ENERGA SA
Group

Condensed Interim Consolidated Financial Statements prepared in accordance with IAS 34 for the period of 6 months ending on 30 June 2020

CONTENTS

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

CONDENSED INTERIM CONSOLIDATED 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	**2,856**	**6,142**	**2,549**	**5,520**
Revenue from the Price Difference Refund Fund	**-**	**3**	**510**	**510**
Cost of sales	(3,043)	(5,849)	(2,754)	(5,282)
Gross loss or profit on sales	**(187)**	**296**	**305**	**748**
Other operating income	137	197	87	148
Selling and distribution expenses	(90)	(192)	(87)	(188)
General and administrative expenses	(89)	(189)	(87)	(180)
Other operating expenses	(15)	(49)	(55)	(74)
Financial income	21	37	12	22
Financial costs	(380)	(495)	(90)	(179)
Share in profit/(loss) of the entities measured by the equity method	(252)	(271)	7	16
Loss or profit before tax	**(855)**	**(666)**	**92**	**313**
Income tax	(23)	(101)	(26)	(61)
Net loss or profit for the period	**(878)**	**(767)**	**66**	**252**
Attributable to:				
Equity holders of the Parent Company	(827)	(714)	89	275
Non-controlling interest	(51)	(53)	(23)	(23)
Loss or earnings per share (in PLN)				
- basic	**(2.00)**	**(1.72)**	**0.21**	**0.66**
- diluted	**(2.00)**	**(1.72)**	**0.21**	**0.66**

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	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	**(878)**	**(767)**	**66**	**252**
Items that will never be reclassified to profit or loss	***(16)***	***(10)***	***8***	***(17)***
Actuarial gains and losses on defined benefit plans	(19)	(12)	10	(21)
Deferred income tax	3	2	(2)	4
Items that are or may be reclassified subsequently to profit or loss	***-***	***(81)***	***13***	***(5)***
Foreign exchange differences from translation of foreign entities	(1)	3	(1)	(1)
Cash flow hedges	1	(104)	17	(5)
Deferred income tax	-	20	(3)	1
Share in other comprehensive income of entities measured by the equity method	**-**	**-**	**(1)**	**(1)**
Net other comprehensive income	**(16)**	**(91)**	**20**	**(23)**
Total comprehensive income	**(894)**	**(858)**	**86**	**229**
Attributable to:				
Equity holders of the Parent Company	(843)	(805)	109	252
Non-controlling interest	(51)	(53)	(23)	(23)

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2020 (unaudited)	As at 31 December 2019
ASSETS		
Non-current assets		
Property, plant and equipment	14,134	14,262
Intangible assets	225	223
Right-of-use assets	828	847
Goodwill	11	11
Investments in associated entities and joint ventures measured using the equity method	138	336
Deferred tax assets	317	262
Other non-current financial assets	6	190
Other non-current assets	138	144
	15,797	**16,275**
Current assets		
Inventories	830	756
Current tax receivables	38	61
Trade receivables	1,860	1,489
Contract assets	-	313
Other current financial assets	313	203
Cash and cash equivalents	305	1,461
Other current assets	132	409
	3,478	**4,692**
TOTAL ASSETS	**19,275**	**20,967**

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

	As at 30 June 2020 (unaudited)	As at 31 December 2019
EQUITY AND LIABILITIES		
Equity		
Share capital	4,522	4,522
Foreign exchange differences from translation of a foreign entity	3	-
Reserve capital	1,018	1,018
Supplementary capital	1,661	2,035
Cash flow hedge reserve	(136)	(52)
Retained earnings	1,374	1,730
Equity attributable to equity holders of the Parent Company	**8,442**	**9,253**
Non-controlling interest	**(36)**	**11**
	8,406	**9,264**
Non-current liabilities		
Loans and borrowings	1,869	2,047
Bonds issued	2,439	2,326
Non-current provisions	926	786
Deferred tax liabilities	771	738
Deferred income and non-current grants	224	296
Liabilities under lease	629	637
Other non-current financial liabilities	68	82
	6,926	**6,912**
Current liabilities		
Trade liabilities	622	802
Contract liabilities	124	139
Current loans and borrowings	1,922	393
Bonds issued	46	2,219
Deferred income and grants	151	188
Short-term provisions	730	583
Other financial liabilities	203	235
Other current liabilities	145	232
	3,943	**4,791**
Total liabilities	**10,869**	**11,703**
TOTAL EQUITY AND LIABILITIES	**19,275**	**20,967**

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Parent Company								
	Share capital	Foreign exchange differences from translation of a foreign entity	Reserve capital	Supplementary capital	Revaluation reserve – hedging instruments	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2020	**4,522**	**-**	**1,018**	**2,035**	**(52)**	**1,730**	**9,253**	**11**	**9,264**
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	(10)	**(10)**	-	**(10)**
Foreign exchange differences from translation of foreign entities	-	3	-	-	-	-	**3**	-	**3**
Cash flow hedges	-	-	-	-	(84)	-	**(84)**	-	**(84)**
Net profit (loss) for the period	-	-	-	-	-	(714)	**(714)**	(53)	**(767)**
Total comprehensive income for the period	**-**	**3**	**-**	**-**	**(84)**	**(724)**	**(805)**	**(53)**	**(858)**
Distribution of profits/coverage of losses from previous years	-	-		(374)	-	374	**-**	**-**	**-**
Transfer to non-controlling interest	-	-		-		(6)	**(6)**	6	**-**
Total transactions with owners	**-**	**-**	**-**	**(374)**	**-**	**368**	**(6)**	**6**	**-**
As at 30 June 2020 (unaudited)	**4,522**	**3**	**1,018**	**1,661**	**(136)**	**1,374**	**8,442**	**(36)**	**8,406**
As at 1 January 2019	**4,522**	**-**	**1,018**	**1,540**	**(34)**	**3,249**	**10,295**	**61**	**10,356**
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	(17)	**(17)**	-	**(17)**
Foreign exchange differences from translation of foreign entities	-	(1)	-	-	-	-	**(1)**	-	**(1)**
Cash flow hedges	-	-	-	-	(4)	-	**(4)**	-	**(4)**
Share in other comprehensive income of entities measured using the equity method	-	-	-	-	-	(1)	**(1)**	-	**(1)**
Net profit (loss) for the period	-	-	-	-	-	275	**275**	(23)	**252**
Total comprehensive income for the period	**-**	**(1)**	**-**	**-**	**(4)**	**257**	**252**	**(23)**	**229**
Distribution of profits/coverage of losses from previous years	-	-	-	495	-	(495)	**-**	**-**	**-**
As at 30 June 2019 (unaudited)	**4,522**	**(1)**	**1,018**	**2,035**	**(38)**	**3,011**	**10,547**	**38**	**10,585**

