100.00
CCGT Gdańsk Sp. z o.o.	Gdańsk	22	100.00
Energa Finance AB (publ)	Stockholm	19	100.00
Energa Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	6	100.00
Enspirion Sp. z o.o.	Gdańsk	5	100.00
Energa Ochrona Sp. z o.o.	Gdańsk	1	100.00
Energa Logistyka Sp. z o.o.	Płock	-	100.00
Other companies	-	1	-
Associates			
Polimex-Mostostal SA	Warsaw	82	16.48
ElectroMobility Poland SA	Warsaw	17	25.00
Joint ventures			
Elektrownia Ostrołęka Sp. z o.o.	Ostrołęka	-	50.00
Total value of shares		**6,558**	

The value of shares presented in the table above represents the value at cost less impairment losses.

Impairment tests for shares

In the first half of 2020, shares held by the Company were assessed for any internal and external impairment triggers. Within the scope of such process, the value of net assets of a given company is checked against the value of the shares held therein by Energa SA. Where the value of net assets is lower than the value of the shares held, which is an indication of impairment, a discounted cash flow (DCF) valuation is carried out. Since certain indications existed that could result in the impairment of shares of some Group companies held by Energa SA, impairment tests were conducted.

The impairment tests for shares were performed as at 31 May 2020 using the income method, determining the value in use based on the discounted value of estimated cash flows from operating activities, and making a range of assumptions, including the following:

- price forecasts have been adopted for electricity, coal, CO_2 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; the forecast was prepared with the timeframe until 2065;
- costless CO_2 emission allowances for 2015-2021 as specified in the Regulation of the Council of Ministers of 31 March 2014 (Item 439) and 8 April 2014 (Item 472) have been assumed;
- capital expenditures have been assumed at the levels allowing for maintenance of the production capacity of the existing non-current assets after replacement investments, including capital expenditures to adjust industrial emission levels to the requirements of Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions and the Commission Implementing Decision (EU) 2017/1442 establishing best available techniques (BAT) conclusions, which was published on 17 August 2017;
- support has been maintained 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);
- revenue from the capacity market has been assumed 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;

- the length of forecasts for the individual companies has been assumed in such a way to ensure that the cash flow used to calculate residual value was as similar as possible to the cash flows expected in the coming years;
- 2.0% growth rate was used to extrapolate a cash flow forecast for the purpose of calculation of residual value; this is not higher than the average long-term inflation rates in Poland.

The discount rates set on the basis of the after-tax weighted-average cost of capital (WACC), used for the calculation, fell within the range from 5.25% to 8.74%. The discount rates are inclusive of the 1% bonus for the COVID-19- related risk. Conducting of the impairment tests as at 30 June 2020 would not indicate significant changes.

Based on the results of testing, the need was identified for recognizing an impairment loss on the value of shares held in Energa Kogeneracja Sp. z o.o. and Energa Finance AB (publ).

Energa Kogeneracja Sp. z o.o.

The recoverable amount was calculated on the basis of financial projections for the period of June 2020 - December 2031 and the residual value. The standard 5-year projection period was extended because of the fact that proceeds from the green certificates obtained by the BB20 installation distort cash flows in that period. Extension of the projection period makes it possible to determine residual value based on representative cash flows and, therefore, conduct a more reliable valuation of the company's shares. Recognition of the full impairment loss on the shares held by the company in Polska Grupa Górnicza SA materially impacted the valuation of the shares.

Based on the results of testing conducted in the first half of 2020, it was found that an impairment loss of PLN 79 m on the company's shares and contributions needed to be recognized. The recoverable amount was set at PLN 234 m.

Energa Finance AB (publ)

The calculations to determine the value in use were carried out based on the forecast operating flows for the full duration of the company's assumed existence, i.e. January 2020 – March 2027, and measurement at fair value of the Eurobonds issued by the company and the loan granted to Energa SA. Recognition of outflows on account of payment of tax on foreign exchange differences materially impacted the value of measured shares.

