ENERGA SA

Financial Statements prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union, for the year ended 31 December 2019

TABLE OF CONTENTS

Financial statements for the year ended 31 December 2019 (in millions of PLN)

STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Sales revenues	**9.1**	**86**	**89**
Cost of sales	**9.2**	(63)	(79)
Gross profit on sales		**23**	**10**
Other operating income		9	9
General and administrative expenses		(96)	(76)
Other operating expenses		(22)	(14)
Dividend income		644	675
Other financial income	**9.4**	184	239
Impairment losses for shares	**24.6**	(794)	-
Other financial costs	**9.5**	(361)	(351)
Profit/(loss) before tax		**(413)**	**492**
Income tax	**10.1, 10.2**	39	3
Net profit/(loss)		**(374)**	**495**
Earnings/(loss) per share (in PLN)			
Earnings/(loss) per share (basic and diluted)	**19**	(0.90)	1.20

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Net profit/(loss) for the period		**(374)**	**495**
Items that may subsequently be reclassified to profit or loss			
Cash flow hedges	**24.8**	(22)	(44)
Deferred tax		4	8
Net other comprehensive income		**(18)**	**(36)**
Total comprehensive income		**(392)**	**459**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2019	As at 31 December 2018
ASSETS			
Non-current assets			
Intangible assets	**12**	14	13
Right-of-use assets	**13**	50	-
Shares in subsidiaries, associates and joint ventures	**11**	6,715	7,326
Bonds	**24.5.1**	1,719	3,477
Other non-current financial receivables	**24.5.1**	2,764	-
Deferred tax assets	**10.4**	39	19
Derivative financial instruments	**24.3**	3	64
Other non-current assets	**15**	160	138
		11,464	**11,037**
Current assets			
Cash pooling receivables		831	596
Trade receivables and other current financial receivables	**16**	310	39
Bonds	**24.5.1**	41	1,462
Income tax receivables		37	-
Cash and cash equivalents	**14**	822	2,063
Derivative financial instruments	**24.3, 24.8**	26	-
Other current assets	**17**	42	96
		2,109	**4,256**
TOTAL ASSETS		**13,573**	**15,293**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2019	As at 31 December 2018
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Share capital	**18.1**	4,522	4,522
Reserve capital	**18.4**	1,018	1,018
Supplementary capital	**18.5**	2,035	1,540
Cash flow hedge reserve	**24.8**	(52)	(34)
Retained earnings/(accumulated losses)	**18.6**	(330)	539
Total equity		**7,193**	**7,585**
Non-current liabilities			
Loans and borrowings	**24.5.2**	2,398	4,864
Issues of debt securities	**24.5.2**	1,065	1,075
Deferred income and non-current grants	**22**	52	63
Derivative financial instruments	**24.3, 24.8**	72	40
Non-current lease liabilities	**24.5.2**	41	-
		3,628	**6,042**
Current liabilities			
Cash pooling liabilities		192	314
Trade liabilities and other financial liabilities	**21.1**	19	25
Current lease liabilities	**24.5.2**	11	-
Current loans and borrowings	**24.5.2**	2,459	202
Issues of debt securities	**24.5.2**	10	1,025
Current income tax liabilities		-	64
Deferred income and grants	**22**	11	16
Accrued expenses		11	12
Other current liabilities	**21.2**	39	8
		2,752	**1,666**
Total liabilities		**6,380**	**7,708**
TOTAL EQUITY AND LIABILITIES		**13,573**	**15,293**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings/(accumulated losses)	Total equity
As at 1 January 2019		**4,522**	**1,018**	**1,540**	**(34)**	**539**	**7,585**
Cash flow hedges	**24.8**	-	-	-	(18)	-	**(18)**
Net loss for the period		-	-	-	-	(374)	**(374)**
Total comprehensive income for the period		**-**	**-**	**-**	**(18)**	**(374)**	**(392)**
Retained earnings distribution		-	-	495	-	(495)	**-**
As at 31 December 2019		**4,522**	**1,018**	**2,035**	**(52)**	**(330)**	**7,193**
As at 1 January 2018		**4,522**	**1,018**	**1,433**	**2**	**151**	**7,126**
Cash flow hedges	**24.8**	-	-	-	(36)	-	**(36)**
Net profit for the period		-	-	-	-	495	**495**
Total comprehensive income for the period		**-**	**-**	**-**	**(36)**	**495**	**459**
Retained earnings distribution		-	-	107	-	(107)	**-**
As at 31 December 2018		**4,522**	**1,018**	**1,540**	**(34)**	**539**	**7,585**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Cash flows from operating activities			
Profit/(loss) before tax		**(413)**	**492**
Adjustments for:			
Foreign currency (gains)/losses		(2)	9
Loss on investing activities (incl. impairment losses for shares)		849	12
Amortization and depreciation	**9.2**	17	6
Net interest and dividends	**26**	(509)	(539)
Changes in working capital:			
Change in receivables		60	22
Change in liabilities excluding loans, borrowings and bonds		91	123
Change in prepayments and accruals		(24)	(12)
		69	**113**
Income tax paid		**(130)**	**(143)**
Net cash from operating activities		**(61)**	**(30)**
Cash flows from investing activities			
Disposal of property, plant and equipment and intangible assets		-	2
Purchase of property, plant and equipment and intangible assets		(47)	(7)
Proceeds from bond redemption by subsidiaries		3,039	476
Purchase of bonds issued by subsidiaries		-	(1,075)
Purchase of shares in subsidiaries, associates and joint ventures		(181)	(177)
Sale of shares in subsidiaries		-	58
Cash pooling expenditures		(357)	(206)
Dividends received		644	675
Interest received		304	99
Loan granted		(3,055)	-
Loan repayment		-	10
Capital contributions		(40)	-
Other		20	5
Net cash from investing activities		**327**	**(140)**
Cash flows from financing activities			
Redemption of debt securities		(1,000)	-
Proceeds from loans and borrowings		800	-
Repayment of loans		(984)	(441)
Interest paid		(310)	(339)
Repayment of lease liabilities		(11)	-
Net cash from financing activities		**(1,505)**	**(780)**
Net decrease in cash and cash equivalents		**(1,239)**	**(950)**
Cash and cash equivalents at the beginning of the period		**2,065**	**3,015**
Cash and cash equivalents at the end of the period	**14**	**826**	**2,065**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY INFORMATION

1. General information

Company information:

a) Name:	Energa Spółka Akcyjna
b) Legal form:	Spółka Akcyjna (joint stock company)
c) Registered office:	80-309 Gdańsk, al. Grunwaldzka 472
d) Registry court:	District Court Gdańsk-Północ in Gdańsk, 7th Commercial Division of the National Court Register in Gdańsk, under number KRS 0000271591
e) Basic line of business:	holding activity
f) Company's duration:	unspecified

Energa SA was established on 6 December 2006 by the State Treasury, Energa-Operator SA (previously Koncern Energetyczny Energa SA) and Energa Elektrownie Ostrołęka SA (previously Zespół Elektrowni Ostrołęka SA).

As at 31 December 2019, the Polish State Treasury is the Company's parent. The Company's shares have been publicly traded since December 2013.

The basic line of business of Energa SA is holding activity. The Company acts as a parent in the Energa SA Group and, accordingly, it prepares consolidated financial statements of the Group.
The annual consolidated financial statements of the Group were prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS") endorsed in the European Union ("EU"). 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 annual consolidated financial statements for the period ended 31 December 2019. These statements are available on the Company's website.

2. Composition of the Company's Management Board

Throughout 2019 and in the period until the date of preparation of these financial statements, the Management Board of Energa SA was composed of the following persons:

1) from 1 August 2018 to 30 May 2019:
- Alicja Barbara Klimiuk - Vice-President of the Management Board for Operational Matters, acting President of the Management Board;
- Jacek Kościelniak - Vice-President of the Management Board for Financial Matters;
- Grzegorz Ksepko - Vice-President of the Management Board for Corporate Matters;

2) from 31 May 2019 to 16 December 2019:
- Grzegorz Ksepko - Vice-President of the Management Board for Corporate Matters, acting President of the Management Board,
- Jacek Kościelniak - Vice-President of the Management Board for Financial Matters;
- Dominik Wadecki - Vice-President of the Management Board for Operational Matters;

3) from 17 December 2019 to 16 January 2020:
- Jacek Goliński - President of the Management Board;
- Jacek Kościelniak - Vice-President of the Management Board for Financial Matters;
- Grzegorz Ksepko - Vice-President of the Management Board for Corporate Matters;
- Dominik Wadecki - Vice-President of the Management Board for Operational Matters;
- Adrianna Sikorska - Vice-President of the Management Board for Communication Matters;

4) 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;

5) 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;

6) 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;

7) 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 the consolidated financial statements of the Energa SA Group were approved for publication by the Company's Management Board on 27 May 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 significant uncertainty as to the ability of the Company to continue its business activities as a going concern.

4.1. Statement of compliance

These financial statements have been prepared in accordance with the IFRS endorsed in the EU.

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

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 numbers are given in millions of Polish zloty ("PLN m") unless stated otherwise.

5. Material items subject to professional judgment and estimates

In the process of applying the accounting policies to the issues specified below, one of the most important factors next to accounting estimates was the professional judgment of the management, which affected the amounts stated in the financial statements, including the notes. The assumptions adopted for the purposes of those estimates are based on the best knowledge of the Management Board regarding the current and future actions and events in individual areas. Detailed information on the adopted assumptions is presented in the relevant notes in these financial statements.

The key assumptions for the future and other main sources of uncertainty occurring as at the end of the reporting period, which entail a significant risk of considerable adjustment of the carrying amount of assets and liabilities in the next financial year, are presented below.

Impairment of assets

No less frequently than at the end of every reporting period, the Company determines whether there is any evidence of impairment of any non-current asset. If such evidence is found or when an annual impairment test must be carried out, the Company estimates the recoverable amount of such asset. The amount of the impairment loss on investments in subsidiaries, associates and joint ventures is presented in Note 11, while the impairment loss on other financial assets in Note 24.6.

Deferred tax asset

Deferred tax assets are measured using the tax rates that will be applied at the moment when the asset is utilized, based on the tax regulations in force at the end of the reporting period. Energa SA recognizes a deferred tax asset based on the assumption that tax profit would be recorded in the future, allowing the Group to use the asset. This assumption may prove to be unjustified if tax results deteriorate in the future. The calculation of deferred tax is presented in Note 10.4, while information on the Energa Tax Group is provided in Note 10.3.

Fair value of financial instruments

The fair value of financial instruments, for which no active markets exist, is measured by using appropriate valuation techniques. The Company uses professional judgment when selecting such adequate methods and assumptions. The method used to determine fair value of individual financial instruments is presented in Note 24.4.

6. Changes in estimates

During the periods covered by these financial statements, no changes were made in the scope or methods used in determining significant estimates. The changes in the amounts of the estimates resulted from events that occurred during the reporting period.