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	6-month period ended 30 June 2020 (unaudited)	6-month period ended 30 June 2019 (unaudited)
Cash flows from operating activities		
Loss or profit before tax	**(666)**	**313**
Adjustments for:		
Share in (profit)/loss of entities measured by the equity method	271	(16)
Foreign exchange (gains)/losses	100	(7)
Amortization and depreciation	522	535
Net interest and dividends	190	149
(Profit)/loss on investing activities, including goodwill impairment allowance	579	273
Changes in working capital:		
Change in receivables	(47)	(942)
Change in contract assets	313	54
Change in inventories	(76)	21
Change in liabilities excluding loans and borrowings	(263)	479
Change in contract liabilities	(15)	(7)
Change in prepayments and accruals	(118)	(208)
Change in provisions	250	(380)
	1,040	**264**
Income tax	**(76)**	**(128)**
Net cash from operating activities	**964**	**136**
Cash flows from investing activities		
Disposal of property, plant and equipment and intangible assets	16	5
Purchase of property, plant and equipment and intangible assets	(888)	(850)
Investments in associated entities and joint ventures measured using the equity method	-	(181)
Loans granted	(185)	-
Net cash from investing activities	**(1,057)**	**(1,026)**
Cash flows from financing activities		
Proceeds from debt incurred	2,799	11
Repayment of debt incurred	(1,445)	(93)
Redemption of debt securities	(2,198)	(1)
Repayment of lease liabilities	(43)	(14)
Interest paid	(189)	(165)
Grants received	17	-
Net cash from financing activities	**(1,059)**	**(262)**
Net increase/(decrease) in cash and cash equivalents	**(1,152)**	**(1,152)**
Cash and cash equivalents at the beginning of the period	**1,457**	**2,726**
Cash and cash equivalents at the end of the period	**305**	**1,574**

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

ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY INFORMATION

1. General information

The Energa SA Group (the "Group") consists of **Energa Spółka Akcyjna** ("Parent Company", "Company") with its registered office in Gdańsk and its subsidiaries (see Note 2). The condensed interim consolidated financial statements of the Group cover the 6-month period ended 30 June 2020 and contain appropriate comparative data.
The Parent Company is entered in the Register of Entrepreneurs of the National Court Register held by the District Court Gdańsk-Północ, 7th Commercial Division of the National Court Register under number KRS 0000271591. The Parent Company's REGON statistical number is 220353024.

Core operations of the Group companies are as follows:

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

As at 30 June 2020, PKN ORLEN SA is the parent of the Company and the 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 30 June 2020, the Group consists of Energa SA and the following subsidiaries:

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 June 2020	31 December 2019
	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
6	Enspirion Sp. z o.o.	Gdańsk	Organization and management of development of innovative power projects	100	100
	Generation Business Line (Segment)				
7	Energa OZE SA	Gdańsk	production of energy	100	100
8	Energa Elektrownie Ostrołęka SA	Ostrołęka	production of energy	89.64	89.64
9	Energa Kogeneracja Sp. z o.o.	Elbląg	production of energy	100	100
10	Energa Ciepło Ostrołęka Sp. z o.o.[1]	Ostrołęka	distribution of heat	89.64	100
11	Energa Serwis Sp. z o.o.[2]	Ostrołęka	repairs and maintenance services	89.64	94.81
12	Energa Ciepło Kaliskie Sp. z o.o.	Kalisz	distribution of heat	91.24	91.24
13	CCGT Grudziądz Sp. z o.o.	Grudziądz	production of energy	100	100

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

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 June 2020	31 December 2019
14	CCGT Gdańsk Sp. z o.o.	Gdańsk	production of energy	100	100
Other Business Line (Segment)					
15	Energa Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting, payroll and administrative services	100	100
16	Energa Finance AB (publ)	Stockholm	financing activity	100	100
17	Energa Informatyka i Technologie Sp. z o.o.	Gdańsk	information and communication technologies	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
22	ECARB Sp. z o.o.[3]	Gdańsk	financing activity	100	-

[1] On 24 March 2020, Energa Kogeneracja Sp. z o.o. signed an agreement with Energa Elektrownie Ostrołęka SA for the sale of all shares held in Energa Ciepło Ostrołęka Sp. z o.o. As a result of the transaction, Energa Elektrownie Ostrołęka SA holds 100% shares in that company's share capital.

[2] On 28 April 2020, Energa SA signed an agreement with Energa Elektrownie Ostrołęka SA for the sale of all shares held in Energa Serwis Sp. z o.o. As a result of the transaction, Energa Elektrownie Ostrołęka SA holds 64.18% and Energa Ciepło Ostrołęka Sp. z o.o. holds 35.82% of shares in that company's share capital.

[3] On 4 May 2020, the company was registered in the National Court Register (KRS). On 11 May 2020, Energa SA entered into an agreement with Energa OZE SA to sell 1,275 shares in the company. As a result of the 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.

Additionally, as at 30 June 2020 the Group holds shares in joint ventures: Polska Grupa Górnicza SA ("PGG"), Elektrownia Ostrołęka Sp. z o.o. (formerly Elektrownia Ostrołęka SA) and in associates Polimex-Mostostal S.A. ("Polimex") and ElectroMobility Poland SA (see description in Note 2.2).

2.2. Joint ventures and associates

2.2.1. Polska Grupa Górnicza

On 28 April 2016, the subsidiary Energa Kogeneracja Sp. z o.o. signed an agreement defining the terms and conditions of the financial investment in Polska Grupa Górnicza Sp. z o.o.

PGG's business is coal mining and its registered office is in Katowice.

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

As at 30 June 2020, based on the valuation prepared by an external advisor using the discounted dividends method, the Energa Group exercising joint control over PGG, identified the need for recognizing impairment losses on the investment. The shares' fair value was measured that was defined at zero level. Consequently, the total value of investment in joint-venture in PGG measured in the consolidated financial statements using the equity method was subject to impairment losses. Impairment losses of PLN 145 m were recognized on the investment.

The investment shown in the consolidated financial statements amount to PLN 0 as at 30 June 2020.

2.2.2. Polimex-Mostostal

On 18 January 2017, the Management Board of Energa SA along with Enea SA, PGE SA, PGNiG Technologie SA ("Investors") and Polimex-Mostostal SA signed an investment agreement under which the Investors undertook to make an equity investment in Polimex. Energa SA subscribed to 37.5 m newly-issued shares with the par value of PLN 2 each. As a result of this transaction, its stake in Polimex's shareholding reached approximately 16.5%.

