



Energa

ORLEN GROUP

**Condensed Interim Financial Statements
prepared in accordance with IAS 34
for the nine-month period ended
30 September 2020**

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CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS

	3-month period ended 30 September 2020 (unaudited)	9-month period ended 30 September 2020 (unaudited)	3-month period ended 30 September 2019 (unaudited)	9-month period ended 30 September 2019 (unaudited)
Sales revenues	16	59	20	66
Cost of sales	(12)	(43)	(13)	(44)
Gross profit on sales	4	16	7	22
Other operating income	2	8	3	7
General and administrative expenses	(23)	(78)	(25)	(77)
Other operating expenses	(2)	(15)	(13)	(23)
Dividend income	510	510	-	644
Other financial income	42	171	52	168
Impairment losses on shares	-	(157)	-	-
Other financial costs	(60)	(602)	(86)	(270)
Profit (loss) before tax	473	(147)	(62)	471
Income tax	6	16	8	27
Net profit (loss) for the period	479	(131)	(54)	498
Earnings (loss) per share (in PLN)				
Earnings/(loss) per share (basic and diluted)	1.16	(0.32)	(0.13)	1.20

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	3-month period ended 30 September 2020 (unaudited)	9-month period ended 30 September 2020 (unaudited)	3-month period ended 30 September 2019 (unaudited)	9-month period ended 30 September 2019 (unaudited)
Net profit or loss for the period		479	(131)	(54)	498
<i>Items that may be reclassified subsequently to profit or loss</i>					
Cash flow hedges	11.6	21	(83)	(1)	(6)
Deferred income tax		(4)	16	-	1
Net other comprehensive income		17	(67)	(1)	(5)
Total comprehensive income		496	(198)	(55)	493

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 30 September 2020 (unaudited)	As at 31 December 2019
ASSETS			
Non-current assets			
Intangible assets		27	14
Right-of-use assets		44	50
Shares in subsidiaries, associates and joint ventures	8	6,558	6,715
Bonds	11.4.1	1,717	1,719
Other long-term financial receivables		2,383	2,764
Deferred tax assets		57	39
Derivative financial instruments	11.2	20	3
Other non-current assets		160	160
		10,966	11,464
Current assets			
Cash pooling receivables		1,716	831
Trade receivables and other current financial receivables		499	310
Bonds	11.4.1	16	41
Current tax receivables		1	37
Cash and cash equivalents	9	91	822
Derivative financial instruments	11.2	2	26
Other current assets		64	42
		2,389	2,109
TOTAL ASSETS		13,355	13,573

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	As at 30 September 2020 (unaudited)	As at 31 December 2019
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Share capital		4,522	4,522
Reserve capital		1,018	1,018
Supplementary capital		1,661	2,035
Cash flow hedge reserve	11.6	(119)	(52)
Non-covered losses		(87)	(330)
Total equity		6,995	7,193
Non-current liabilities			
Loans and borrowings	11.4.2	2,724	2,398
Liabilities for debt securities issued	11.4.2	1,132	1,065
Deferred income and non-current grants		45	52
Derivative financial instruments	11.6	9	72
Long-term lease liabilities		36	41
Other non-current financial liabilities		1	-
		3,947	3,628
Current liabilities			
Cash pooling liabilities		201	192
Trade and other financial liabilities		15	19
Short-term lease liabilities		14	11
Derivative financial instruments	11.6	42	-
Current part of loans and borrowings	11.4.2	1,879	2,459
Liabilities for debt securities issued	11.4.2	-	10
Short-term provisions		233	-
Deferred income and grants		9	11
Accruals		10	11
Other current liabilities		10	39
		2,413	2,752
Total liabilities		6,360	6,380
TOTAL EQUITY AND LIABILITIES		13,355	13,573

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings or non-covered losses	Total equity
As at 1 January 2020		4,522	1,018	2,035	(52)	(330)	7,193
Cash flow hedges	11.6	-	-	-	(67)	-	(67)
Net loss for the period		-	-	-	-	(131)	(131)
Total comprehensive income for the period		-	-	-	(67)	(131)	(198)
Retained earnings distribution		-	-	(374)	-	374	-
As at 30 September 2020 (unaudited)		4,522	1,018	1,661	(119)	(87)	6,995
As at 1 January 2019		4,522	1,018	1,540	(34)	539	7,585
Cash flow hedges	11.6	-	-	-	(5)	-	(5)
Net profit for the period		-	-	-	-	498	498
Total comprehensive income for the period		-	-	-	(5)	498	493
Retained earnings distribution		-	-	495	-	(495)	-
As at 30 September 2019 (unaudited)		4,522	1,018	2,035	(39)	542	8,078