7. New standards and interpretations

7.1. Standards and interpretations applied for the first time in 2019

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

- IFRS 16 *Leases* (applicable to annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 9 *Financial Instruments* – Prepayment Features with a Negative Set-off (applicable to annual periods beginning on or after 1 January 2019);
- Interpretation IFRIC 23 *Uncertainty over Income Tax Treatments* (applicable to annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19 *Employee Benefits – Changes to a Defined Benefit Plan* (applicable to annual periods beginning on or after 1 January 2019);
- Amendments to various standards *Annual Improvements to IFRS Standards (2015-2017 Cycle)* – amendments introduced during the annual cycle of improvements to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) aimed mainly at removing inconsistencies and agreeing on the wording (applicable to annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 *Investments in Associates and Joint Ventures* – detailed scope of application of the standard to long-term interests in associates and joint ventures (applicable to annual periods beginning on or after 1 January 2019).

7.2. Standards and interpretations already published and endorsed in the EU, which came into effect after the balance sheet date

When approving these financial statements, the Company did not apply the following standards, amendments to standards and interpretations that were published and endorsed for use in the EU but became effective after the balance sheet date:

- 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 acceptance falls at the start of the first annual period beginning on or after 1 January 2020 and to acquisitions of assets occurring on or after the start day of the aforesaid annual period);
- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – definition of the term "material" (applicable to annual periods beginning on or after 1 January 2020);
- Interest rate benchmark - amendments to IFRS 9, IAS 39 and IFRS 7 (applicable to annual periods beginning on or after 1 January 2020).

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

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

- IFRS 17 *Insurance Contracts* (applicable to annual periods beginning on or after 1 January 2021),
- Amendments to IAS 1 "Presentation of Financial Statements" - classification of liabilities as current or non-current (applying to yearly periods commencing on 1 January 2023 or after this date).

In the event that the standards listed in item 7 are implemented, except for IFRS 16 the implications of which have been discussed in item 8, the Company does not anticipate the related changes to have a significant impact on its statements.

8. Significant accounting policies

The most significant accounting policies applied by the Company are presented below. These policies are applied on a continuous basis except for the changes attributable to the amendments to IFRS EU, in particular relating to IFRS 16 "Leases" standard adopted for the first time in the current reporting period. The Company implemented IFRS 16 using the cumulative catch-up transition approach in accordance with IFRS 16.C5(b). Therefore, comparative data for the year 2018 were not restated.

8.1. Conversion of items in foreign currencies

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

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

Exchange differences resulting from this conversion are recognized respectively as financial income (cost) items or, in the cases identified in the accounting principles (policies), they are capitalized as assets.

8.2. Intangible assets

The Company classifies as intangible assets any identifiable non-pecuniary asset components devoid of physical form. On initial recognition, an intangible asset is measured at the purchase price or production cost. The purchase price of an intangible asset includes:

- the purchase price including import duties, non-deductible taxes included in the price, less any granted discounts and rebates and
- expenditures directly connected with preparing the asset component for use according to its planned purpose.

After initial recognition, intangible assets are carried at purchase price or production cost, less accumulated amortization and impairment losses. The Company assesses whether useful life of an intangible asset component is definite or indefinite and, if definite, estimates the duration of that period. Amortization begins in the month following the month in which the asset becomes ready for use.

Intangible assets with a limited useful life are subjected to impairment tests each time when there are prerequisites indicating their impairment. The amortization period and method are reviewed at least at the end of each financial year.

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

The Company applies the following amortization rates for intangible assets with specific useful lives: 20%, 25%, 50% and 100%.

8.3. Shares in subsidiaries, associates and joint ventures

The Company carries investments in subsidiaries and associates at historical cost less impairment losses.

8.4. Impairment of non-financial assets and shares in subsidiaries, associates and joint ventures

No less frequently than at the end of every reporting period, the Company determines whether there is any evidence of impairment of any non-financial non-current asset or investment in subsidiaries, associates and joint ventures. If such evidence is found or when an annual impairment test must be carried out, the Company estimates the recoverable amount of such asset or cash generating unit to which such asset is allocated. Impairment occurs when the recoverable amount (i.e. the higher of fair value less cost to sell and value in use) is lower than the carrying amount of the tested asset or cash generating unit.

Impairment losses on assets used in continuing operations are recognized in cost categories that correspond to the function of the impaired asset.

At the end of each reporting period, the Company estimates whether there is any evidence that the impairment loss applied in previous periods to such asset is redundant or whether it should be decreased. If such evidence exists, the Company estimates the recoverable amount of the asset.
A previously recognized impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

8.5. Cash and cash equivalents

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

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

Cash is measured at par value.

8.6. Leases

The Company as a lessee

Under the new IFRS 16 Leases standard, what a lease is to the lessee is any contract which conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In order to recognize a contract as a lease, the Company analyses, first of all:

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

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

The new standard eliminated operating leases under IAS 17 for lessees, transforming each contract into a finance lease.

In 2019, the cost of interest on lease liabilities amounted to PLN 2 m, whereas the costs associated with variable lease payments not recognized in the valuation of lease liabilities amounted to PLN 6 m.

The Company's updated accounting policy envisages:

- non-application of the requirements of IFRS 16 to short-term leases, characterized by the maximum term of contact of up to 12 months, and leases of low-value assets, i.e. below PLN 10 k, with the exception of right of perpetual usufruct of land;
- recognition of a lease liability at the commencement date in the amount of the initial measurement of the lease liability, i.e. at the present value of the lease payments outstanding at the commencement date;
- the lease liabilities are reduced by any lease incentives payable if their value can be determined at the time of commencement of the lease;
- the Company discounts lease payments using the interest rate implicit in the lease if that rate can be determined on the basis of the contract. Otherwise, the lessee's incremental borrowing rate shall be used;
- financial costs, i.e. interest, and variable lease payments not included in the measurement of the lease liability, shall be recognized on an ongoing basis in the statement of profit or loss;
- after the commencement date, the lessee shall measure the right-of-use assets applying a cost model, i.e. shall reduce the value of the asset by depreciation charges and impairment losses and adjust it for any remeasurement of the lease liability to reflect any reassessment or lease payment modification;
- the amortization and depreciation period shall be equal to the lease term, unless the leased asset is expected to be bought, in the latter case, the economic life of the asset is determined immediately.

The Company applies interest rates to those lease contracts that had no interest rate identified. Its amount depends on the contract's currency and the term of the contract, ranging from -0.2282% to 1.1285% for contracts in EUR and from 1.7595% to 3.6700% for contracts in PLN.

Financial statements for the year ended 31 December 2019 (in millions of PLN)

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

	As at 1 January 2019 (prior to application of IFRS 16)	Impact of application of IFRS 16	As at 1 January 2019 (following application of IFRS 16)
ASSETS			
Non-current assets, of which:	**11,037**	**60**	**11,097**
Property, plant and equipment	7	-	7
Intangible assets	13	(1)	12
Right-of-use assets	-	61	61
Current assets	**4,256**	**-**	**4,256**
TOTAL ASSETS	**15,293**	**60**	**15,353**
EQUITY AND LIABILITIES			
Total equity	**7,585**	**-**	**7,585**
Non-current liabilities, of which:	**6,042**	**50**	**6,092**
Lease liabilities	-	50	50
Current liabilities, of which:	**1,666**	**10**	**1,676**
Lease liabilities	-	10	10
TOTAL EQUITY AND LIABILITIES	**15,293**	**60**	**15,353**

The Company as a lessor

The introduction of the new standard did not result in any changes from the lessor's perspective.
In the case of financial leases, the Company recognizes lease receivables in its statement of financial position and in its accounting records as non-current or possibly current financial assets. They are measured at amortized cost, using the interest rate of the lease.
The Company divides the base fee into the principal part and the interest part. The interest part of the base fee is income from financial leases recognized in financial income.
The principal portion of the lease fee attributable to a given accounting period represents repayment of the receivables from the user. The fee is divided using the interest rate of the lease.
Leases where the Company retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease receivables are recognized on a straight-line basis during the lease period. The initial direct costs incurred in the course of negotiating operating lease agreements are added to the carrying amount of the leased asset and are recognized as cost during the term of the lease.

8.7. Other assets

In other assets, the Company recognizes accrued costs if the following conditions are satisfied:

- they result from past events – an expenditure incurred for the entity's operational objectives,
- their amount may be measured reliably,
- they contribute to future economic benefits of the entity,
- they refer to future reporting periods.

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

Prepayments may be written off in proportion to the passage of time or benefits received. The time and manner of settlement is justified by the nature of the cost being settled, in keeping with the conservative valuation principle.

At the end of a reporting period, the Company reviews prepayments to find whether the degree of certainty that the entity will achieve economic benefits after the lapse of the reporting period is sufficient to recognize the item as an asset component.

Other assets also include receivables on account of settlements of the Energa Tax Group, receivables on account of public and legal settlements (except for settlements on account of corporate income tax, presented as a separate item in the statement of financial position), surplus of assets over liabilities of the Company Social Benefit Fund, and advances paid for future purchases of property, plant and equipment and intangible assets. Advances are presented in line with the type of assets to which they refer – as non-current or current assets respectively. As non-pecuniary assets, advances are not discounted.

8.8. Equity

Equity is carried at par value, broken down into types and according to the principles set forth by the law and by the Company's articles of association.

The retained earnings/accumulated losses item includes net result of the current year, results carried forward from previous years, as well as adjustments connected with the transition to IFRS EU.

8.9. Other liabilities

Other liabilities include in particular liabilities on account of settlements of the Energa Tax Group, liabilities to the tax office on account of value added tax and liabilities on account of received advance payments to be settled by deliveries of goods, services or property, plant and equipment. Advances are recognized in the amount received and other liabilities are recognized in the amount of the required payment.

8.10. Deferred income and grants

Deferred income is recorded in keeping with the conservative valuation principle. Deferred income includes:

- government grants recognized while measuring preferential loans,
- cash received to cover the acquisition or manufacturing of property, plant and equipment and development. These are settled by gradually increasing other operating income by an amount corresponding to depreciation on these assets, in the part financed by the mentioned cash.

Grants recognized while measuring preferential loans

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

8.11. Cash pooling

Transactions within the cash pooling system are recognized as related party transactions where the company acting as an agent is the other party to the transaction (Company). Cash pooling receivables and payables are presented, respectively, as short-term financial assets or short-term financial liabilities in the category of financial assets and liabilities measured at amortized cost. The Company presents its cash pooling settlements separately as assets and liabilities, while interest is shown at net amounts. The Company presents its cash flows from the system on the net basis, as cash flows from investing or financing activities.

8.12. Financial instruments

8.12.1. Financial assets

Under the IFRS 9 standard, financial assets are classified exclusively to three categories:

- financial assets at amortized cost,
- financial assets at fair value through comprehensive income, and
- financial assets at fair value through profit or loss.