The stake in Polimex shareholding was classified as an associate measured using the equity method.

Polimex is an engineering and construction company with its registered office in Warsaw.

Polimex is listed on the Warsaw Stock Exchange.

At the session closing on 30 June 2020, the average stock price of Polimex was PLN 2.1505; accordingly, the fair value of the block of shares held by the Group was PLN 84 m. The carrying amount of Polimex's shares is PLN 124 m. As at 30 June 2020, the carrying amount was higher than the fair value, but the entity is of the opinion that the surplus is temporary in nature. In the case of a prolonged decline in the fair value, the entity will restate the carrying amount accordingly.

2.2.3. Ostrołęka Power Plant

On 8 December 2016, Energa SA, Enea SA and Elektrownia Ostrołęka SA signed an Investment Agreement regarding development of a new 1,000 MW power unit in Ostrołęka ("Project").

On this basis, Energa SA and Enea SA acquired joint control over 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 limited liability company (sp. z o.o.) was registered.

Energa SA and Enea S.A. hold each 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 merit of the General Meeting require unanimous consent of both shareholders. Given the above, the investment was classified as a joint venture and is captured using the equity method.

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

A loan agreement was concluded between Energa SA, Enea SA and Elektrownia Ostrołęka Sp. z o.o. on 23 December 2019. The maximum loan amount is PLN 340 m, and will be drawn in tranches, subject to a justified request by Elektrownia Ostrołęka Sp. z o.o. related to the implementation of the Project. The first tranche in the amount of PLN 160 m was disbursed on 23 December 2019, whereas the second tranche in the amount of PLN 17 m was disbursed on 13 January 2020, followed by the third tranche in the amount of PLN 163 m on 22 April 2020. Under the Loan Agreement, Energa SA conditionally sold to Enea SA a half of its receivables from Elektrownia Ostrołęka Sp. z o.o. in respect of the loan. The receivables sold will pass to Enea SA subject to the conditions precedent set out in the Agreement of 30 April 2019 on the later of 31 January 2021 or on the date of payment of the full price by Enea SA to Energa SA. After 31 January 2021, the receivables under the loan agreement may be converted by Energa SA and Enea SA into an equity stake in Elektrownia Ostrołęka Sp. z o.o.

On 13 February 2020, pursuant to the Agreement, Energa SA and Enea SA decided to suspend the financing for the Project of construction of a new coal-fired unit – the planned Ostrołęka C power plant in Ostrołęka with a capacity of approx. 1,000 MW ("Project"). The financing is suspended in particular in connection with the need and for the time of conducting analyses regarding further activities under the Project, including its continued funding.

Energa SA and Enea SA assumed that the suspension of financing of the Project would necessitate suspension by Elektrownie Ostrołęka Sp. z o.o. of the Contract for the Construction of the Ostrołęka C Power Plant as well as the Contract for the Reconstruction of the Railway Infrastructure. The agreement does not affect the effectiveness of the existing agreements between Energa SA and Enea SA and between Energa SA and Enea S.A. and Elektrownia Ostrołęka Sp. z o.o.

On 14 February 2020, Elektrownia Ostrołęka Sp. z o.o. ordered its contractors to suspend the implementation of the above contract and agreement effective from the suspension date, i.e. 14 February 2020.

On 21 February 2020, Energa and Enea signed an arrangement on analyses during the period of suspension of works on the Ostrołęka C project.

On 2 June 2020, the Management Board of Energa SA approved the final report from the analyses carried out in co-operation with Enea SA 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 Project). 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.

On 2 June 2020, Energa SA, Enea SA and PKN ORLEN SA entered into a trilateral agreement setting out the key terms of cooperation under the Gas Project. Additional information is provided in Current Report no. 51/2020.

From the date of entry into force of the Investment Agreement until 30 June 2020, the total value of the capital contribution to the company from Energa SA (the total price for the shares acquired by the Company) was PLN 351 m.

The investments in the consolidated financial statements amount to PLN 0 as at 30 June 2020.

2.2.4. ElectroMobility Poland

ElectroMobility Poland SA was founded in October 2016 by four Polish energy companies: Energa SA, PGE Polska Grupa Energetyczna SA, Enea SA and Tauron Polska Energia SA. Each of the companies holds a 25% stake in ElectroMobility Poland SA share capital. Until 30 June 2020, the total capital contributions to the company from Energa SA (nominal value of the shares acquired) was PLN 17.5 m.

ElectroMobility Poland SA was classified as an associate accounted for using the equity method.

3. Composition of the Parent 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 day these financial statements were prepared:
   - 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.

4. Approval of the financial statements

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

5. Basis for preparation of the financial statements

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

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

As at the date of these condensed interim financial statements there is no evidence of uncertainty as to the ability of the Group to continue in operation as a going concern.

5.1. Statement of compliance

These condensed interim consolidated financial statements of Energa SA Group have been prepared in accordance with the International Accounting Standard 34: Interim financial reporting as endorsed by the European Union. They do not include all the information required for a complete set of financial statements compliant with the International Financial Reporting Standards ("IFRS"). However, selected notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2019.

5.2. Functional and presentation currency

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

6. Material items subject to judgment and estimates

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

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

7. Significant accounting policies

The Group's accounting policy is applied consistently, except for changes in EU IFRSs.

7.1. Standards and interpretations applied in 2020 for the first time

The following amendments to the existing standards published by the IASB and endorsed in the EU came into force in 2020:

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

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

7.2. 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" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IAS 1 "Presentation of Financial Statements" – classification of liabilities as short-term or long-term (effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 16 "Leases" – Covid-19-Related Lease Concessions (applicable to annual periods beginning on or after 1 June 2020);

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

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

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

EXPLANATORY NOTES ON BUSINESS LINES (OPERATING SEGMENTS)

9. Business lines (operating segments)

The Group presents segment information in accordance with IFRS 8 "Operating Segments" for the current and for comparative reporting periods. The Group is organized and managed within operating segments, which are divided according to the types of products offered. The Group's disclosures are divided into the following business segments which the Group calls business lines:

- Distribution – distribution of electricity by Energa-Operator SA (Distribution System Operator), as well as operations directly associated with the distribution operations conducted by other Group companies;
- Generation – production of electricity from conventional and renewable sources, production and distribution of heat and maintenance and repair activity, related directly to the production of energy;
- Sales - trading in electricity (wholesale trading and retail sales) and lighting services.
- Other – shared services centers in the accounting, HR and payroll, administration and ITC areas as well as financial 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 Energa SA Management Board to assess the performance of business lines is net profit and EBITDA, i.e. operating profit /(loss) (calculated as the profit /(loss) before tax adjusted by the share of profit/(loss) of entities measured using the equity method, financial revenues and financial expenses) plus amortization and depreciation and impairment losses on non-financial non-current assets.