Based on the results of testing conducted in the first half of 2020, it was found that an impairment loss of PLN 84 m on the company's shares needed to be recognized. The recoverable amount was set at PLN 19 m.

Sensitivity analysis

The estimated impact of the change of the WACC level on the overall valuation of the above-mentioned shares conducted on the basis of tests is presented below. An adverse change in WACC at the level specified below necessitates recognition of impairment losses increased by further PLN 25 m.

The sensitivity analysis takes into account the change of the factors over the entire forecast period

. Parameter	Value and direction of change	Impact on overall appraisal value of tested CGUs [PLN m]		Change in impairment loss/reversal amount [PLN m]
		Increase in value	Decrease in value	
Discount rates	[+ 0.5 p.p.]		(1,210.0)	(25.1)
	[- 0.5 p.p.]	1,601.4		32.6

The estimated impact of the change of the price drivers on the overall valuation of the above-mentioned shares conducted on the basis of impairment tests is presented below.

Parameter	Value and direction of change	Impact on overall appraisal value of tested CGUs [PLN m]		Change in impairment loss/reversal amount [PLN m]
		Increase in value	Decrease in value	
Electricity prices	[+ 1%]	100.3		20.1
	[- 1%]		(99.9)	(21.7)
Prices of green certificates of origin	[+ 1%]	11.0		1.4
	[- 1%]		(11.0)	(1.4)
Fuel prices	[+ 1%]		(36.9)	(36.9)
	[- 1%]	36.9		(36.9)
EUA prices	[+ 1%]		(5.0)	(5.0)
	[- 1%]	4.9		4.9

Condensed interim financial statements as at and for the six-month period ended 30 June 2020 (in PLN m)

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

9. Cash and cash equivalents

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

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

	As at 30 June 2020 (unaudited)	As at 30 June 2019 (unaudited)
Cash in bank	205	488
Short-term deposits up to 3 months	-	500
Total cash and cash equivalents presented in the statement of financial position, including:	**205**	**988**
Unrealized foreign exchange differences and interest	1	3
Total cash and cash equivalents presented in the statement of cash flows	**206**	**991**

Due to the application of the split payment mechanism, the Company's restricted cash holdings are less than PLN 1 m.

10. Dividends

On 29 June 2020, the Ordinary General Meeting adopted a resolution on coverage of the loss for 2019, which was covered in full from the Company's supplementary capital.

and for the six-month period ended 30 June 2020 (in PLN m)

EXPLANATORY NOTES ON FINANCIAL INSTRUMENTS

11. Financial instruments

11.1 Carrying amount of financial instruments by category and class

As at 30 June 2020 (unaudited)	Financial assets measured at fair value through profit or loss	Financial assets and liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
Cash pooling receivables	-	1,036	-	-	**1,036**
Cash and cash equivalents	-	205	-	-	**205**
Derivative financial instruments	7	-	-	-	**7**
Shares in subsidiaries, associates and joint ventures	-	-	-	6,558	**6,558**
Bonds	-	1,778	-	-	**1,778**
Lease receivables	-	-	-	83	**83**
Other financial receivables	179	2,778	-	-	**2,957**
Trade receivables	-	9	-	-	**9**
Capital contributions	-	88	-	-	**88**
TOTAL	**186**	**5,894**	**-**	**6,641**	**12,721**
Liabilities					
Loans and borrowings	-	4,635	-	-	**4,635**
Preferential loans and borrowings	-	1,019	-	-	**1,019**
Loans and borrowings	-	3,616	-	-	**3,616**
Liabilities on account of the issue of debt securities	-	1,148	-	-	**1,148**
Derivative financial instruments	-	-	94	-	**94**
Liabilities under lease	-	-	-	52	**52**
Trade liabilities and other financial liabilities	-	18	-	-	**18**
Trade liabilities	-	12	-	-	**12**
Liabilities on purchase of property, plant and equipment and intangible assets	-	5	-	-	**5**
Capital contribution liabilities	-	1	-	-	**1**
Cash pooling liabilities	-	113	-	-	**113**
TOTAL	**-**	**5,914**	**94**	**52**	**6,060**

and for the six-month period ended 30 June 2020 (in PLN m)