Classification of financial assets depends on the business model of management of financial assets and the characteristic of contractual cash flows of a financial asset.
Financial assets are classified at the time of initial recognition and their classification may be changed only when the business model of management of financial assets has evolved.
According to IFRS 9, a financial asset is measured at amortized cost if both conditions below have been fulfilled:

- the asset is held within the Company's business model whose objective is to hold assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

On the other hand, a financial asset is measured at fair value through other comprehensive income if both conditions below have been fulfilled:

- the Company aims both to hold those financial assets to collect contractual cash flows and to sell the assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The remaining financial assets are measured at fair value through profit or loss, including valuation of loan granted to Elektrownia Ostrołęka Sp. z o.o., for which loans the SPPI test according to IFRS 9 was not met.

8.12.2. Impairment of financial assets

IFRS 9 changes the impairment loss model from the incurred credit losses model to the expected credit losses model. On 1 January 2018, the Company implemented the model of expected credit losses on receivables under the simplified approach admissible under IFRS 9. The rationale for the application of the above model are as follows:

- the receivables held by the Company did not contain the significant financing element within the meaning of the principles defined in IFRS 15, i.e. no significant financing component existed to adjust the promised amount of consideration; and
- the receivables fulfilled the condition of the expected repayment within a period shorter than one year.

The simplified model permits calculation of credit losses throughout the life of the receivable. According to IFRS 9, the expected credit loss is calculated while taking into consideration the estimates of potential recoveries on account of contributed collaterals. In the case of receivables from counterparties, it is expected that the data on historic collectability may reflect credit risk that will be borne in future periods.
Furthermore, the value of receivables may be updated also individually, in particular in relation to:

- receivables due from debtors put into liquidation or declared bankrupt;
- receivables contested by debtors and receivables on the repayment of which the debtor is in arrears and where, based on the debtor's assets and financial situation, the repayment of receivables in the contractual amount is unlikely (in such case, bad debt provision may be established in the amount of 100% of the value of the previously recognized debt);
- other overdue receivables as well as not overdue receivables for which default risk is significant according to the Management Board's individual assessment.

In the case of purchased bonds, the Company assesses increase in credit risk from the moment of initial recognition individually for every bond issuer while taking into consideration all reasonable information that can be documented, including future-related data.

The Company assesses changes in default risk over the expected life of the bond. In order to make such assessment, the Company compares risk of default for a given bond as at the reporting date against risk of default for that financial instrument as at the date of initial recognition while taking into consideration all reasonable information that can be documented.
As at the date of this statement, the Company assesses risk of default on the held bonds as low.

8.12.3. Financial liabilities

At Energa SA, the only financial liabilities are those classified as held at amortized cost.

Financial liabilities held at amortized cost include primarily trade liabilities, bank loans, borrowings and debt securities and cash pooling liabilities. On initial recognition, they are recognized at fair value less costs of obtaining them. After initial recognition, they are measured at amortized cost using the effective interest rate method.

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

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

The Company derecognizes a financial liability from its statement of financial position if the liability has expired, i.e. when the obligation defined in the respective agreement has been performed, has been canceled or has expired.

8.12.4. Hedge accounting

Hedging derivatives and hedge accounting

The Company may decide to designate selected derivatives as hedges under cash flow hedge accounting under any identified hedge relationship. The Company allows the use of cash flow hedge accounting only if the following criteria are met, i.e.:

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

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

Changes in the fair value measurement of derivative financial instruments designated as cash flow hedges are recognized in other comprehensive income and captured on a cumulative basis in the cash flow hedge reserve
in proportion thereof that is an effective hedge, whereas any ineffective portion of the hedge is posted to the statement of profit or loss.

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

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

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

Presentation

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

- the effective portion of any change in the valuation of hedges is posted to other comprehensive income and accumulated in revaluation reserve;
- interest on hedges is presented in the same item of the statement of profit or loss, which presents interest result on the hedged position;

- any revaluation of hedges transferred from other comprehensive income is presented in the same line of the statement of profit or loss in which the currency revaluation of the hedged position is presented in the same period in which the hedged item affects the financial result;
- the ineffective portion of changes in the valuation of hedging instruments is recognized in financial income/costs.

8.13. Revenue

Sales revenues are recognized when and to the extent reflecting satisfaction by the Company of an obligation to make a performance (provide a service) or deliver the goods. Revenue is recognized to the extent that it is probable that the Company will obtain economic benefits from the transaction and when the revenue can be reliably measured. Revenue is recognized net of value-added tax (VAT) and other sales taxes or fees, and rebates and discounts. The following criteria shall also apply when recognizing revenue:

- the parties have concluded a contract (in writing, verbally or otherwise consistently with other customary commercial practices) and are bound to perform their respective obligations;
- The Company is capable of identifying the rights of each of the parties relating to the goods or services to be transferred;
- the Company is capable of identifying the terms of payment for the goods or services to be transferred;
- the contract has economic content; and
- it is probably that the company will receive due remuneration in exchange for the goods or services to be transferred to the customer.

Depending on satisfaction of the criteria defined in IFRS 15 “Revenue from Contracts with Customers”, revenue may be recognized on a one-time basis (as control over goods and services is transferred to the customer) or may be spread over time in the manner depicting execution of the performance, especially in the case of contracts executed over time.

The Company presents all unconditional rights to consideration separately as a receivable. Right to consideration is unconditional when the sole condition of maturity of consideration is the lapse of a specific time limit.

On the other hand, if:

- The Company performs an obligation by transferring goods or services to a customer before the customer pays consideration or prior to its maturity date, the Company presents the contract as a contract asset, excluding any amounts presented as receivables. A contract asset is the Company’s right to consideration in exchange for the goods or services transferred by the Company to the customer.
- the customer pays consideration or the Company is entitled to the amount of the consideration that is unconditional (i.e. a receivable) before the Company transfers the goods or services to the customer, the Company presents the contract as the contract liability on the execution of the payment or when the payment becomes due.

A contract liability is the Company’s obligation to transfer to the customer the goods or services in exchange for which the Company has received consideration (or an amount of consideration is due) from the customer.

The structure of sales revenue by type and the manner of its recognition are as follows:

- rental income is determined using the straight-line method for the entire term of rental, in relation to active agreements (excluded from the scope of IFRS 15);
- revenue from other services is recognized on provision of the service.

Revenues on sales of products comprise revenues on sales of services, including in particular revenues from the sale of the rights to use the Energa brand and revenues on account of the participation of subsidiaries in brand promotion expenses. Revenue from recharging is recognized as revenue from core operating activity. Sales revenue adjustments are allocated to the period to which they relate until the approval of the financial statements for publication. Dividend income is recognized when the right to dividend is acquired.
Due to their immateriality, the Company does not present contract assets and contract liabilities items in the statement of financial position.
A breakdown of revenue in line with the above principles has been presented in Note 9.1.

8.14. Costs

Operating expenses consist of the following:

- cost of sales incurred in the reporting period, adjusted for a change in product inventories and adjusted for the cost of manufacturing products for own needs; and
- general and administrative expenses.

8.15. Other operating income and expenses

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

- disposals of property, plant and equipment, intangible assets and investment property;
- recognition and reversal of provisions, except for provisions tied to financial operations or recognized in operating expenses;
- giving or receiving of assets, including cash, free of charge, also as a donation; and
- compensations and other revenues and costs not associated with ordinary activity.

8.16. Financial income and costs

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

- disposal of financial assets;
- restatement of financial instruments;
- revenues from profit-sharing in other entities;
- interest;
- changes in provision resulting from the approaching date of incurring the cost (unwinding discount effect); and
- other items related to financing activity.

Financial statements for the year ended 31 December 2019 (in millions of PLN)

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

Dividends are recognized when the title to receive them is determined.

The Company nets income and costs from exchange differences.

8.17. Earnings/(loss) per share

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

NOTES TO STATEMENT OF PROFIT OR LOSS

9. Revenues and expenses

9.1. Sales revenues

The Company generates revenue from the sale of services recognized at a point in time. On the other hand, the Company does not generate any revenue recognized in a continuous manner or post guarantees and related liabilities on account of provided services. The Company usually applies terms of payment of 14 days.

The revenue structure by nature is as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Licensing fees income	58	60
Revenues on sales of IT services	10	11
Rental income	9	9
Revenue from other services	9	9
TOTAL	**86**	**89**

9.2. Costs by nature

	Year ended 31 December 2019	Year ended 31 December 2018
Amortization and depreciation of property, plant and equipment, intangible assets and right-of-use assets	17	6
Consumption of materials and energy	3	2
External services	57	68
Taxes and fees	3	(2)*
Employee benefit expenses	32	27
Other costs by nature	47	54
TOTAL	**159**	**155**
of which:		
Cost of sales	63	79
General and administrative expenses	96	76

* including adjustment of VAT declarations for previous years in the amount of PLN (8) m

9.3. Employee benefit expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries	25	21
Social security contributions	4	3
Other employee benefit expenses	3	3
TOTAL	**32**	**27**

9.4. Other financial income

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income	181	239
Foreign exchange differences	3	-
TOTAL	**184**	**239**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

9.5. Other financial costs

	Year ended 31 December 2019	Year ended 31 December 2018
Interest expenses	304	330
Revaluation of financial assets	47	-
Measurement of other derivative instruments	7	12
Foreign exchange differences	-	8
Other financial costs	3	1
TOTAL	**361**	**351**

10. Income tax

10.1. Tax liabilities

The key components of the tax liability for the years ended 31 December 2019 and 31 December 2018 are as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Statement of profit or loss		
Current income tax	24	11
Deferred tax	15	(8)
Tax benefit recognized in the statement of profit or loss	**39**	**3**
Statement of comprehensive income		
Deferred tax	4	8
Tax benefit recognized in other comprehensive income	**4**	**8**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

10.2. Reconciliation of effective tax rate

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

	Year ended 31 December 2019	Year ended 31 December 2018
Profit/(loss) before tax on continuing operations	**(413)**	**492**
Tax at Poland's statutory rate of 19%	**78**	**(93)**
Tax impact of permanently non-taxable income and non tax-deductible expenses:	(39)	96
- on dividends received	122	128
- on impairment losses on financial assets	(158)	-
- other	(3)	(32)
Tax at the effective tax rate	**39**	**3**
Tax gain recognized in the statement of profit or loss	39	3

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

10.3. Energa Tax Group

On 25 September 2017, Energa SA and its related parties: Energa-Operator SA, Energa-Obrót SA, Energa Wytwarzanie SA (current name: Energa OZE SA), Energa Informatyka i Technologie Sp. z o.o., Energa Centrum Usług Wspólnych Sp. z o.o., Energa-Operator Logistyka Sp. z o.o. (current name: Energa Logistyka Sp. z o.o.), Energa Oświetlenie Sp. z o.o., Enspirion Sp. z o.o., ENSA PGK1 Sp. z o.o. (current name: Energa Invest Sp. z o.o.), ENSA PGK3 Sp. z o.o. (current name: Energa Ochrona Sp. z o.o.), ENSA PGK8 Sp. z o.o. (current name: CCGT Gdańsk Sp. z o.o.), EOB PGK1 Sp. z o.o. (current name: CCGT Grudziądz Sp. z o.o.), EOB PGK2 Sp. z o.o. (current name: Centrum Badawczo-Rozwojowe im. M. Faradaya Sp. z o.o.) entered into a new tax group agreement under the name of PGK Energa 2018. The agreement was concluded for 3 fiscal years, that is until 31 December 2020.