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

Transactions between business lines are settled on market terms.

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

The tables below show the allocation of revenues and expenses for the period from 1 January to 30 June 2020 and the assets and liabilities as at 30 June 2020 by individual reporting segments, together with appropriate comparative information.

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

6-month period ended 30 June 2020 (unaudited) or as at 30 June 2020 (unaudited)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external clients	2,117	3,560	422	43	**6,142**	-	**6,142**
Sales between business lines	31	15	127	352	**525**	(525)	**-**
Revenue from the Price Difference Refund Fund	-	3	-	-	**3**	-	**3**
Total business line revenue	**2,148**	**3,578**	**549**	**395**	**6,670**	**(525)**	**6,145**
EBITDA	**940**	**52**	**98**	**(36)**	**1,054**	**1**	**1,055**
Amortization and depreciation	418	27	71	14	**530**	(8)	**522**
Impairment losses on non-financial non-current assets	-	-	470	-	**470**	-	**470**
Operating profit or loss	**522**	**25**	**(443)**	**(50)**	**54**	**9**	**63**
Net finance income/expense	(94)	(8)	(26)	(265)	**(393)**	(65)	**(458)**
Share in profit/(loss) of the entities measured by the equity method	-	-	-	-	**-**	(271)	**(271)**
Profit or loss before tax	**428**	**17**	**(469)**	**(315)**	**(339)**	**(327)**	**(666)**
Income tax	(84)	(5)	(7)	(3)	**(99)**	(2)	**(101)**
Net profit or loss	**344**	**12**	**(476)**	**(318)**	**(438)**	**(329)**	**(767)**
Assets and liabilities							
Cash and cash equivalents	6	60	16	223	**305**	-	**305**
Total assets	**14,055**	**2,736**	**3,541**	**13,546**	**33,878**	**(14,603)**	**19,275**
Financial liabilities	4,809	85	865	5,780	**11,539**	(4,592)	**6,947**
Other business line information							
Capital expenditure	579	23	197	15	**814**	1	**815**

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

6-month period ended 30 June 2019 (unaudited) or as at 31 December 2019	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external clients	2,040	2,873	544	63	**5,520**	-	**5,520**
Sales between business lines	30	194	171	216	**611**	(611)	**-**
Revenue from the Price Difference Refund Fund	-	510	-	-	**510**	-	**510**
Total business line revenue	**2,070**	**3,577**	**715**	**279**	**6,641**	**(611)**	**6,030**
EBITDA	**976**	**140**	**172**	**(33)**	**1,255**	**3**	**1,258**
Amortization and depreciation	409	26	92	16	**543**	(8)	**535**
Impairment losses on non-financial non-current assets	-	(1)	270	-	**269**	-	**269**
Operating profit or loss	**567**	**115**	**(190)**	**(49)**	**443**	**11**	**454**
Net finance income/expense	(79)	(4)	(25)	588	**480**	(637)	**(157)**
Share in profit/(loss) of the entities measured by the equity method	-	-	-	-	**-**	16	**16**
Profit or loss before tax	**488**	**111**	**(215)**	**539**	**923**	**(610)**	**313**
Income tax	(88)	(28)	38	18	**(60)**	(1)	**(61)**
Net profit or loss	**400**	**83**	**(177)**	**557**	**863**	**(611)**	**252**
Assets and liabilities							
Cash and cash equivalents	8	62	15	1,376	**1,461**	-	**1,461**
Total assets	**13,987**	**2,658**	**4,099**	**14,869**	**35,613**	**(14,646)**	**20,967**
Financial liabilities	4,958	92	866	6,468	**12,384**	(4,723)	**7,661**
Other business line information							
Capital expenditure	648	17	101	13	**779**	(3)	**776**

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

6-month period ended 30 June 2020 (unaudited)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenues on sales of products and goods for resale and materials, including:	**20**	**3,446**	**496**	**93**	**4,055**	**(193)**	**3,862**
Electricity	19	3,413	351	3	**3,786**	(140)	**3,646**
Certificates of origin	-	-	50	-	**50**	-	**50**
Gas	-	64	-	-	**64**	-	**64**
Other products, goods for resale and materials	1	2	95	90	**188**	(53)	**135**
Excise tax	-	(33)	-	-	**(33)**	-	**(33)**
Revenues on sales of services, including:	**2,127**	**129**	**54**	**302**	**2,612**	**(332)**	**2,280**
Distribution and transit services	2,071	-	17	-	**2,088**	(23)	**2,065**
Customer connection fees	22	-	-	-	**22**	-	**22**
Rental income	18	2	2	1	**23**	(7)	**16**
Other services	16	127	35	301	**479**	(302)	**177**
TOTAL	**2,147**	**3,575**	**550**	**395**	**6,667**	**(525)**	**6,142**
including:							
Revenue from goods, products and materials transferred or services provided on a continuous basis	2,090	3,444	368	3	**5,905**	(163)	**5,742**
Revenue from goods, products and materials transferred or services provided at a specific time	57	131	182	392	**762**	(362)	**400**

In the revenue presented for the year 2020, the estimated revenue from completion of contracts amounts to PLN 242 m.

6-month period ended 30 June 2019 (unaudited)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenues on sales of products and goods for resale and materials, including:	**26**	**2,974**	**659**	**111**	**3,770**	**(437)**	**3,333**
Electricity	23	2,910	501	-	**3,434**	(358)	**3,076**
Certificates of origin	1	-	46	-	**47**	-	**47**
Gas	-	99	-	-	**99**	(1)	**98**
Other products, goods for resale and materials	2	3	112	111	**228**	(78)	**150**
Excise tax	-	(38)	-	-	**(38)**	-	**(38)**
Revenues on sales of services, including:	**2,044**	**93**	**56**	**168**	**2,361**	**(174)**	**2,187**
Distribution and transit services	1,981	-	17	-	**1,998**	(21)	**1,977**
Customer connection fees	29	-	-	-	**29**	-	**29**
Rental income	18	2	35	1	**56**	(7)	**49**
Other services	16	91	4	167	**278**	(146)	**132**
TOTAL	**2,070**	**3,067**	**715**	**279**	**6,131**	**(611)**	**5,520**
including:							
Revenue from goods, products and materials transferred or services provided on a continuous basis	2,004	2,971	518	-	**5,493**	(380)	**5,113**
Revenue from goods, products and materials transferred or services provided at a specific time	66	96	197	279	**638**	(231)	**407**

EXPLANATORY NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10. Property, plant and equipment

In the current reporting period, the Group:

- incurred expenditures towards property, plant and equipment in the amount of PLN 751 m (PLN 747 m in the corresponding period of 2019)
- sold and liquidated property, plant and equipment with a total book value of PLN 1 m (PLN 1 m in the corresponding period of 2019).
- recognized impairment losses on property, plant and equipment in the amount of PLN 444 m and on assets being the right to use in the amount of PLN 28 m and released them in the amount of PLN 3 m (recognized impairment losses were at PLN 270 m and released at PLN 1 m in the comparable period of 2019).