As at 31 December 2019	Financial assets measured at fair value through profit or loss	Financial assets and liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
Cash pooling receivables	-	831	-	-	**831**
Cash and cash equivalents	-	822	-	-	**822**
Derivative financial instruments	5	-	24	-	**29**
Shares in subsidiaries, associates and joint ventures	-	-	-	6,715	**6,715**
Bonds	-	1,760	-	-	**1,760**
Lease receivables	-	-	-	94	**94**
Other financial receivables	178	2,866	-	-	**3,044**
Trade receivables	-	7	-	-	**7**
Capital contributions	-	78	-	-	**78**
TOTAL	**183**	**6,364**	**24**	**6,809**	**13,380**
Liabilities					
Loans and borrowings	-	4,857	-	-	**4,857**
Preferential loans and borrowings	-	1,095	-	-	**1,095**
Loans and borrowings	-	3,762	-	-	**3,762**
Liabilities on account of the issue of debt securities	-	1,075	-	-	**1,075**
Derivative financial instruments	-	-	72	-	**72**
Liabilities under lease	-	-	-	52	**52**
Trade liabilities and other financial liabilities	-	19	-	-	**19**
Trade liabilities	-	13	-	-	**13**
Liabilities on purchase of property, plant and equipment and intangible assets	-	6	-	-	**6**
Cash pooling liabilities	-	192	-	-	**192**
TOTAL	**-**	**6,143**	**72**	**52**	**6,267**

and for the six-month period ended 30 June 2020 (in PLN m)

11.2 Fair value of financial instruments

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

The table below analyses fair value measurements for financial instruments categorized into a three-level hierarchy:

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

	As at 30 June 2020 (unaudited) Level 2	As at 31 December 2019 Level 2
Assets		
Loan receivables	179	178
Hedging derivatives (CCIRS/IRS)	-	24
Other derivatives	7	5
Liabilities		
Hedging derivatives (CCIRS/IRS)	94	72

The loan receivable includes a write-down to the nominal value of PLN 170m. A detailed description is provided in Note 14..

The fair value measurement of the receivable in respect of the non-bank loan was based on an analysis of future cash flows discounted using market interest rates prevailing on the balance sheet date, adjusted by a margin reflecting the specific risk attached to 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, a total of 9 million shares of Polimex-Mostostal SA, at the nominal price of PLN 2 per share. The option exercise dates were set at: 30 July 2020, 30 July 2021 and 30 July 2022. The fair value measurement of the call options to purchase shares of Polimex-Mostostal SA was carried out using the Black-Scholes model. The measurement considered the current price and historic volatility of the company's share prices. The risk-free rate was determined on the basis of the yield of treasury bonds with maturities similar to the option expiration date.

11.3 Fair value of 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.

Loan from Energa Finance AB (publ)	Carrying amount	Fair value Level 2
As at 30 June 2020 (unaudited)	1,400	1,455
As at 31 December 2019	2,995	3,040

Hybrid bond issue	Carrying amount	Fair value Level 2
As at 30 June 2020 (unaudited)	1,148	1,122
As at 31 December 2019	1,075	1,062

The fair value measurement of liabilities under loans and under a hybrid bond issue was estimated on the basis of an analysis of future cash flows discounted using market interest rates updated for 30 June 2020.

11.4 Description of material items in individual categories of financial instruments

11.4.1 Financial assets

Financial assets measured at amortized cost

Financial instruments classified by the Company as financial assets measured at amortized cost comprise primarily purchased bonds, loans granted, other than described in point 11.2, cash and cash equivalents and cash pooling receivables.