In a tax group, income tax is calculated on the income earned in the fiscal year equal to the surplus of aggregated income of all companies comprising the group over their aggregate losses.

The Energa Tax Group companies, which post tax profit, transfer the appropriate income tax amount to Energa SA, which handles the settlements with the tax authority as the representative company. The Energa Tax Group companies that post tax losses obtain a tax gain in the amount, which was used to reduce the tax amount of the entire Tax Group. Settlements on account of the Energa Tax Group do not affect deferred tax but only the current tax liability.

Cash flows between Energa Tax Group companies are carried out during the year on the dates preceding the payment of income tax advances. Accordingly, at the end of the reporting period, Energa SA presents settlements with companies on account of Tax Group operations. The final settlement between Tax Group companies is conducted after the representing company files the annual tax returns.

10.4. Deferred income tax

The deferred tax results from the following items:

	As at 31 December 2019	As at 31 December 2018
Deferred tax assets before set-off	**66**	**85**
on the difference between the tax and carrying value of financial liabilities measured at amortized cost	19	23
on the difference between the tax and carrying value of property, plant and equipment and intangible assets	2	5
on the difference between the tax and carrying value of liabilities measured at fair value through profit or loss	14	10
on foreign exchange differences	11	18
on deferred income	-	2
on tax loss	16	23
other	4	4
Set-off	***(27)***	***(66)***
TOTAL	**39**	**19**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

	As at 31 December 2019	As at 31 December 2018
Deferred tax liability before set-off	**27**	**66**
on the difference between the tax and carrying value of loans and receivables	8	34
on the difference between the tax and carrying value of hedging instruments	1	1
on the difference between the tax and carrying value of financial assets excluded from the scope of IFRS 9	8	14
on foreign exchange differences	4	11
other	6	6
Set-off	***(27)***	***(66)***
TOTAL	**-**	**-**

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

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

	Year ended 31 December 2019	Year ended 31 December 2018
Deferred tax assets		
Opening balance before set-off:	**85**	**61**
Increases:	**5**	**49**
recognized in profit or loss	1	41
recognized in other comprehensive income	4	8
Decreases:	**(24)**	**(25)**
recognized in profit or loss	(24)	(25)
Set-off	**(27)**	**(66)**
Closing balance	**39**	**19**
Deferred tax assets	**39**	**19**
Deferred tax liabilities		
Opening balance before set-off:	**66**	**42**
Increases:	**4**	**34**
recognized in profit or loss	4	34
Decreases:	**(43)**	**(10)**
recognized in profit or loss	(43)	(10)
Set-off	**(27)**	**(66)**
Closing balance	**-**	**-**
Deferred tax liabilities	**-**	**-**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

NOTES TO STATEMENT OF FINANCIAL POSITION

11. 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 (%)	Net profit (loss) for 2019 PLN m	Equity PLN m
Subsidiaries					
Energa-Operator SA	Gdańsk	4,471	100.00	510	7,246
Energa OZE SA*	Gdańsk	989	100.00	(24)	1,158
Energa-Obrót SA	Gdańsk	331	100.00	75	449
Energa Kogeneracja Sp. z o.o.	Elbląg	308	64.59	(541)	317
Energa Oświetlenie Sp. z o.o.	Sopot	234	100.00	14	205
Energa Finance AB (publ)	Stockholm	103	100.00	(10)	69
Energa Invest Sp. z o.o.	Gdańsk	68	100.00	(7)	55
CCGT Grudziądz Sp. z o.o.	Grudziądz	41	100.00	(1)	48
Energa Informatyka i Technologie Sp. z o.o.	Gdańsk	37	100.00	9	53
CCGT Gdańsk Sp. z o.o.	Gdańsk	22	100.00	(1)	23
Energa Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	6	100.00	(2)	43
Enspirion Sp. z o.o.	Gdańsk	5	100.00	6	2
Energa Ochrona Sp. z o.o.	Gdańsk	1	100.00	<1	3
Energa Serwis Sp. z o.o.	Ostrołęka	-	14.09	<1	17
Energa Logistyka Sp. z o.o.	Płock	-	100.00	(6)	13
Other companies	-	<1	-	-	-
Associates					
Polimex-Mostostal SA	Warsaw	82	16.48	94	661
ElectroMobility Poland SA	Warsaw	17	25.00	(4)	58
Joint ventures					
Elektrownia Ostrołęka Sp. z o.o.	Ostrołęka	-	50.00	(1,039)	(154)
Total value of shares		**6,715**			

* Energa Wytwarzanie SA was renamed Energa OZE SA on 3 September 2019

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

On 4 January 2019, a resolution was passed by the Extraordinary Meeting of Shareholders of Elektrownia Ostrołęka Sp. z o.o. to increase the company's share capital up to PLN 912 m, i.e. by PLN 361 m. The new shares were acquired by Energa SA and Enea S.A., 50% each, i.e. for PLN 181 m each. The share capital increase was recorded in the National Court Register on 1 March 2019.

On 12 June 2019, the Extraordinary General Meeting of Shareholders of Energa Wytwarzanie SA passed a resolution on the company's division through spinning off of some of its assets in the form of an organised part of the enterprise and lowering of the company's share capital by PLN 62 m. In connection with division of Energa Wytwarzanie SA, the share capital of the acquiring companies, i.e. ENSA PGK8 Sp. z o.o. and EOB PGK1 Sp. z o.o., was increased, respectively, up to PLN 22 m and PLN 41 m. At the same time, the Extraordinary General Meeting of Shareholders of ENSA PGK8 Sp. z o.o. was renamed CCGT Gdańsk Sp. z o.o. and EOB PGK1 Sp. z o.o. was renamed CCGT Grudziądz Sp. z o.o. The share capital decrease of Energa Wytwarzanie SA was recorded in the National Court Register on 16 July 2019. The share capital increase of the acquiring companies was recorded in the National Court Register on 1 August 2019.

An increase of the share capital of Energa-Obrót SA by PLN 1 m, i.e. up to PLN 331 m, in connection with the in-kind contribution of the e-Mobility Project assets was recorded in the National Court Register (KRS) on 16 September 2019.

Impairment tests for shares

In the second half of 2019, shares held by the Company were assessed for any internal and external impairment triggers. Within the scope of such assessment, 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, 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.

Impairment tests for shares were carried out using the income method, determining the value in use based on the discounted value of estimated cash flows from operating activities, taking into account, among others, the following assumptions:

- 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 5.94% to 8.16%.

Energa Invest Sp. z o.o.

The impairment tests for shares in the company were conducted as at 31 December 2019. The value in use was calculated on the basis of financial projections for the period of January 2020 - December 2024 and residual value.
Based on the results of testing conducted in the second half of 2019, it was found that no impairment losses needed to be recognized on the company's shares.

Energa Obrót SA

The impairment tests for shares in the company were conducted as at 31 December 2019. The value in use was calculated on the basis of financial projections for the period of January 2020 - December 2024 and residual value.
Based on the results of testing conducted in the second half of 2019, it was found that no impairment losses needed to be recognized on the company's shares.

Energa Informatyka i Technologie Sp. z o.o.

The impairment tests for shares in the company were conducted as at 31 December 2019. The value in use was calculated on the basis of financial projections for the period of January 2020 - December 2024 and residual value.
Based on the results of testing conducted in the second half of 2019, it was found that no impairment losses needed to be recognized on the company's shares.

Energa Kogeneracja Sp. z o.o.

The impairment tests for shares in the company were conducted as at 31 December 2019. The recoverable amount was calculated on the basis of financial projections for the period of January 2020 - December 2031 and 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. The valuation of shares included an impairment loss for the value of the block of shares of Polska Grupa Górnicza S.A.
Based on the results of testing conducted in the second half of 2019, it was found that an impairment loss of PLN 324 m on the company's shares and capital contributions needed to be recognized. The recoverable amount was set at PLN 308 m.

Enspirion Sp. z o.o.

The impairment tests for shares in the company were conducted as at 31 December 2019. The recoverable amount was calculated on the basis of financial projections for the period of January 2020 - December 2025 and residual value. The standard 5-year projection period was extended because of the fact that changes in working capital 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.
Based on the results of testing conducted in the second half of 2019, it was found that no impairment losses needed to be recognized on the company's shares.

Energa OZE SA

The impairment tests for shares in the company were conducted as at 31 December 2019. The value in use was calculated on the basis of financial projections for the period of January 2020 - December 2024 and residual value.

Based on the results of testing conducted in the second half of 2019, it was found that no impairment losses needed to be recognized on the company's shares.

Energa Centrum Usług Wspólnych Sp. z o.o.

The impairment tests for shares in the company were conducted as at 31 December 2019. Calculations to determine the value in use were conducted using the mixed method while taking into account the discounted value of estimated cash flows from the operating activity and valuation of non-operating assets by an appraiser using the market approach. A valuation using the income-based method was prepared on the basis of financial projections for the period of January 2020 - December 2024 and residual value.

Based on the results of testing conducted in the second half of 2019, it was found that no impairment losses needed to be recognized on the company's shares.

Energa Ochrona Sp. z o.o.

The impairment tests for shares in the company were conducted as at 31 December 2019. The value in use was calculated on the basis of financial projections for the period of January 2020 - December 2024 and residual value.
Based on the results of testing conducted in the second half of 2019, it was found that no impairment losses needed to be recognized on the company's shares.

Energa Logistyka Sp. z o.o.

The impairment tests for shares in the company were conducted as at 31 December 2019. The value in use was calculated on the basis of financial projections for the period of January 2020 - December 2027 and residual value. A standard 5-year projection period was extended because of the pending process to implement the company's new business model and gradual stabilisation of performance; as a result, it is now possible to determine residual value based on the cash flows representative for the future and prepare a more reliable valuation.
Based on the results of testing conducted in the second half of 2019, it was found that impairment losses on the company's shares needed to be recognized in the full amount of PLN 25 m.

Energa Oświetlenie Sp. z o.o.

The impairment tests for shares in the company were conducted as at 31 December 2019. The value in use was calculated on the basis of financial projections for the period of January 2020 - December 2026 and residual value. A standard 5-year projection period was extended because of the pending process of increased investment in the period until 2025; as a result, it is now possible to determine residual value based on representative cash flows and prepare a more reliable valuation of the company's shares.
Based on the results of testing conducted in the second half of 2019, it was found that no impairment losses needed to be recognized on the company's shares.

Energa Serwis Sp. z o.o.

For the purposes of an internal sale transactional process, preparation of a valuation of Energa Serwis was commissioned to an external entity. The valuation was carried out as at 31 December 2019. The value in use was calculated on the basis of financial projections for the period of January 2020 - December 2038 and residual value. The valuation was performed using the DCF method which assumed continued use of a part of resources of Energa Serwis in the planned business activity.
Following determination of the value of shares from the valuation at a level lower than the carrying value of the held shares in Energa Serwis, the need was stated for recognizing impairment losses of PLN 1.9 m in the second half of 2019. The recoverable amount of the held share block was set at PLN 0.1 m.