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

In the first half of 2020, property, plant and equipment and goodwill were assessed for any internal and external impairment triggers. In connection with changes occurring in the market environment in the first half of 2020, 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_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;
- adoption of assumptions for costless CO_2 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 CO2 per kWh of electricity and above 350 kg CO2 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);
- 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 CGUs has been adopted 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;
- the tests were carried out as at 31 May 2020.

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

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 June 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 May 2020, fell within the range from 7.81% to 8.31% (on average 6.30% after tax).

Based on the impairment tests conducted, no need was identified for recognizing additional impairment losses or reversals of impairment losses for the wind farms.

Photovoltaic farms (CGU PV Delta, PV Czernikowo)

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 June 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 7.77% to 8.07% (on average 7.00% after tax).

Based on the impairment tests conducted, no need was identified for reversing impairment losses on the photovoltaic farms.

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

The value in use was calculated on the basis of financial projections for the period from June 2020 to December 2031 and the 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 6.46% (5.28% 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 growth rates in Poland.

Based on the results of the test, no need was identified for recognizing impairment losses on CGU CHP Elbląg.

Kalisz Combined Heat and Power Plant (CGU CHP Kalisz)

The CGU's recoverable amount was set on the basis of fair value based on financial projections for the period from June 2020 to December 2024 and 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 9.10% (7.95% 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 growth rates in Poland.

Based on the results of the test, no need was identified for recognizing impairment losses on CGU CHP Kalisz.

Ostrołęka B Power Plant (CGU Ostrołęka B)

The value in use was calculated on the basis of financial projections for the finite useful life period from June 2020 to December 2036 while taking into consideration the estimated useful life of the core plant and equipment. 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 has been 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;
- a discount rate calculated on the basis of the weighted average cost of capital (WACC) at xxx% (6.99% after tax) was adopted.

Based on the results of the test, a need was identified for recognizing total impairment losses on CGU Ostrołęka B in the amount of PLN 473 m as at 31 May 2020.

Heat plant in Ostrołęka ("CGU Ciepło Ostrołęka")

The value in use was calculated on the basis of financial projections for the period from June 2020 to December 2025 and 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 6.45% (5.28% after tax). 2.0% growth rate was used to extrapolate the cash flows forecast beyond 2025; this is not higher than the average long-term inflation growth rates in Poland.

Based on the results of the test, the decision was made not to recognize any impairment losses on CGU Ciepło Ostrołęka.

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] Increase in value	Decrease in value	Change in impairment loss/reversal amount [PLN m]
Electricity prices	[+ 1%]	137.1		5.2
	[- 1%]		-138.8	-5.1
Discount rates	[+ 0.5 p.p.]		-55.3	-19.9
	[- 0.5 p.p.]	66.1		22.5
Coal prices	[+ 1%]		-56.0	-0.2
	[- 1%]	55.1		0.2
EUA prices	[+ 1%]		-53.9	-1.2
	[- 1%]	53.1		1.3

12. Cash and cash equivalents

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

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

	As at 30 June 2020 (unaudited)	As at 30 June 2019 (unaudited)
Cash at bank and in hand	305	1,068
Short-term deposits up to 3 months	-	503
Total cash and cash equivalents presented in the statement of financial position	**305**	**1,571**
Unrealized foreign exchange differences and interest	-	3
Total cash and cash equivalents presented in the statement of cash flows	**305**	**1,574**
including restricted cash	*79*	*84*

13. Earnings per share

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

	6-month period ended 30 June 2020 (unaudited)	6-month period ended 30 June 2019 (unaudited)
Net profit or loss attributable to shareholders of the parent company	(714)	275
Net profit or loss attributable to common equity holders of the parent company	**(714)**	**275**
Number of shares at the end of the reporting period (millions)	414	414
Number of shares used to calculate earnings per share (millions)	414	414
Earnings or loss per share (basic and diluted) (in PLN)	**(1.72)**	**0.66**

14. Dividends

On 29 June 2020, the Ordinary General Meeting of Energa SA passed the resolution on the coverage of the loss after tax for the financial year of 2019 in full from the Company's supplementary capital.

Condensed consolidated interim financial statements as at and for the six months ended 30 June 2020 (in PLN m)

15. Provisions

15.1. Provisions for employee benefits

The Group recognizes provisions for post-employment benefits and jubilee bonuses in amounts calculated using actuarial methods. The amount of provisions recognized in these financial statements derives from the projection of provisions as at 30 June 2020, carried out by an independent actuary. The projection was based on the main assumptions used to measure provisions as at 31 December 2019, except the updated discount rate and the expected growth rate of the energy equivalent. The discount rate applied for the projections of the provisions as at 30 June 2020 was adopted at the level of 1.4% (as at 31 December 2019: 2%).

	Pension, and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	TOTAL
As at 1 January 2020	**168**	**221**	**51**	**261**	**701**
Current service cost	4	2	1	8	15
Past service cost	-	-	-	6	6
Actuarial gains and losses	12	(7)	7	15	27
Benefits paid	(2)	(5)	(1)	(8)	(16)
Interest costs	2	2	1	3	8
As at 30 June 2020 (unaudited), of which:	**184**	**213**	**59**	**285**	**741**
Short-term	**15**	**10**	**2**	**25**	**52**
Long-term	**169**	**203**	**57**	**260**	**689**

	Pension, and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	TOTAL
As at 1 January 2019	**132**	**186**	**31**	**218**	**567**
Current service cost	3	2	-	7	**12**
Actuarial gains and losses	8	10	3	11	**32**
Benefits paid	(2)	(5)	(1)	(7)	**(15)**
Interest costs	2	3	1	3	**9**
As at 30 June 2019 (unaudited), of which:	**143**	**196**	**34**	**232**	**605**
Short-term	**12**	**10**	**1**	**23**	**46**
Long-term	**131**	**186**	**33**	**209**	**559**