The purchased bonds are presented in the table below, broken down by issuer, as at 30 June 2020 and 31 December 2019:

and for the six-month period ended 30 June 2020 (in PLN m)

	As at 30 June 2020 (unaudited)	As at 31 December 2019
Energa-Operator SA	1,119	1,084
Energa OZE SA	651	667
Energa Kogeneracja Sp. z o.o.	8	9
TOTAL, of which:	**1,778**	**1,760**
Long-term	1,718	1,719
Short-term	60	41

11.4.2 Financial liabilities

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

Loans and borrowings

Loans and borrowings contracted as at 30 June 2020 and 31 December 2019 are presented in the table below:

	As at 30 June 2020 (unaudited)		As at 31 December 2019	
Currency	PLN	EUR	PLN	EUR
Reference rate	WIBOR	Fixed	WIBOR	Fixed
Loan/borrowing amount				
in currency	3,235	314	1,862	703
in PLN	3,235	1,400	1,862	2,995
of which maturing in:				
up to 1 year (short-term)	1,845	16	315	2,144
1 to 2 years	312	491	315	-
2 to 3 years	288	-	301	-
3 to 5 years	491	357	582	255
over 5 years	299	536	349	596

Detailed information on contracted external financing is provided in Note 11.5.

Liabilities under bonds issued

Liabilities under bonds issued as at 30 June 2020 and 31 December 2019 are presented in the table below:

	As at 30 June 2020 (unaudited)		As at 31 December 2019	
Currency	PLN	EUR	PLN	EUR
Reference rate	WIBOR	Fixed	WIBOR	Fixed
Value of the issue				
in currency	-	257	-	252
in PLN	-	1,148	-	1,075
of which maturing in:				
up to 1 year (short-term)	-	32	-	10
3 to 5 years	-	558	-	532
over 5 years	-	558	-	533

Detailed information on bonds issued is provided in Note 11.5.

11.5 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 funding acquired.

The external financing available as at 30 June 2020 is presented in the table below:

and for the six-month period ended 30 June 2020 (in PLN m)

Financing institution	Type of liability	Purpose of financing	Date of the agreement	Financing limit (for the Group)	Available financing amount	Nominal indebtedness of Energa SA as at 30 June 2020	Repayment date
European Investment Bank	Loan	Energa-Operator SA Investment Programme	16-12-2009	1,050	-	420	15-12-2025
European Investment Bank	Loan	Energa-Operator SA Investment Programme	10-07-2013	1,000	-	600	15-09-2031
European Bank for Reconstruction and Development	Loan	Energa-Operator SA Investment Programme	29-04-2010	1,076	-	417	18-12-2024
European Bank for Reconstruction and Development	Loan	Energa-Operator SA Investment Programme	26-06-2013	800	-	170	18-12-2024
Nordic Investment Bank	Loan	Energa-Operator SA Investment Programme	30-04-2010	200	-	43	15-06-2022
Energa Finance AB (publ)	Borrowing	Current operations	21-03-2013	491[1]	-	491[1]	28-02-2022
Energa Finance AB (publ)	Borrowing	Current operations	28-06-2017	893[2]	-	893[2]	28-02-2027
PKO Bank Polski SA	Credit limit	General corporate purposes	12-10-2011	300	268	32	07-06-2021
PKO Bank Polski SA	Bonds	Energa Elektrownie Ostrołęka SA Investment Programme	30-05-2012	100	28	-	31-12-2022
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	138	5[3]	19-09-2022
Bank PEKAO SA	Renewable loan	General corporate purposes	13-10-2011	500	-	500	29-07-2020
Bank PEKAO SA	Loan	Energa Elektrownie Ostrołęka SA Investment Programme	30-05-2012	85	-	7	29-05-2022
Nordic Investment Bank	Loan	Construction of Myślino Wind Farm	23-10-2014	68	-	39	15-09-2026
European Investment Bank	Hybrid bonds	Energa-Operator SA Investment Programme	04-09-2017	1,117[4]	-	1,117[4]	12-09-2037
Syndicated loan	Revolving loan	Financing corporate objectives of Energa SA, including financing ongoing operations and financing the investment programme, excluding capital expenditure on coal energy	17-09-2019	2,000	-	1,000	17-09-2024[5]
TOTAL				**9,880**	**434**	**5,734**	