CCGT Grudziądz Sp. z o.o. and CCGT Gdańsk Sp. z o.o.

In the Current Report published on 20 March 2020, the Management Board of Energa SA informed that on 27 February 2020 it had passed a resolution concerning the launch of the procedure leading to a review of available strategic options, including conduct of in-depth market reconnaissance and making enquiries with external entities to determine their interest in a potential strategic partnership or purchase of the Company's special-purpose vehicles (SPVs) carrying out the projects consisting in construction of combined cycle gas turbines (CCGT) located in Gdańsk and Grudziądz. Furthermore, an analysis of profitability of projects has demonstrated a positive NPV. In the second half of 2019, it was found that no impairment losses needed to be recognized on the Company's shares.

Elektrownia Ostrołęka Sp. z o.o.

On 13 February 2020, between the Sponsors of the project to build a 1000 MW coal-fired power plant Ostrołęka C (Energa SA and Enea S.A.), an Agreement was concluded regarding Further Activities in the Ostrołęka "C" Project. Pursuant to the Agreement, project financing was suspended due to the occurrence of important market environment factors, combined with the difficulty of obtaining external financing. The necessity of conducting a number of further analyses, including technical and economic parameters of the project, was determined. In connection with the recognized by Elektrownia Ostrołęka Sp. z o.o. indicators for impairment of fixed assets produced so far in the Ostrołęka C project, the Company stated the need to conduct an impairment test of assets according to IAS 36. Based on the measurement of the project's fixed assets at fair value, an impairment loss was identified in the amount of PLN 1 027 m. At the same time, it was indication of total impairment loss of the value of shares in the Company in the financial statements with an impact on the net profit or loss of Energa SA – PLN (453).

Energa Finance AB (publ)

The impairment tests for shares in the company were conducted as at 31 December 2019. The value in use was calculated on the basis of financial projections for the period of January 2020-March 2027 (for the full period of the assumed lifetime of the company). Based on the results of testing conducted, it was found that no impairment losses needed to be recognized on the company's shares.

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 20 m.

Financial statements for the year ended 31 December 2019 (in millions of PLN)

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 %]		1,043.9	(20.1)
	[- 0.5 %]	1,297.6		14.6

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%]	183.8	-	13.6
	[-1%]	-	(185.1)	(13.5)
Green certificates of origin energy prices	[+1%]	12.3	-	1.3
	[-1%]	-	(12.3)	(1.3)
Coal prices	[+1%]	-	(95.6)	(24.8)
	[-1%]	93.9	-	(24.5)
EUA prices	[+1%]	-	(18.5)	(3.3)
	[-1%]	18.5	-	3.2

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

12. Intangible assets

	Licenses and patents	Other intangible assets	Intangible assets not in use	TOTAL
Gross value				
As at 1 January 2019	**11**	**27**	**32**	**70**
Purchase of intangible assets (including assets not in use)	-	-	48	**48**
Settlement of intangible assets not in use	42	1	(43)	**-**
Contribution in kind	-	(6)	-	**(6)**
Handed over for use under a lease agreement	(42)	-	-	**(42)**
As at 31 December 2019	**11**	**22**	**37**	**70**
Accumulated amortization				
As at 1 January 2019	**(9)**	**(23)**	**-**	**(32)**
Amortization for the period	(1)	(3)	-	**(4)**
Contribution in kind	-	5	-	**5**
As at 31 December 2019	**(10)**	**(21)**	**-**	**(31)**
Impairment loss				
As at 1 January 2019	**-**	**-**	**(25)**	**(25)**
As at 31 December 2019	**-**	**-**	**(25)**	**(25)**
Net value as at 1 January 2019	**2**	**4**	**7**	**13**
Net value as at 31 December 2019	**1**	**1**	**12**	**14**

Impairment loss pertains to expenditures incurred for projects conducted in cooperation with the Institute of Fluid-Flow Machinery, since as of today they cannot be used at the industrial level. The impairment loss was recognized for the entire asset.

Financial statements for the year ended 31 December 2019 (in millions of PLN)

	Licenses and patents	Other intangible assets	Intangible assets not in use	TOTAL
Gross value				
As at 1 January 2018	**10**	**27**	**28**	**65**
Purchase of intangible assets (including assets not in use)	-	-	9	**9**
Settlement of intangible assets not in use	4	-	(4)	**-**
Sale, disposal	-	-	(1)	**(1)**
Liquidation	(1)	-	-	**(1)**
Handed over for use under a lease agreement	(2)	-	-	**(2)**
As at 31 December 2018	**11**	**27**	**32**	**70**
Accumulated amortization				
As at 1 January 2018	**(8)**	**(19)**	**-**	**(27)**
Amortization for the period	(1)	(4)	-	**(5)**
As at 31 December 2018	**(9)**	**(23)**	**-**	**(32)**
Impairment loss				
As at 1 January 2018	**-**	**-**	**(25)**	**(25)**
As at 31 December 2018	**-**	**-**	**(25)**	**(25)**
Net value as at 1 January 2018	**2**	**8**	**3**	**13**
Net value as at 31 December 2018	**2**	**4**	**7**	**13**

13. Right-of-use assets

	Licenses and patents	Buildings, premises and civil and marine engineering facilities	Vehicles	TOTAL
Gross value				
As at 1 January 2019	**-**	**-**	**-**	**-**
First-time recognition as at 1 January 2019 in compliance with IFRS 16	-	59	1	**60**
Reclassification to right-of-use assets	1	-	-	**1**
As at 31 December 2019	**1**	**59**	**1**	**61**
Accumulated amortization				
As at 1 January 2019	**-**	**-**	**-**	**-**
Amortization for the period	-	(11)	-	**(11)**
As at 31 December 2019	**-**	**(11)**	**-**	**(11)**
Net value as at 1 January 2019	**-**	**-**	**-**	**-**
Net value as at 31 December 2019	**1**	**48**	**1**	**50**

The Company does not apply the requirements of IFRS 16 to short-term leases and leases of low-value assets, i.e. below PLN 10k. The value of short-term leases and leases of low-value assets recognized in 2019 costs was immaterial from the point of view of these statements.

14. Cash and cash equivalents

Cash in the 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:

Financial statements for the year ended 31 December 2019 (in millions of PLN)

	As at 31 December 2019	As at 31 December 2018
Cash in bank	672	962
Short-term deposits up to 3 months	150	1,101
Total cash and cash equivalents presented in the statement of financial position, including:	**822**	**2,063**
Unrealized foreign exchange differences and interest	4	2
Total cash and cash equivalents presented in the statement of cash flows	**826**	**2,065**

In connection with the application of the split payment mechanism, the Company holds restricted cash in the amount of PLN 2 m.

15. Other non-current assets

	As at 31 December 2019	As at 31 December 2018
Capital contributions	78	75
Lease receivables	71	55
Property, plant and equipment	6	7
Other	5	1
TOTAL	**160**	**138**

16. Trade receivables and other current financial receivables

	As at 31 December 2019	As at 31 December 2018
Loan receivables	280	-
Lease receivables	23	16
Trade receivables	7	23
TOTAL	**310**	**39**

17. Other current assets

	As at 31 December 2019	As at 31 December 2018
Receivables on account of taxes, customs duties, social security and other benefits	26	17
Advances for deliveries	8	6
Accrued costs	5	3
Receivables on account of settlements in the Energa Tax Group	3	70
TOTAL	**42**	**96**

18. Share capital and other components of equity

18.1. Share capital

As at 31 December 2019, Energa SA's share capital is PLN 4,522 m and has not changed in the current year.

The table below presents the ownership structure of the Company:

	As at 31 December 2019	As at 31 December 2018
State Treasury	51.52%	51.52%
Other shareholders	48.48%	48.48%
TOTAL	**100.00%**	**100.00%**

On 18 April 2020, PKN ORLEN signed an agreement with the State Treasury in connection with the planned assumption of control over the Company. A detailed description of the event can be found in Note 31.

18.2. Par value per share

All the outstanding shares have the aggregated par value of PLN 4,522 m and have been fully paid up.

Financial statements for the year ended 31 December 2019 (in millions of PLN)

18.3. Shareholders' rights

As at 31 December 2019, the State Treasury held 213,326,317 shares of the Company, constituting 51.52% of its share capital and entitling to exercise 358,254,317 votes at the General Meeting, which makes up 64.09% of the total number of votes at the General Meeting (including 144,928,000 registered series BB shares, preferred with respect to the voting right at the General Meeting in such manner that one series BB share gives the right to two votes at the General Meeting).

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

18.4. Reserve capital

Reserve capital was created as a result of the share capital reduction by PLN 447 m made in connection with the reverse split of the Company's shares in 2013 and distribution of the Company's 2015 net profit in the amount of PLN 571 m. Reserve capital may be used only to cover future losses or to raise the Company's share capital.

18.5. Supplementary capital

Pursuant to the requirements of the Commercial Company Code, joint stock companies are required to create supplementary capital to cover losses. At least 8% of the company's profit for a given financial year presented in the Company's financial statements is transferred to supplementary capital until the capital reaches at least one third of the Company's share capital. The use of the supplementary capital is decided by the General Meeting, however, the portion of the supplementary capital representing one-third of the share capital may only be used to cover a loss posted in the financial statements and cannot be allocated to other purposes. As at 31 December 2019, supplementary capital amounts to PLN 2,035 m or 45 % of the share capital.

18.6. Retained earnings and restrictions on dividend payments

Retained earnings include capital established and utilized according to the principles defined by provisions of law and the Company's articles of association as well as results of the current reporting period. As at 31 December 2019, there are no restrictions on dividend payments, other than those resulting from provisions of law.

19. Earnings/(loss) per share

There were no diluting instruments in the Company and therefore diluted earnings/(loss) per share are equal to basic earnings per share. The Company had not discontinued operations. The data used to calculate earnings/(loss) per share are presented below.

	Year ended 31 December 2019	Year ended 31 December 2018
Net profit/(loss) on continuing operations	(374)	495
Net profit/(loss)	**(374)**	**495**
Number of shares at the end of the reporting period (millions)	**414**	**414**
Number of shares used to calculate earnings/(loss) per share (millions)	**414**	**414**

20. Dividends, profit distribution

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

On 25 June 2019, the Ordinary General Meeting of Shareholders passed a resolution on the distribution of profit for 2018 which was transferred to supplementary capital in whole.

21. Liabilities

21.1. Trade liabilities and other financial liabilities

	As at 31 December 2019	As at 31 December 2018
Liabilities to related parties	9	8
trade liabilities	3	3
other	6	5
Liabilities to other entities	10	17
trade liabilities	10	17
TOTAL	**19**	**25**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

21.2. Other current liabilities

	As at 31 December 2019	As at 31 December 2018
Liabilities on account of settlements in the Energa Tax Group	32	4
Liabilities on account of taxes, customs duties, social security, and other benefits	2	2
Other	5	2
TOTAL	**39**	**8**

22. Deferred income and grants

	As at 31 December 2019	As at 31 December 2018
Grants received	61	69
Other	2	10
TOTAL, of which:	**63**	**79**
Long-term	52	63
Short-term	11	16

As at 31 December 2019, the Company recognizes as grants received the valuation effect of the preferential loans from the European Investment Bank (EIB) settled over the loan repayment period (see the description in Notes 8.10 and 24.7).