15.2. Other provisions

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Obligation relating to property rights	Provision for investment liabilities	Other provisions	TOTAL
As at 1 January 2020	**128**	**78**	**174**	**96**	**-**	**192**	**668**
Interest costs	-	1	-	-	-	-	**1**
Recognized	10	23	68	266	218	17	**602**
Reversed	(8)	-	-	-	-	(73)	**(81)**
Used	(2)	-	(177)	(91)	-	(12)	**(282)**
Transfers from prepayments to accruals	7	-	-	-	-	-	**7**
As at 30 June 2020 (unaudited), of which:	**135**	**102**	**65**	**271**	**218**	**124**	**915**
Short-term	**121**	**-**	**65**	**271**	**140**	**81**	**678**
Long-term	**14**	**102**	**-**	**-**	**78**	**43**	**237**

Condensed consolidated interim financial statements as at and for the six months ended 30 June 2020 (in PLN m)

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Obligation relating to property rights	Other provisions	TOTAL
As at 1 January 2019	**114**	**63**	**158**	**433**	**249**	**1,017**
Interest costs	-	1	-	-	-	**1**
Recognized	36	8	87	185	25	**341**
Reversed	(21)	-	(2)	(4)	(91)	**(118)**
Used	(1)	-	(158)	(412)	(43)	**(614)**
As at 30 June 2019 (unaudited), of which:	**128**	**72**	**85**	**202**	**140**	**627**
Short-term	**112**	**-**	**85**	**202**	**73**	**472**
Long-term	**16**	**72**	**-**	**-**	**67**	**155**

As at June 30, 2020, the Group created a provision in the amount of PLN 218 m for investment liabilities towards Elektrownia Ostrołęka Sp. z o.o. 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 Group 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 Group also took into consideration the issues from the agreements linking project sponsors.

Condensed consolidated interim financial statements as at and for the six months ended 30 June 2020 (in PLN m)

EXPLANATORY NOTES ON FINANCIAL INSTRUMENTS

16. Financial instruments

16.1. Carrying amount of financial instruments by category and class

As at 30 June 2020 (unaudited)	Measured at fair value through profit or loss for period	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
Trade receivables	-	-	1,860	-	**1,860**
Contract assets	-	-	-	-	**-**
Cash and cash equivalents	-	-	305	-	**305**
Other financial assets	185	-	134	-	**319**
Loans granted	179	-	-		**179**
Derivative financial instruments	6	-	-	-	**6**
Other	-	-	134	-	**134**
TOTAL	**185**	**-**	**2,299**	**-**	**2,484**
Liabilities					
Loans and borrowings	-	-	3,791	-	**3,791**
Preferential loans and borrowings	-	-	1,308	-	**1,308**
Loans and borrowings	-	-	2,451	-	**2,451**
Current account overdraft	-	-	32	-	**32**
Bonds issued	-	-	2,485	-	**2,485**
Trade liabilities	-	-	622	-	**622**
Contract liabilities	-	-	124	-	**124**
Other financial liabilities	-	94	135	671	**900**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	85	-	**85**
Derivative financial instruments	-	94	-	-	**94**
Dividend liabilities	-	-	2	-	**2**
Liabilities under lease	-	-	-	671	**671**
Other	-	-	48	-	**48**
TOTAL	**-**	**94**	**7,157**	**671**	**7,922**

Condensed consolidated interim financial statements as at and for the six months ended 30 June 2020 (in PLN m)

As at 31 December 2019	Measured at fair value through profit or loss for period	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
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	178	-	-		**178**
Derivative financial instruments	5	24	-	-	**29**
Other	-	-	186	-	**186**
TOTAL	**183**	**24**	**3,449**	**-**	**3,656**
Liabilities					
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 on purchase of property, plant and equipment and intangible assets	-	-	160	-	**160**
Derivative financial instruments	-	72	-	-	**72**
Dividend liabilities	-	-	2	-	**2**
Liabilities under lease				676	**676**
Other	-	-	44	-	**44**
TOTAL	**-**	**72**	**8,132**	**676**	**8,880**

16.2. Fair value of financial instruments

Financial instruments measured at fair value on an ongoing basis

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

The table below analyses fair value measurements for financial assets and financial liabilities categorized into three level hierarchy:

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

	30 June 2020 (unaudited)	31 December 2019
	Level 2	Level 2
Assets		
Hedging derivatives (CCIRS I)	-	22
Hedging derivatives (CCIRS II)	-	2
Other derivatives	6	5
Loans granted	179	178
Liabilities		
Hedging derivatives (CCIRS III)	35	35
Hedging derivatives (CCIRS IV)	45	34
Hedging derivatives (IRS)	14	3

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.

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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.

On 2 June 2020, the Management Board of Energa SA approved the final report from the analyses carried out in co-operation with ENEA SA concerning the technical, process, economic, organizational and legal aspects and the continued financing of the project involving the construction of a new coal-fired unit, i.e. the planned Ostrołęka C power plant in Ostrołęka, with approx. 1,000 MW in output. The conclusions from the analyses do not justify continuation of the Project in its existing form, i.e. as a hard coal-fired power plant. 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, 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 is Enea's receivable on account of the fulfillment of conditions set forth in the MoU).

Financial instruments not measured at fair value on an ongoing basis

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

Liabilities arising from the issue of Eurobonds and hybrid bonds	Carrying amount	Fair value	
		Level 1	Level 2
As at 30 June 2020 (unaudited)	**2,485**	**1,345**	**1,122**
eurobonds	1,336	1,345	-
hybrid bonds	1,149	-	1,122
As at 31 December 2019	**4,545**	**3,482**	**1,062**
eurobonds	3,470	3,482	-
hybrid bonds	1,075	-	1,062

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 30 June 2020, 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 30 June 2020.

16.3. Financial liabilities

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

Loans and borrowings

	As at 30 June 2020 (unaudited)	As at 31 December 2019
Currency	PLN	
Reference rate	WIBOR, Rediscount rate	
Value of the loan/borrowing	**3,791**	**2,440**
of which maturing in:		
up to 1 year (short-term)	1,922	393
1 to 3 years	771	786
3 to 5 years	648	764
over 5 years	450	497

As at 30 June 2020 and 31 December 2019, the amount of credit limits available to the Group was PLN 5,223 m (72.5% used) and PLN 5,311 m (45.9% used), respectively.

Detailed information on contracted loans and borrowings is presented in Note 16.5.

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Liabilities under bonds issued

	As at 30 June 2020 (unaudited)	As at 31 December 2019
Currency	EUR	
Reference rate	fixed	
Value of the issue		
in currency	556	1,067
in PLN	2,485	4,545
of which maturing in:		
up to 1 year (short-term)	46	2,219
3 to 5 years	558	532
over 5 years	1,881	1,794

Detailed information on bonds issued is provided in Note 16.5.