[1] liability in the amount of EUR 110 m converted using the average NBP exchange rate of 30 June 2020
[2] liability in the amount of EUR 200 m converted using the average NBP exchange rate of 30 June 2020
[3] value of guarantee limits awarded to Energa SA based on the concluded executive agreements (utilization of the global limit)
[4] liability in the amount of EUR 250 m converted using the average NBP exchange rate of 30 June 2020
[5] loan granted for a period of 5 years from the date of signing the agreement, with an option to extend it twice for 1-year periods; the designated date is the end date of the term of the agreement; the loan is considered short term

11.6 Cash flow hedge accounting

All 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. A detailed description of hedge accounting has been provided in point 16.6 of the condensed interim consolidated financial statements for the period ended on 30 June 2020.

The fair value of hedging is as follows:

	Value	Recognition in the statement of financial position	Change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness for the period	Nominal amounts of hedging instrument in millions of EUR/PLN
As at 30 June 2020 (unaudited)				
CCIRS III	35	Liabilities – Derivative financial instruments	None	200
CCIRS IV	45	Liabilities – Derivative financial instruments	None	250
IRS	14	Liabilities – Derivative financial instruments	None	350
As at 31 December 2019				
CCIRS I	22	Assets – Derivative financial instruments	None	400
CCIRS II	2	Assets – Derivative financial instruments	None	25
CCIRS III	35	Liabilities – Derivative financial instruments	None	200
CCIRS IV	34	Liabilities – Derivative financial instruments	None	250
IRS	3	Liabilities – Derivative financial instruments	None	600

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 84 m. The Company continued hedge accounting under IAS 39, and no ineffectiveness was identified in the period under review.

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

	6-month period ended 30 June 2020 (unaudited)	6-month period ended 30 June 2019 (unaudited)
At the beginning of the reporting period	**(52)**	**(34)**
Amount recognized in the cash flow hedge reserve in the period, equal to the change in the fair value of hedging instruments	(46)	(61)
Accrued interest transferred from the reserve to financial income/costs	5	14
Revaluation of hedging instruments transferred from the reserve to financial income/costs	(63)	42
Income tax on other comprehensive income	20	1
At the end of the reporting period	**(136)**	**(38)**

As at 30 June 2020, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

OTHER EXPLANATORY NOTES

12. Information on related entities

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

12.1 Transactions involving parties related to the State Treasury

The Company's parent entity is PKN ORLEN SA. Energa SA concludes transactions also with other related parties and with the State Treasury associated with its regular, daily business operations. These transactions are concluded on an arms' length basis and their terms and conditions do not deviate from transactions with other entities. They do not constitute material transactions. Additionally, transactions of financial nature (loans, guarantees, banking fees and commissions) were also concluded with Bank PKO BP, Bank Pekao SA and Bank Gospodarstwa Krajowego (banking fees and commissions).

and for the six-month period ended 30 June 2020 (in PLN m)

12.2 Related party transactions

	6-month period ended 30 June 2020 (unaudited)	6-month period ended 30 June 2019 (unaudited)
Net revenue on the sale of products, goods and materials	43	45
Cost of purchase	7	8
Dividend income	-	644
Other financial income	105	104
Financial costs	430	59

	As at 30 June 2020 (unaudited)	As at 31 December 2019
Assets		
Long-term receivables	60	71
Other long-term financial receivables – subsidiaries	2,445	2,586
Other short-term financial receivables – joint ventures	179	178
Cash pooling receivables	1,036	831
Trade receivables	9	7
Other short-term financial receivables	304	302
Long-term bonds	1,718	1,719
Short-term bonds	60	41
Other current assets	7	4
Equity and liabilities		
Long-term loan liabilities	1,384	851
Long-term provisions	79	-
Long-term lease liabilities	-	1
Other non-current financial liabilities	1	-
Cash pooling liabilities	113	192
Short-term provisions	190	-
Short-term trade liabilities	3	3
Other short-term financial liabilities	5	6
Short-term lease liabilities	1	1
Current part of loans and borrowings	16	2,144
Other current liabilities	26	32

The tables above present transactions with subsidiaries within the PKN ORLEN Group and joint ventures. Transactions with associates are immaterial.