23. Information on related entities

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

23.1. Transactions involving parties related to the State Treasury

The Company's Parent Company is the State Treasury. Energa SA concludes transactions with other related entities and with the State Treasury as part of normal, 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. The Company does not keep records that would allow it to aggregate the value of all transactions concluded with all state institutions and with subsidiaries of the State Treasury.

23.2. Transactions with related entities (excluding State Treasury companies)

	Year ended 31 December 2019	Year ended 31 December 2018
Net revenue on the sale of products, goods and materials	86	88
Cost of purchase	16	16
Other operating expenses	-	(2)
Dividend income	644	675
Other financial income	166	195
Financial costs	111	123

Financial statements for the year ended 31 December 2019 (in millions of PLN)

	As at 31 December 2019	As at 31 December 2018
Assets		
Long-term receivables	71	55
Other non-current financial receivables – subsidiaries	2,586	-
Other non-current financial receivables – joint ventures	178	-
Cash pooling receivables	831	596
Trade receivables	7	23
Other current financial receivables	302	16
Long-term bonds	1,719	3,477
Short-term bonds	41	1,462
Other current assets	4	71
Equity and liabilities		
Non-current loan liabilities	851	3,006
Non-current lease liabilities	1	-
Cash pooling liabilities	192	314
Current trade liabilities	3	3
Other financial liabilities	6	5
Current lease liabilities	1	-
Current loans and borrowings	2,144	19
Current liabilities from bonds issued	-	1,016
Other current liabilities	32	4

The tables above present transactions with subsidiaries within the Energa SA Group and joint ventures. Transactions with the associated entity, other than those stated in Note 11, are not material.

Transactions of taking up shares in subsidiaries, associates and joint ventures are presented in Note 11. Capital contribution transactions are presented in Notes 24.5.1 and 24.6.

23.3. Compensation paid or due to the Company's Management Board members and Supervisory Board members

	Year ended 31 December 2019	Year ended 31 December 2018
Management Board	5	4
Supervisory Board	<1	1
TOTAL	**5**	**5**

23.4. Loans granted to, and other transactions with, Management Board and Supervisory Board members

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.

23.5. 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 key management was PLN 13 m in 2019 and PLN 12 m in 2018.

Financial statements for the year ended 31 December 2019 (in millions of PLN)

NOTES ON FINANCIAL INSTRUMENTS

24. Financial instruments

24.1. Carrying amount of financial instruments by category and class

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**
Lease liabilities	-	-	-	52	**52**
Trade liabilities and other financial liabilities	-	19	-	-	**19**
Trade liabilities	-	13	-	-	**13**
Liabilities for the purchase of property, plant and equipment, and intangible assets	-	6	-	-	**6**
Cash pooling liabilities	-	192	-	-	**192**
TOTAL	**-**	**6,143**	**72**	**52**	**6,267**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

As at 31 December 2018	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	-	596	-	-	**596**
Cash and cash equivalents	-	2,063	-	-	**2,063**
Derivative financial instruments	12	-	52	-	**64**
Shares in subsidiaries, associates and joint ventures	-	-	-	7,326	**7,326**
Bonds	-	4,939	-	-	**4,939**
Lease receivables	-	-	-	71	**71**
Trade receivables and other current financial receivables	-	23	-	-	**23**
Capital contributions	-	75	-	-	**75**
TOTAL	**12**	**7,696**	**52**	**7,397**	**15,157**
Liabilities					
Loans and borrowings	-	5,066	-	-	**5,066**
Preferential loans and borrowings	-	1,241	-	-	**1,241**
Loans and borrowings	-	3,825	-	-	**3,825**
Liabilities on account of the issue of debt securities	-	2,100	-	-	**2,100**
Derivative financial instruments	-	-	40	-	**40**
Trade liabilities and other financial liabilities	-	25	-	-	**25**
Trade liabilities	-	20	-	-	**20**
Liabilities for the purchase of property, plant and equipment, and intangible assets	-	5	-	-	**5**
Cash pooling liabilities	-	314	-	-	**314**
TOTAL	**-**	**7,505**	**40**	**-**	**7,545**

Financial statements for the year ended 31 December 2019(in millions of PLN)

24.2. Items of income, expenses, profits and losses recognized in the statement of profit or loss by category of financial instruments

Year ended 31 December 2019	Financial assets 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
Dividends and profit sharing	-	-	-	644	**644**
Interest income/(cost)	-	(37)	(85)	(1)	**(123)**
Foreign exchange differences	-	38	(36)	1	**3**
Revaluation of investments	(18)	(36)	-	(794)	**(848)**
Other	-	(3)	-	-	**(3)**
Net (loss)	**(18)**	**(38)**	**(121)**	**(150)**	**(327)**
Other comprehensive income	-	-	(21)	-	**(21)**
Comprehensive income	**(18)**	**(38)**	**(142)**	**(150)**	**(348)**

Year ended 31 December 2018	Financial assets 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
Dividends and profit sharing	-	-	-	675	**675**
Interest income/(cost)	-	(9)	(83)	1	**(91)**
Foreign exchange differences	-	(121)	113	-	**(8)**
Other	(12)	(1)	-	-	**(13)**
Net profit/(loss)	**(12)**	**(131)**	**30**	**676**	**563**
Other comprehensive income	-	-	(44)	-	**(44)**
Comprehensive income	**(12)**	**(131)**	**(14)**	**676**	**519**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

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

- level 1 – fair value based on quoted prices (unadjusted) 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;
- level 3 – fair value based on unobservable inputs for the asset or liability.

	As at 31 December 2019 Level 2	As at 31 December 2018 Level 2
Assets		
Loan receivables	178	-
Hedging derivatives (CCIRS/IRS)	24	52
Other derivatives	5	12
Liabilities		
Hedging derivatives (CCIRS/IRS)	72	40

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

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

Other derivatives include options to purchase shares in Polimex-Mostostal SA. The options were purchased from Towarzystwo Finansowe Silesia Sp. z o.o. under the agreement of 18 January 2017 and refer to the purchase, in three tranches, of a total of 9 million shares of Polimex-Mostostal SA, at the nominal price of PLN 2 per share. The option exercise dates were set at: 30 July 2020, 30 July 2021 and 30 July 2022. The fair value measurement of the call options to purchase Polimex-Mostostal SA shares was carried out using the Black-Scholes model. The measurement took account of the current price and historic volatility of the Company’s share prices. The risk-free rate was determined on the basis of the yield of treasury bonds with maturities similar to the option expiration date.

24.4. Fair value of financial instruments not measured at fair value on an ongoing basis

Except for the information given in the tables 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	Level 2 fair value
As at 31 December 2019	2,995	3,040
As at 31 December 2018	3,025	3,098

Hybrid bond issue	Carrying amount	Level 2 fair value
As at 31 December 2019	1,075	1,062
As at 31 December 2018	1,085	1,074

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 31 December 2019.

24.5. Description of material items in individual categories of financial instruments

24.5.1. Financial assets

Financial assets measured at amortized cost

The Company allocates purchased bonds, loans granted, other than those described in Note 24.3, cash and cash equivalents, cash pooling receivables, trade receivables, other receivables and capital contributions to the category of financial instruments recognized as financial assets measured at amortized cost.

Purchased bonds broken down by issuer as at 31 December 2019 and 31 December 2018 are presented in the table below:

Financial statements for the year ended 31 December 2019 (in millions of PLN)

Bonds	As at 31 December 2019	As at 31 December 2018
Energa-Operator SA	1,084	4,068
Energa OZE SA	667	771
Energa Kogeneracja Sp. z o.o.	9	26
Energa Elektrownie Ostrołęka SA	-	74
TOTAL, of which:	**1,760**	**4,939**
Long-term	1,719	3,477
Short-term	41	1,462

Other financial receivables	As at 31 December 2019	As at 31 December 2018
Energa-Operator SA	2,866	-
TOTAL, of which:	**2,866**	**-**
Long-term	2,586	-
Short-term	280	-

Trade receivables	As at 31 December 2019	As at 31 December 2018
Not overdue	7	14
Overdue <30 days	-	9
Gross receivables	**7**	**23**
Net receivables, of which	**7**	**23**
Short-term	7	23

Capital contributions	As at 1 January 2019	Impairment loss recognized	Contributions made	As at 31 December 2019
Energa Invest Sp. z o.o.	<1	-	34	34
Energa Centrum Usług Wspólnych Sp. z o.o.	53	(25)	-	28
Energa Informatyka i Technologie Sp. z o.o.	5	-	-	5
CCGT Grudziądz Sp. z o.o.	<1	-	5	5
Energa Ochrona Sp. z o.o.	4	-	-	4
Energa OZE SA	2	-	-	2
Other	<1	-	<1	<1
Energa Kogeneracja Sp. z o.o.	11	(11)	-	-
TOTAL	**75**	**(36)**	**39**	**78**

The value of the impairment losses on capital contributions is presented in Note 24.6.

Hedging derivatives

Hedging derivatives CCIRS are described in detail in Note 24.8.

Financial assets at fair value through profit or loss

The Company classifies call options to purchase Polimex-Mostostal SA shares and the loan granted to Elektrownia Ostrołęka Sp. z o.o., which are presented in Note 24.3, as financial assets measured at fair value through profit or loss.

Financial instruments excluded from the scope of IFRS 9

The Company recognizes shares in subsidiaries, associates and joint ventures and financial lease receivables as the items of financial assets that are excluded from the scope of IFRS 9.

Financial statements for the year ended 31 December 2019 (in millions of PLN)

Financial lease receivables related to the licenses were as follows, as at 31 December 2019 and 31 December 2018:

	As at 31 December 2019		As at 31 December 2018	
	Minimum lease payments	Current value of payments	Minimum lease payments	Current value of payments
Up to 1 year	24	23	17	16
1 to 5 years	64	63	56	55
Over 5 years	8	8	-	-
TOTAL	**96**	**94**	**73**	**71**
less financial income	(2)	-	(2)	-
TOTAL	**94**	**94**	**71**	**71**

The value of shares in subsidiaries, associates and joint ventures is presented in Note 11.

24.5.2. Financial liabilities

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

The following table presents changes in financial liabilities in the reporting period.