16.4. Credit risks broken down by rating category and other categories relating to trade receivables and contract assets:

	As at 30 June 2020 (unaudited)			As at 31 December 2019		
	Weighted average credit losses	Gross value	Impairment loss	Weighted average credit losses	Gross value	Impairment loss
Highest client rating	0.0%	516	-	0.0%	684	-
Medium client rating	0.0%	138	-	0.2%	139	-
Lowest client rating	2.7%	32	(1)	0.7%	60	(1)

	As at 30 June 2020 (unaudited)			As at 31 December 2019		
	Weighted average credit losses	Gross value	Impairment loss	Weighted average credit losses	Gross value	Impairment loss
Clients with no rating in sales business line	1.7%	803	(14)	1.7%	737	(13)
Disputed receivables	82.2%	313	(257)	82.2%	320	(263)
Other receivables	9.6%	364	(35)	19.7%	173	(34)

16.5. 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.

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

Financing institution	Type of liability	Purpose of financing	Date of the agreement	Financing limit	Available financing amount	Nominal debt as at 30/06/2020	Repayment date
European Investment Bank	Loan	Energa-Operator SA CapEx Program	16-12-2009	1,050	-	420	15-12-2025
European Investment Bank	Loan	Energa-Operator SA CapEx Program	10-07-2013	1,000	-	787	15-09-2031
European Bank for Reconstruction and Development	Loan	Energa-Operator SA CapEx Program	29-04-2010	1,076	-	417	18-12-2024
European Bank for Reconstruction and Development	Loan	Energa-Operator SA CapEx Program	26-06-2013	800	-	429	18-12-2024
Nordic Investment Bank	Loan	Energa-Operator SA CapEx Program	30-04-2010	200	-	43	15-06-2022
Bondholders	Eurobonds	General corporate purposes	07-03-2017	1,340[1]	-	1,340[1]	07-03-2027
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 CapEx Program	30-05-2012	100	28	-	31-12-2022
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	138	62[2]	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 CapEx Program	30-05-2012	85	-	7	29-05-2022
Nordic Investment Bank	Loan	FW Myślino construction	23-10-2014	68	-	39	15-09-2026
WFOŚiWG	Borrowing	Energa Wytwarzanie SA CapEx Program	23-12-2014	2	-	2	30-06-2021
WFOŚiWG	Borrowing	Elektrownia CCGT Gdańsk Sp. z o.o. CapEx Program	27-06-2014	7	-	7	30-06-2024
NFOSiGW	Borrowing	Energa Elektrownie Ostrołęka SA CapEx Program	30-08-2018	134	-	106	20-12-2028
European Investment Bank	Hybrid bonds	Energa-Operator SA CapEx Program	04-09-2017	1,117[3]	-	1,117[3]	12-09-2037
Syndicated loan	Revolving loan	financing corporate objectives of Energa SA, including financing ongoing operations and financing the CapEx program, excluding capital expenditure on coal energy	17-09-2019	2,000	-	1,000	17-09-2024[4]
TOTAL				**9,979**	**434**	**6,308**	

[1] liability under Eurobonds in the total amount of EUR 300 m converted using the average NBP exchange rate of 30 June 2020
[2] value of guarantee limits awarded to Energa SA Group companies based on the concluded execution agreements (utilization of the global limit)
[3] hybrid bonds liability of EUR 250 m converted using the average NBP exchange rate of 30 June 2020
[4] The loan is 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 contract, the loan is treated as short-term.

16.6. Cash flow hedge accounting

FX risk hedging

The special purpose vehicle Energa Finance AB (publ) and Energa SA signed a loan agreement denominated in EUR for the amount of EUR 200 m. In order to hedge currency risk under this loan, in April 2017 the Group concluded cross-currency interest rate swap transactions of EUR 200 m ("CCIRS III").

As a hedged position under the above hedging relationships the Group designated the foreign currency risk arising from intra-group loans denominated in EUR. The foreign currency risk is hedged at the level of 100% of the total nominal amount of the loan.

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

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

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

The Company designated CCIRS transactions under which the Company receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN as the hedge. 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 April and June 2018, the Company concluded interest rate swap transactions to hedge the interest rate risk arising from the financing used under (see note 16.5):

- loan agreement concluded with EIB in 2013 – PLN 100 m.
- loan agreement concluded with EIB in 2009 – PLN 100 m.

In August 2019, the Company entered into another IRS transaction for:

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

As hedged positions under hedging relationships, the Group designated the risk related to the WIBOR 3M interest rate arising from interest payments on the financial liabilities stated above in the period no longer than 2 years from the date of the hedging transactions. In the case of the 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 hedge. Interest cash flows received by the Group correspond with interest cash flows under the hedged financial liabilities. The Group expects that the hedged cash flows will continue until June 2022 and not longer.

All held hedging instruments 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 hedges 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 (in EUR m/ in PLN m)
As at 30 June 2020 (unaudited)				
CCIRS III	35	Liabilities – Other financial liabilities	None	200
CCIRS IV	45	Liabilities – Other financial liabilities	None	250
IRS	14	Liabilities – Other financial liabilities	None	350
As at 31 December 2019				
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

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

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

Change in cash flow hedge reserve during the reporting period	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.

16.7. Security for the repayment of liabilities

At the end of the reporting period and as at 31 December 2019, there were no material assets securing repayment of liabilities or contingent liabilities.

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OTHER EXPLANATORY NOTES

17. Investment commitments

At the end of the reporting period, the Group's commitments to incur expenditures for the purchase of property, plant and equipment and intangible non-current assets, which have not yet been included in the statement of financial position, were about PLN 6,229 m, of which:

- undertakings covered by the development plan of Energa-Operator SA to satisfy the current and future demand for electricity in the years 2020-2025 (agreed upon with the President of the Energy Regulatory Office) – approx. PLN 6,140 m;
- undertakings executed in the Ostrołęka B Power Plant (among others: modernization of power units, construction of a flue gas denitrification installation) – approx. PLN 17 m;
- combined cycle power plants in Grudziądz and Gdańsk – approx. PLN 40 m;
- biomass-fired unit's steam boiler optimization project implemented in Energa Kogeneracja Sp. z o.o. – approx. PLN 20 m;
- modernization of the cooling water pump system and other replacement investment projects – approx. PLN 8 m;
- purchase of an aerial device at Energa Oświetlenie Sp. z o.o. – approx. PLN 2 m;
- development of a heating network service line at Energa Ciepło Kaliskie – approx. PLN 2 m.

18. Information on related entities

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

18.1. Transactions involving parties related to the State Treasury

As at 30 June 2020, the Group's controlling entity was PKN Orlen SA. The Group concludes transactions also with other parties related to the State Treasury as part of its regular daily business operations.