Accounting policies and additional explanatory notes to the condensed interim separate financial statements are an integral part thereof
 (This is translation of the financial statements originally issued in Polish)

CONDENSED INTERIM STATEMENT OF CASH FLOWS

	Note	9-month period ended 30 September 2020 (unaudited)	9-month period ended 30 September 2019 (unaudited)
Cash flows from operating activities			
Profit/(loss) before tax		(147)	471
Adjustments for:			
Foreign exchange losses		112	5
Loss on investing activities		166	31
Amortization and depreciation		12	13
Net interest and dividends		(310)	(702)
Changes in working capital:			
Change in provisions		233	-
Change in receivables		18	(3)
Change in liabilities, excluding loans, borrowings and bonds		63	126
Change in prepayments and accruals		(15)	(13)
		132	(72)
Income tax paid		(96)	(123)
Net cash from operating activities		36	(195)
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(17)	(43)
Proceeds from the redemption of bonds by subsidiaries		2	398
Purchase of shares in subsidiaries, associates and joint ventures		-	(181)
Cash pooling expenditures		(877)	(1,775)
Dividends received		510	637
Interest received		168	270
Loan repayment		213	-
Loans granted		(180)	(29)
Capital contributions		(20)	(40)
Other		17	14
Net cash from investing activities		(184)	(749)
Cash flows from financing activities			
Repayment of loans and borrowings		(4,394)	(138)
Loans received		4,018	-
Interest paid		(203)	(129)
Repayment of lease liabilities		(8)	(8)
Net cash from financing activities		(587)	(275)
Net decrease in cash and cash equivalents		(735)	(1,219)
Cash and cash equivalents at the beginning of the period		826	2,065
Cash and cash equivalents at the end of the period	9	91	846

ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

1. General information

The condensed interim separate financial statements of Energa SA (the "Company") are as at and for the nine months ended 30 September 2020 and contain relevant comparative data.

Energa SA is entered in the Register of Businesses of the National Court Register held by the Gdańsk-Północ District Court, 7th Commercial Division of the National Court Register, with the KRS reference number 0000271591. The Company's REGON statistical number is 220353024.

On 26 February 2020, Polski Koncern Naftowy ORLEN SA ("PKN ORLEN SA") filed a motion with the European Commission constituting a notice of concentration in connection with the planned assumption of control over the Company and on 31 March 2020 obtained the European Commission's decision approving the concentration. Thus, the call's legal condition was fulfilled. On 18 April 2020, PKN ORLEN SA signed an agreement with the State Treasury in connection with the planned assumption of control over the Company. The process of settlement of the transaction of purchase of the Company's shares by PKN ORLEN SA was completed on 30 April 2020. As a result of the call, PKN ORLEN SA purchased 331,313,082 shares of the Company that account for 80.01% of its share capital and 85.20% of the overall number of votes at the Company's general meeting.

As at 30 September 2020, PKN ORLEN SA is the Company's controlling entity.

Since December 2013, the Company's shares have been publicly traded.

The core business of the Company is that of a holding company. The Company is the parent of the Energa SA Group (the "Group"). In order to fully understand the financial position and performance of the Company as the parent of the Group, these financial statements should be read in conjunction with the condensed interim consolidated financial statements as at and for the period ended 30 September 2020. Those statements are available on the Company's website.

2. Composition of the Company's Management Board

Up to the date of preparation of these financial statements, the composition of the Management Board of Energa SA was as follows:

1) from 17 December 2019 to 16 January 2020:

- Jacek Goliński – President of the Management Board;
- Jacek Kościelniak – Vice-President of the Management Board for Financial Matters;
- Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters;
- Dominik Wadecki – Vice-President of the Management Board for Operational Matters;
- Adrianna Sikorska – Vice-President of the Management Board for Communication Matters.

2) from 17 January 2020 to 9 February 2020:

- Jacek Goliński – President of the Management Board;
- Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters;
- Dominik Wadecki – Vice-President of the Management Board for Operational Matters;
- Adrianna Sikorska – Vice-President of the Management Board for Communication Matters.

3) from 10 February 2020 to 14 March 2020:

- Jacek Goliński – President of the Management Board;
- Marek Kasicki – Vice-President of the Management Board for Financial Matters;
- Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters;
- Dominik Wadecki – Vice-President of the Management Board for Operational Matters;
- Adrianna Sikorska – Vice-President of the Management Board for Communication Matters.

4) from 15 March 2020 to 6 May 2020:

- Jacek Goliński – President of the Management Board;
- Marek Kasicki – Vice-President of the Management Board for Financial Matters;
- Dominik Wadecki – Vice-President of the Management Board for Operational Matters;
- Adrianna Sikorska – Vice-President of the Management Board for Communication Matters.