	Loans and borrowings	Liabilities on account of the issue of debt securities	Total financing liabilities
As at 31 December 2018	**5,066**	**2,100**	**7,166**
Disbursement	800	-	800
Repayment/Redemption	(984)	(1,000)	(1,984)
Foreign currency differences	(30)	(9)	(39)
Payment of interest	(148)	(76)	(224)
Other changes	153	60	213
As at 31 December 2019	**4,857**	**1,075**	**5,932**

Loans and borrowings

Loans and borrowings contracted as at 31 December 2019 and 31 December 2018 are presented in the table below:

	As at 31 December 2019		As at 31 December 2018	
Currency	PLN	EUR	PLN	EUR
Reference rate	WIBOR	Fixed	WIBOR	Fixed
Loan/borrowing amount				
in currency	1,862	703	2,041	703
in PLN	1,862	2,995	2,041	3,025
of which maturing in:				
up to 1 year (short-term)	315	2,144	183	19
1 to 2 years	315	-	316	2,146
2 to 3 years	301	-	316	-
3 to 5 years	582	255	589	86
over 5 years	349	596	637	774

Detailed information on contracted external financing is provided in Note 24.7.

Financial statements for the year ended 31 December 2019 (in millions of PLN)

Liabilities under bonds issued

Liabilities under bonds issued as at 31 December 2019 and 31 December 2018 are presented in the table below:

	As at 31 December 2019		As at 31 December 2018	
Currency	PLN	EUR	PLN	EUR
Reference rate	WIBOR	Fixed	WIBOR	Fixed
Value of the issue				
in currency	-	252	1,015	252
in PLN	-	1,075	1,015	1,085
of which maturing in:				
up to 1 year (short-term)	-	10	1,015	10
3 to 5 years	-	532	-	537
over 5 years	-	533	-	538

Detailed information on bonds issued is provided in Note 24.7.

Financial instruments excluded from the scope of IFRS 9

The Company recognizes lease liabilities as the items of financial liabilities that are excluded from the scope of IFRS 9.

Lease liabilities as at 31 December 2019 and 31 December 2018 were as follows:

	As at 31 December 2019		As at 31 December 2018	
	Minimum lease payments	Current value of payments	Minimum lease payments	Current value of payments
Up to 1 year	13	11	-	-
1 to 5 years	42	41	-	-
Over 5 years	-	-	-	-
TOTAL	**55**	**52**	**-**	**-**
Less financial costs	(3)	-	-	-
TOTAL	**52**	**52**	**-**	**-**

24.6. Impairment losses on financial assets

Impairment losses on financial assets	As at 1 January 2019	Impairment loss recognized	As at 31 December 2019
Elektrownia Ostrołęka Sp. z o.o.	-	(453)	(453)
Energa Kogeneracja Sp. z o.o.	-	(314)	(314)
Energa Centrum Usług Wspólnych Sp. z o.o.	(29)	-	(29)
Energa Logistyka Sp. z o.o.	-	(25)	(25)
Energa Serwis Sp. z o.o.	-	(2)	(2)
Total impairment losses on shares	**(29)**	**(794)**	**(823)**
Energa Centrum Usług Wspólnych Sp. z o.o.	(34)	(25)	(59)
Energa Kogeneracja Sp. z o.o.	-	(11)	(11)
Total impairment losses on capital contributions	**(34)**	**(36)**	**(70)**
Total impairment losses on financial assets	**(63)**	**(830)**	**(893)**

24.7. Available external financing

In the current reporting period and as at the last day of the reporting period and as at the date of approving these financial statements for publication, there were no events of default on contractual obligations under the terms and conditions of any external financing obtained.

Financial statements for the year ended 31 December 2019 (in millions of PLN)

The external financing available as at 31 December 2019 is presented in the table below:

Financing institution	Type of liability	Purpose of financing	Agreement date	Financing limit (for the Energa SA Group)	Available financing amount (for the Energa SA Group)	Nominal indebtedness of Energa SA as at 31 December 2019	Repayment date
European Investment Bank	Loan	Energa-Operator SA CapEx Program	16-12-2009	1,050	-	463	15-12-2025
European Investment Bank	Loan	Energa-Operator SA CapEx Program	10-07-2013	1,000	-	633	15-09-2031
European Bank for Reconstruction and Development	Loan	Energa-Operator SA CapEx Program	29-04-2010	1,076	-	463	18-12-2024
European Bank for Reconstruction and Development	Loan	Energa-Operator SA CapEx Program	26-06-2013	800	-	189	18-12-2024
Nordic Investment Bank	Loan	Energa-Operator SA CapEx Program	30-04-2010	200	-	54	15-06-2022
Energa Finance AB (publ)	Loan	Current operations	21-03-2013	2,125[1]	-	2,125[1]	18-03-2020
Energa Finance AB (publ)	Loan	Current operations	28-06-2017	852[2]	-	852[2]	28-02-2027
PKO Bank Polski SA	Credit limit	General corporate purposes	12-10-2011	300	300	-	07-06-2021
PKO Bank Polski SA	Bonds	Energa Elektrownie Ostrołęka SA CapEx Program	30-05-2012	100	33	-	31-12-2022
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	31	5[3]	19-09-2022
Bank PEKAO SA	Renewable loan	General corporate purposes	13-10-2011	500	500	-	29-05-2020
Bank PEKAO SA	Loan	Energa Elektrownie Ostrołęka SA CapEx Program	30-05-2012	85	-	9	29-05-2022
Nordic Investment Bank	Loan	Construction of Myślino Wind Farm	23-10-2014	68	-	42	15-09-2026
European Investment Bank	Hybrid bonds	Energa-Operator SA CapEx Program	04-09-2017	1,065[4]	-	1,065[4]	12-09-2037
Syndicated loan	Revolving loan	Financing of Energa SA corporate goals, including financing of its everyday activity and financing of its investment program, excluding capital expenditures in coal-fired power generation	17-09-2019	2,000	2,000	-	17-09-2024[5]
TOTAL				**11,421**	**2,864**	**5,900**	

[1] liability of EUR 499 m converted using the average NBP exchange rate of 31 December 2019, loan partially repaid on 17 March 2020 in the amount of EUR 389 m
[2] liability of EUR 200 m converted using the average NBP exchange rate of 31 December 2019
[3] value of guarantee limits awarded to Energa SA based on the concluded executive agreements (utilization of the global limit)
[4] liability of EUR 250 m converted using the average NBP exchange rate of 31 December 2019
[5] the loan granted for a term of 5 years from the date of signing of the contract, which may be extended for one year twice

24.8. Cash flow hedge accounting

The special purpose vehicle Energa Finance AB (publ) and Energa SA have signed three loan agreements denominated in EUR for the total amount of EUR 699 m. In order to hedge currency risk under these loans, in 2013, in July 2014 and April 2017, the Company concluded cross-currency interest rate swap transactions with nominal values of EUR 400 m ("CCIRS I"), EUR 25 m ("CCIRS II") and EUR 200 m ("CCIRS III"), respectively.

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

As the hedge, the Company designated CCIRS transactions under which the Company receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN. Cash flows received by the Company correspond with the cash flows under the intra-group loans. The Company expects that the hedged cash flows in relation to CCIRS I and II will continue until March 2020 and in relation to CCIRS III until February 2027.

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

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

As the hedge, the Company designated CCIRS transactions under which the Company receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN. Cash flows received by the Company correspond with the cash flows under the bonds issued. The Company expects that the hedged cash flows will continue until September 2027.

In August 2016, the Company concluded IRS transactions to hedge interest rate risk arising out of contracted financing with regard to (see Note 24.7):

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

In April and June 2018, the Company additionally entered into IRS transactions with similar characteristics for the following:

- loan agreement concluded with EIB in 2013 – PLN 100 m;
- loan agreement concluded with EBRD in 2010 – PLN 100 m;
- loan agreement concluded with EIB in 2009 – PLN 100 m.

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

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

As hedged positions under hedging relationships, the Company designated the risk related to the WIBOR 3M interest rate arising from interest payments on the financial liabilities stated above in the period no longer than 2 years from the date of the hedging transactions. In the case of the transactions pertaining to the EIB loan agreement, this is a four-year period.

As the hedge, the Company designated the IRS transactions under which the Company receives floating-rate cash flows in PLN and pays fixed-rate cash flows in PLN. Interest cash flows received by the Company correspond with interest cash flows under the hedged financial liabilities. The Company expects that the hedged cash flows will continue until June 2023 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.

Financial statements for the year ended 31 December 2019 (in millions of PLN)

The fair value of the hedging instruments is as follows:

	Value	Recognition in the statement of financial position	Change in the fair value of the hedging instrument adopted as the basis for the recognition of ineffectiveness of hedging in a given period	Nominal amounts of the hedging instrument (in EUR m/in PLN m)
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
As at 31 December 2018				
CCIRS I	49	Assets – Derivative financial instruments	None	400
CCIRS II	3	Assets – Derivative financial instruments	None	25
CCIRS III	23	Liabilities – Derivative financial instruments	None	200
CCIRS IV	15	Liabilities – Derivative financial instruments	None	250
IRS	2	Liabilities – Derivative financial instruments	None	450

Under cash flow hedge accounting, the cash flow hedge reserve (the effective portion of changes in the value of the hedge, less deferred tax) decreased in the reporting period by PLN 18 m.

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

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

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

24.9. Security for the repayment of liabilities

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

25. Financial risk management principles and objectives

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

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

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

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

Financial statements for the year ended 31 December 2019 (in millions of PLN)

25.1. Market risk

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

- interest rate risk;
- foreign exchange risk.

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

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

Interest rate risk

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

The Company identifies exposure to the risk of WIBOR interest rate changes, which involves primarily long-term financial debt and purchased bonds. The Company's financial policy envisages that the risk of changing interest rates is mitigated by keeping a portion of debt at fixed rates and carrying out IRS transactions. As at 31 December 2019, 79% of financial debt recorded in the statement of financial position (loans and borrowings and liabilities on account of the issue of debt securities) bore a fixed interest rate or was hedged against interest rate risk with IRS transactions.

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

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

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

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

Financial assets and liabilities	31 December 2019		Interest rate risk sensitivity analysis as at 31 December 2019			
	Carrying amount	Value at risk	WIBOR		EURIBOR	
	PLN	PLN	*WIBOR + 50 bp*	*WIBOR - 50 bp*	*EURIBOR + 20 bp*	*EURIBOR - 20 bp*
Assets						
Cash pooling receivables	831	831	4	(4)	-	-
Cash and cash equivalents	822	820	4	(4)	-	-
Bonds	1,760	80	-	-	-	-
Loans granted	3,044	2,866	14	(14)	-	-
Other derivatives	5	5	-	-	-	-
Liabilities						
Cash pooling liabilities	192	192	(1)	1	-	-
Loans and borrowings	4,857	1,862	(9)	9	-	-
Bonds and debt securities issued	1,075	-	-	-	-	-
Change in loss before tax			**12**	**(12)**	**-**	**-**
Hedging derivatives (assets)	24	24	2	(2)	(1)	1
Hedging derivatives (liabilities)	72	72	63	(65)	(25)	26
Change in other comprehensive income			**65**	**(67)**	**(26)**	**27**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

Financial assets and liabilities	31 December 2018		Interest rate risk sensitivity analysis as at 31 December 2018			
	Carrying amount	Value at risk	WIBOR		EURIBOR	
	PLN	PLN	*WIBOR + 50 bp*	*WIBOR - 50 bp*	*EURIBOR + 20 bp*	*EURIBOR - 20 bp*
Assets						
Cash pooling receivables	596	596	3	(3)	-	-
Cash and cash equivalents	2,063	2,063	10	(10)	-	-
Bonds	4,939	3,155	16	(16)	-	-
Other derivatives	12	12	-	-	-	-
Liabilities						
Cash pooling liabilities	314	314	(2)	2	-	-
Loans and borrowings	5,066	2,041	(10)	10	-	-
Bonds and debt securities issued	2,100	1,015	(5)	5	-	-
Change in profit before tax			**12**	**(12)**	**-**	**-**
Hedging derivatives (assets)	52	52	11	(11)	(5)	5
Hedging derivatives (liabilities)	40	40	70	(72)	(29)	30
Change in other comprehensive income			**81**	**(83)**	**(34)**	**35**

Currency risk

With regard to financial transactions, the Company is exposed to foreign exchange risk due to the loans from a subsidiary, Energa Finance AB (publ). To hedge that risk, the Company has entered into cross-currency interest rate swap (CCIRS) transactions and has implemented hedge accounting (see the description in Note 8.12.4). In addition, the Company identifies a foreign exchange risk relating to its cash.