The transactions involving the acquisition of shares in subsidiaries, associates and joint ventures are presented in Note 8.

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

	6-month period ended 30 June 2020 (unaudited)	6-month period ended 30 June 2019 (unaudited) (restated)
Management Board	3	2
Supervisory Board	<1	<1
TOTAL	**3**	**2**

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

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

The amount of benefits paid or due to the senior management in the period from 1 January 2020 to 30 June 2020 was PLN 10 m, while it was PLN 7 m in the corresponding period of the previous year (based on the restated data).

12.5 Security for the repayment of liabilities

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

13. Contingent assets and liabilities

The Company did not have any significant contingent assets and liabilities.

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

Impact of COVID-19 on the Company's operations

On 11 March 2020, the World Health Organization (WHO) announced a SARS-CoV-2 coronavirus pandemic. On 14 March 2020, a state of epidemic emergency was declared in the territory of the Republic of Poland. On 20 March 2020, a state of epidemic was declared. The coronavirus outbreak has a massive impact on the economic situation in Poland.

The Company has analyzed events and conditions that individually or jointly might affect its operations, and in its opinion their adverse direct and indirect impact will not be material. The Company does not expect a significant drop in sales or collections from its counterparties (mainly entities from the Group). Certain revenue streams might be deferred, but with no impact on the Company's liquidity.

As regards the financial activity, based on scenario analyses, the Company does not identify the risk of default on its obligations. The Company also undertakes measures to protect the liquidity of the Group in connection with changes in the market environment, as well as in relation to the credit facilities maturing in 2020. Intensive steps in this area are being taken with financial institutions, and the risk of failure has not been identified.

As regards marketing activities, the Company expects that some sponsoring agreements might need to be amended to extend their respective terms or to agree substitute performance with the sponsored entities. Consequently, the receipt of a portion of the revenue from Group companies generated in connection with the provision of marketing services may also shift in time.

As regards the IT activity, in the event of a prolonged COVID-19 epidemic, the Company identifies potential risks consisting in delays in the implementation of its investment projects and, consequently, in the receipt of new cash flows planned in connection with such investment projects. The above may be caused by unavailability of a portion of workforce due to illness, need for assuming care over family members or secondment to carry out assignments designed to keep critical business systems operational. In addition, the delivery of IT equipment to the Company's employees might be delayed due to supply chain disruptions at global manufacturers of such equipment.

In view of the above, in the Company's opinion there are no indications of any threat to the continuation of its business operations. In addition, the Company does not identify any direct impact of the current situation on its financial results at the end of the second quarter of 2020.

Impact of PKN ORLEN SA taking control of the Company on ratings

Following the call, on 10 December 2019 Fitch Ratings announced that Energa SA had been placed on its watch list with a negative outlook. According to Fitch Ratings, the decision reflected, among other things, the risk of the Company becoming tightly linked with a lower rated capital group (BBB- vs. the Company's rating of BBB) following PKN ORLEN's tender offer for the Company's shares, as well as the risk of a breach of the change of control clauses in the Company's credit agreements.

The 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. Meanwhile, at the time of preparation of these financial statements, the Company had obtained formal consent or concluded annexes to credit agreements providing for a waiver of the contractual financial covenants in relation to the change control and rating downgrade clauses with most of the lenders, i.e. the European Bank for Reconstruction and Development, the Nordic Investment Bank and five institutions which provided the Company with a syndicated loan.

On 29 May 2020, Fitch Ratings rating agency downgraded long-term foreign- and local-currency Issuer Default Ratings (IDRs) for Energa SA from BBB to BBB- with a Stable Outlook, the rating for the bonds issued by the Company's subsidiary Energa Finance AB (publ) down to a BBB-, and the rating for Energa SA's hybrid bonds down to BB.

The agency justifies the downgrade primarily by the Company's takeover by PKN ORLEN SA.