Transactions 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). 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) with Bank PKO BP, Bank Pekao SA and Bank Gospodarstwa Krajowego (banking fees and commissions) also took place.

18.2. Transactions with associates and joint ventures

Sales of Energa SA Group companies to associates and joint ventures in the period ended 30 June 2020 and in the corresponding period of the previous year were irrelevant. In 2020, purchases from associates and joint ventures amounted to PLN 45 m (in the corresponding period of the previous year, the level of purchases from associates and joint ventures was PLN 85 m). As at 30 June 2020, the level of receivables was PLN 180 m, and was related in particular to the loans granted to Ostrołęka Power Plant joint venture (as at 31 December 2019, the receivables amounted to PLN 178 m). Detailed information on the above loan is provided in Note 2.2.3 and 16.2. The amount of liabilities as at 30 June 2020 was PLN 3 m compared to PLN 22 m as at 31 December 2019. All above transactions pertaining to the year 2020, excluding the above loans, were concluded primarily with Polska Grupa Górnicza Sp. z o.o. and involved mostly coal purchases.

18.3. Transactions with Parent Company's Management Board members

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

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

	6-month period ended 30 June 2020 (unaudited)	6-month period ended 30 June 2019 (unaudited) (restated)
Management Board of the parent company	3	2
Supervisory Board of the parent company	<1	<1
Management Boards of subsidiaries	13	11
Supervisory Boards of subsidiaries	2	2
Other key management	30	25
TOTAL	**48**	**40**

19. Contingent assets and liabilities

19.1. Contingent liabilities

As at 30 June 2020, the Group identifies contingent liabilities of PLN 329 m (PLN 325 m as at 31 December 2019), including mainly the contingent liabilities relating to disputes involving Energa SA Group companies, where a victory by the company is probable or no cash outflow can be reliably estimated and no provision has been recognized for these cases.

The largest contingent liability item consists of disputes relating to power infrastructure of Energa-Operator SA where it is located on private land. The Group recognizes provisions for reported legal claims. If there is uncertainty whether a claim amount or legal title to land is justified, the Group recognizes contingent liabilities. As at 30 June 2020, the estimated value of those claims recognized as contingent liabilities is PLN 253 m, compared with PLN 250 m on 31 December 2019. Considering the available legal opinions, the estimates define the risk of a situation in which liability arises to be below 50%.

Another important issue is also the Agreement to co-finance the project entitled "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 2014-2018. In order to secure the performance of obligations under the financing agreement, Energa Kogeneracja Sp. z o.o. issued a blank promissory note amount of PLN 40 m with interest.

19.2. Contingent assets

At the end of the reporting period and as at 31 December 2019, there were no material contingent assets.

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

Global coronavirus pandemic

On 20 March 2020, a state of epidemic was declared in the territory of the Republic of Poland.

The SARS-CoV-2 pandemic causing the COVID-19 coronavirus disease is a phenomenon that will undoubtedly have a huge impact on the global economy and the situation in Poland.

In the current market conditions, the Group identifies the following market risks that were and are likely to impact the Group's results:

- Declining demand for electricity, especially from end customers from A, B and C tariff groups – the Group estimates that the volume of energy sold to end customers has declined 5% in relation to the pre-pandemic plans;
- The need for Energa-Obrót SA to sell excess electricity at a loss as a result of smaller electricity consumption by end-users,
- Deterioration of consumers' payment discipline resulting from their worsened financial situation;
- Reduction of work efficiency, which may result from sickness absence, forced quarantine and work reorganization designed to prevent the spread of the virus, including teleworking arrangements;
- The need for Energa-Obrót SA to maintain, in the second quarter of this year, a high level of security deposits at the Exchange Clearing House (Izba Rozliczeniowa Giełd Towarowych SA) and the need for Energa-Obrót SA to furnish additional security for the purchase transaction to the Exchange Clearing House in order to increase the level of security deposits, which may be a direct effect of falling electricity prices.It should be stressed, however, that a broader range of tools enabling submission of non-cash collaterals to IRGiT has been implemented 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. Remediation measures introduced by the act are to apply until the end of third quarter of the year 2020.

The Group estimates that the adverse impact of the above risk factors on the Group's EBITDA for the first half of 2020 amounted to approx. PLN 95 m.

It should be noted, however, that the dynamics of events related to the coronavirus outbreak means that forecasting economic effects is burdened with high risk of adoption of erroneous assumptions. Given the rapid changes in the economic environment and the lack of sufficient data, it is not possible to make any reliable estimates of the financial consequences for the Group.

As regards the financial activity, based on scenario analyses, the Group does not identify the risk of default on its obligations, including obligations under financing agreements. The Group also took liquidity protection measures in connection with changes in the market environment.

In the face of the above threats, the Group is carefully monitoring the development of the situation in many areas of its activity, undertaking actions to mitigate the negative impact of the coronavirus epidemic on its financial position. Various scenarios are being analyzed on an ongoing basis and appropriate mitigants are being put in place to reduce the possible effects of materialization of individual risks.

The Group has the ability to effectively counteract any adverse phenomena that might occur in the short, medium and long term. The Group will mitigate the risks related to a possible reduction of revenues and their timely collection, and will ensure its capacity to service bank debt by keeping both operating expenses and capital expenditures down.

In view of the above, there are no indications of any threat to the continuation of the Group's business operations.

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

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 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 SA 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.

Thus, PKN ORLEN SA took control of the Company.

Downgrading of Fitch rating

On 29 May 2020, Fitch Ratings ("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 whose rating is BBB-.

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.

Act Amending the Excise Tax Act and Certain Other Acts

The Act Amending the Excise Tax Act and Certain Other Acts (hereinafter the "Act") came into force on 1 January 2019. The act limited prices for end customers in 2019 to a level not higher than the prices 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 SA 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 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_2 emission allowance prices. The rise in prices on the wholesale market translated into a rise in selling prices to end customers in subsequent periods.

As at 31 December 2019, the Group posted a total amount of PLN 693 m under Income from the Price Difference Payment Fund. That amount included the estimated compensation due for the period from November to December 2019.

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 52 m.

Until 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.

21. Significant subsequent events

On 3 July 2020, Energa SA concluded a PLN 500 m loan agreement with Bank Gospodarstwa Krajowego. The loan is a working capital loan and it 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.

Signatures of Members of the Management Board of Energa SA:

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

Person responsible for the preparation of the financial statements:

Magdalena Kamińska ……………………………………………
Deputy Director of the Finance Department

Bartłomiej Bieńkowski ……………………………………………

Manager of the Financial Reporting and Taxes Department

Gdańsk, 29 July 2020