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

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

Financial assets and liabilities	31 December 2019		FX risk sensitivity analysis as at 31 December 2019	
	Carrying amount	Value at risk	EUR/PLN	
	PLN	*PLN*	*EUR/PLN rate + 4%*	*EUR/PLN rate - 4%*
Assets				
Cash and cash equivalents	822	72	3	(3)
Hedging derivatives (assets)	24	1,842	74	(74)
Liabilities				
Loans and borrowings	4,857	2,995	(120)	120
Bonds and debt securities issued	1,075	1,075	(43)	43
Hedging derivatives (liabilities)	72	2,202	88	(88)
Change in loss before tax			**(11)**	**11**
Change in other comprehensive income*			**13**	**(13)**

* in respect of hedging derivatives

Financial statements for the year ended 31 December 2019 (in millions of PLN)

Financial assets and liabilities	31 December 2018		FX risk sensitivity analysis as at 31 December 2018	
	Carrying amount	Value at risk	EUR/PLN	
	PLN	*PLN*	*EUR/PLN rate + 6%*	*EUR/PLN rate - 6%*
Assets				
Cash and cash equivalents	2,063	131	8	(8)
Hedging derivatives (assets)	52	1,928	116	(116)
Liabilities				
Loans and borrowings	5,066	3,025	(182)	182
Bonds and debt securities issued	2,100	1,085	(65)	65
Hedging derivatives (liabilities)	40	2,196	132	(132)
Change in profit before tax			**(13)**	**13**
Change in other comprehensive income*			**22**	**(22)**

* in respect of hedging derivatives

25.2. Credit risk

The income and receivables generated mainly in transactions with subsidiaries follow from the specific line of Energa SA's business. The financial standing of Group companies is monitored on an ongoing basis by appropriate task forces of Energa SA, and therefore exposure to bad debt risk is immaterial.

With respect to other financial assets, such as cash and cash equivalents, credit risk arises when the other party to a contract is unable to make a payment and the maximum exposure to this risk equals the carrying amount of such instruments.

In accordance with the adopted Financial Policy of the Energa Group, Energa SA is responsible for arranging debt financing on financial market for all Group companies and for distributing such funds to operating companies using the mechanism of internal bond issues. Energa SA acts here in the capacity of an investor purchasing long-term securities issued by Energa Group companies. This structure generates credit risk for Energa SA associated with the service of bonds issued by the company. As at 31 December 2019, the par value of the bonds purchased by Energa SA and issued by Energa Group companies was as follows:

- Energa-Operator SA – PLN 1,066 m,
- Energa OZE SA – PLN 647 m, and
- Energa Kogeneracja Sp. z o.o. – PLN 9 m.

25.3. Liquidity risk

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

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

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

Details of the main external financing contracted by the Company are provided in Note 24.7.

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

	Below 3 months	From 3 to 12 months	From 1 year up to 5 years	Over 5 years	TOTAL
31 December 2019					
Loans and borrowings	2,251	291	1,637	990	**5,169**
Bonds and debt securities issued	-	41	680	605	**1,326**
Cash pooling liabilities	192	-	-	-	**192**
Trade liabilities	13	-	-	-	**13**
Lease liabilities	2	9	41	-	**52**
Other financial liabilities	6	-	3	69	**78**
TOTAL	**2,464**	**341**	**2,361**	**1,664**	**6,830**

Financial statements for the year ended 31 December 2019 (in millions of PLN)

	Below 3 months	From 3 to 12 months	From 1 year up to 5 years	Over 5 years	TOTAL
31 December 2018					
Loans and borrowings	96	247	3,743	1,496	**5,582**
Bonds and debt securities issued	9	1,073	703	636	**2,421**
Cash pooling liabilities	314	-	-	-	**314**
Trade liabilities	20	-	-	-	**20**
Other financial liabilities	5	-	25	15	**45**
TOTAL	**444**	**1,320**	**4,471**	**2,147**	**8,382**

The Company's financial assets consist mainly of loans granted and cash and cash equivalents. The structure of cash and cash equivalents is presented in Note 14.

NOTE TO THE STATEMENT OF CASH FLOWS

26. Statement of cashflows

Net interest and dividends

	Year ended 31 December 2019	Year ended 31 December 2018
Dividends received	(644)	(675)
Interest received and paid	6	241
Interest accrued	129	(105)
TOTAL	**(509)**	**(539)**

OTHER NOTES

27. Capital management

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

The Company monitors its basic debt ratio, that is net debt to EBITDA, estimated on the consolidated basis. As at the balance sheet date, this ratio was 2.75, while the financing agreements called for the level of 3.5.

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

The data below originate from the consolidated financial statements of the Energa Group for the year ended 31 December 2019.

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

28. Contingent assets and liabilities

There are no significant contingent assets and liabilities in the Company.

29. Employment structure

The average headcount in the Company was 178 in the year ended 31 December 2019 and 170 in the year ended 31 December 2018.

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

Financing of the construction of Ostrołęka C Power Plant

On 30 April 2019, Energa SA and Enea S.A. signed a Memorandum of Agreement on the financing of the construction of Ostrołęka C Power Plant ("Project"). The purpose of the Memorandum of Agreement is to further detail the rules for financing the Project in order to enable its continued implementation without delays. Pursuant to the Memorandum of Agreement, Energa SA and Enea S.A. agreed to provide Elektrownia Ostrołęka Sp. z o.o. with the funds necessary to implement the Project in accordance with the investment implementation schedule (detailed information on the Memorandum of Agreement is available in the Current Report No. 7/2019). At the same time, Energa SA and Enea S.A. undertook to negotiate new rules for cooperation in a shareholders' agreement / investment agreement which is to define, on a comprehensive basis, the structure and form of the financing of the Project. Under the Memorandum of Agreement of 28 December 2018, Energa SA and Enea S.A. declared their financial commitment to the execution of the Project in the amount not lower than PLN 1 bn in the case of Energa SA and PLN 1 bn in the case of Enea S.A. Energa SA and Enea S.A. already transferred PLN 181 m each to Elektrownia Ostrołęka Sp. z o.o. within the scope of enforcement of the Memorandum of Agreement of 28 December 2018. The Memorandum of Agreement of 30 April 2019 envisages the undertakings on the part of Energa SA and Enea S.A. to ensure capital expenditure for Elektrownia Ostrołęka Sp. z o.o. in the amount of, respectively, not less than PLN 819 m in the case of Energa SA and PLN 819 m in the case of Enea S.A., with Energa SA and Enea S.A. agreeing that solely Energa SA would be providing financing to Elektrownia Ostrołęka Sp. z o.o. during the period until 2021.

A loan agreement of 17 July 2019

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

A loan agreement of 23 December 2019

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

31. Significant subsequent events

New companies

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

Financial activity

On 16 March 2020, Energa SA signed with Energa Obrót SA and Bank Gospodarstwa Krajowego Annex No. 3 to the Agreement on the Granting of Guarantees under the Credit Facility of 9 April 2019, whereby Bank Gospodarstwa Krajowego raised the granted guarantee limit up to PLN 700 m. The limit will be available until 9 April 2021.

On 17 March 2020, Energa SA made a partial repayment of its loan towards Energa Finance AB in the amount of EUR 389 m. At the same time, the Company entered into an agreement with Energa Finance AB concerning the extension until 28 February 2022 of the deadline for partial repayment of the loans in the amount of EUR 110 m granted under the loan agreements of 21 March 2013 and 25 March 2013.

Covid's impact on the company's activity

On 11 March 2020, the World Health Organization (WHO) declared the SARS-CoV-2 coronavirus pandemic. On 14 March 2020, the state of epidemiological threat was declared on the territory of the Republic of Poland. On 20 March 2020, the state of epidemic was announced. The coronavirus epidemic will have a huge impact on Poland's economy.

In spite of the rise in uncertainty on the micro and macro scale for other entities, the epidemic as an event occurring after the balance sheet date shall not pose a threat to the Company continuing as a going concern.

The Company has analyzed the events or conditions that may, either individually or collectively, impact the Company's activity and, in its view, their direct and indirect impact will not be significantly unfavorable. The Company does not foresee a major decline in sales revenues and the collection of receivables from its business partners, mainly Energa Group companies. There may be a shift in time in the collection of some revenue, which should not, however, threaten the Company's liquidity.

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

As regards the marketing activity, the Company envisages a possibility of signing annexes to some of the concluded sponsorship contracts to extend the periods of the provision of services or to agree on substitute services 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. Furthermore, deliveries of IT hardware to the Company's employees may be delayed in connection with the collapse of the supply chains at the global manufacturers of such equipment. The Company also foresees a possible increase in the cost of IT hardware, infrastructure and services in connection with the transition of the majority of users within the organization to the remote working mode.

Consequently, the Company believes that there is no evidence of any threat to the Company continuing as a going concern. Furthermore, the Company is of the view that the current situation will have no direct impact on the Company's financial results at the end of 2019.

A description of the possible impact of COVID on the Company's revenues and financial position in 2020 will be included in the financial statements for the first quarter of 2020 and subsequent periods.

Assumption of control over the Company by PKN Orlen

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

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

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

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

Thus, PKN ORLEN took control of the Company.

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

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

The Company promptly took measures aimed at securing approvals of financing institutions for departures from currently applicable terms of financing with regard to potential breaches of change of control clauses or current rating downgrading clauses, with the intention to secure formal approvals for the events triggered by the enforcement of the call. As at the balance sheet date, none of the credit institutions approached by the Company responded negatively to the Company's motions. Meanwhile, 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, i.e. European Bank for Reconstruction and Development, Nordic Investment Bank and five institutions granting syndicated loan to the Company.

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Financial statements for the year ended 31 December 2019 (in millions of PLN)

Members of the Management Board

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	……………………………………………

Energa Centrum Usług Wspólnych Sp. z o.o.
Entity responsible for keeping
accounting ledgers and for preparing financial statements
Energa Centrum Usług Wspólnych Sp. z o.o.
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Gdańsk, 27 May 2020