Guarantee limits

On 16 April 2020, Energa SA concluded an Annex to the Guarantee Line Agreement with Energa-Obrót SA and Bank Gospodarstwa Krajowego. Under the Annex, Bank Gospodarstwa Krajowego increased its guarantee limit to PLN 1,400 m. The limit will be available until 9 April 2021.

Ostrołęka C Power Plant

On 22 April 2020, Energa SA transferred a loan tranche in the amount of PLN 163 m to Elektrownia Ostrołęka Sp. z o.o. company based on the agreement of 23 December 2019.

On 2 June 2020, the Management Board of Energa SA approved the final report from the analyses carried out in co-operation with ENEA S.A. concerning the technical, technological, economic, organizational and legal aspects and the continued 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. The conclusions from the analyses do not justify continuation of the Project in its existing form, i.e. as a project of construction of a power plant generating electricity in the process of hard coal combustion. This formed the basis for the write-down of the loan granted to Elektrownia Ostrołęka C Sp. z o.o. under the agreement of 17 July 2019 (in the amount of PLN 58 m, one half of the receivables thereunder being assigned to ENEA S.A., hence the write-down is for PLN 29 m only), and of the loan granted under the agreement of 23 December 2019 (in the amount of PLN 340 m, with the write-down applying to one half of that amount - pursuant to the Memorandum of Understanding (MoU) between Sponsors of 30 April 2019, whereunder one half of the loan disbursed by Energa SA is ENEA S.A.'s receivable on account of the fulfillment of conditions set forth in the MoU).

As at June 30, 2020, the Company created a provision in the amount of PLN 269 m for investment liabilities towards Elektrownia Ostrołęka Sp. z o.o. ("SPV") as a result of the investment settlement proposal submitted on June 23, 2020 by the General Contractor ("GW"), consisting in the construction of the Ostrołęka C Power Plant.

The value of the provision is estimated and is based, i.a. on o the amount of claims in the area of work in progress and suspension costs resulting from the proposals presented by GW. The amount of these claims is currently subject to detailed analyzes by the SPV, including in terms of the correctness and validity of the provided cost documentation. It should be noted that in relation to the vast majority of claims, the documentation has not been submitted to Elektrownia Ostrołęka, and the analysis of the documentation provided so far shows that the original amounts of claims are significantly overstated and often raise doubts on the side of SPV. According to this, the Company is not able to determine the exact financial implications related to the settlement of the project, and the provision for the future investment commitment of Energa towards SPV is the best estimate that can be made in the face ofthe high degree of uncertainty as to the final amounts of claims.

When determining the value of the provision and Energa's share of future expenses for the settlement of the project, the Company also took into consideration the issues from the agreements linking project sponsors. On this basis, Company assumes the return of part of the funds, therefore it has shown the receivable from ENEA S.A. in the amount of the anticipated discounted cash flows worth PLN 51 m.

15. Significant subsequent events

On 3 July 2020, the Company concluded a loan agreement with Bank Gospodarstwa Krajowego totaling PLN 500 m. The loan is a working capital loan and will be allocated towards general corporate goals.

On 28 July 2020, Energa SA concluded an EUR 120 m loan agreement with SMBC BANK EU AG. The loan is a working capital loan and it will be allocated towards general corporate goals and investment goals with the exclusion of capital expenditures in coal-based power generation.

On 9 July 2020, the General Meeting of Energa Operator SA adopted a resolution on profit distribution and dividend payment of the amount of PLN 509 m. By the date of these financial statements, the entire dividend was transferred to the Company as the sole shareholder.

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Management Board Members

Jacek Goliński ……………………………………………..
President of the Management Board

Marek Kasicki ……………………………………………..
Vice-President of the Management Board for Financial Matters

Dominik Wadecki ……………………………………………..
Vice-President of the Management Board for Operational Matters

Adrianna Sikorska …………………………………………….
Vice-President of the Management Board for Communication Matters

Iwona Waksmundzka-Olejniczak …………………………………………….
Vice-President of the Management Board for Corporate Matters

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and for preparing financial statements
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Gdańsk, 29 July 2020