5) from 7 May 2020 until the date of preparation 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 Group were approved for issue by the Company's Management Board on 5 November 2020.

4. Basis of preparation of the financial statements

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

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

4.1 Statement of compliance

These financial statements have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting as accepted by the European Union ("EU"). They do not contain all the information required for a complete set of financial statements conforming to the International Financial Reporting Standards ("IFRS"), however, they contain selected explanatory notes concerning events and transactions which are relevant to an understanding of the changes in the Company's performance and financial position since the last annual separate financial statements as at and for the year ended 31 December 2019.

4.2 Functional and presentation currency

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

5. Significant accounting policies

The Company's accounting policies are applied on a consistent basis. Its significant accounting policies are the same as those described in the 2019 financial statements, except for changes resulting from amendments to EU IFRSs.

6. New standards and interpretations

6.1 Standards and interpretations applied for the first time in 2020

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

- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020);
- Amendment to IFRS 3 Business Combinations: Definition of a Business (effective for business combinations for which the acquisition date falls on the beginning of the first annual period beginning on or after 1 January 2020 and for acquisitions of assets occurring on or after the beginning of the aforesaid annual period);
- Amendments to IAS 1 Presentation of Financial Statements, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material (effective for annual periods beginning on or after 1 January 2020);
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 16 Leases – Covid-19-Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020).

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

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

- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2023);
- Amendments to: IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, under the annual improvements procedure – 2018-2020 cycle (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 4 Insurance Contracts (Deferral of effective date of IFRS 9 Financial Instruments) (effective for annual periods beginning on or after 1 January 2021);
- Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Phase 2 (effective for annual periods beginning on or after 1 January 2021).

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

7. Explanations regarding the seasonality and cyclicity of operations in the presented period

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

EXPLANATORY NOTES TO THE CONDENSED INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION
8. Shares in subsidiaries, associates and joint ventures

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

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

Impairment tests for shares

As at the end of each reporting period, Energa SA performs an assessment of the internal and external indications of impairment of shares held. As part of such a process, the value of net assets of a given company is regularly compared with the value of the shares held therein by Energa SA. Where the value of net assets is lower than the value of the shares held, which is an indication of impairment, a discounted cash flow (DCF) valuation is carried out. Since certain indications existed in Q3 and H1 2020 that could result in the impairment of shares of some Group companies held by Energa SA, impairment tests were performed.

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

- price forecasts were adopted for electricity, coal, CO₂ 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;
- free CO₂ 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) were assumed;
- capital expenditures were 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;
- maintenance of support for the generation of energy from the existing renewable sources in the form of revenue from property rights and incorporation for some installations of the auctions won for the 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 was assumed in accordance with the provisions 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 was assumed in such a way as 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;

- a growth rate of 2.0 per cent, which does not exceed the average long-term inflation growth rates in Poland, was adopted to extrapolate the cash flow forecast for the purpose of calculation of residual value.

The discount rates set on the basis of the after-tax weighted-average cost of capital (WACC), used for the calculation in Q3 2020, fell within the range from 3.54% to 7.67%. The discount rates are inclusive of a 1% risk premium for the COVID-19-related risk. Testing as at 30 September 2020 would not have shown material changes.

Based on the tests performed, it was concluded that no impairment loss for the shares was required.

The discount rates set on the basis of the after-tax weighted-average cost of capital (WACC), used for the calculation in H1 2020, fell within the range from 5.25% to 8.74%. The discount rates are inclusive of a 1% risk premium for the COVID-19-related risk. Testing as at 30 June 2020 would not have shown material changes.

Based on the tests performed, it was concluded that an impairment loss was required to be recognized for the shares in Energa Kogeneracja Sp. z o.o. and Energa Finance AB (publ) as at the end of H1 2020. No further impairment losses were recognized as at the end of Q3 2020.

Energa Kogeneracja Sp. z o.o.

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

Based on the outcome of the test performed in H1 2020, it was concluded that an impairment loss of PLN 79 m on the company's shares and contributions was required. The recoverable amount was set at PLN 234 m.

Energa Finance AB (publ)

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

Based on the outcome of the test performed in the first half of 2020, it was concluded that an impairment loss of PLN 84 m on the company's shares was required. The recoverable amount was set at PLN 19 m.

Sensitivity analysis

The estimated impact of the change in WACC on the overall valuation of the above-mentioned shares conducted on the basis of impairment tests in H1 2020 is presented below. An adverse change in WACC at the level specified below necessitates recognition of an increase of impairment losses by a further PLN 25 m.

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

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

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

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

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

9. Cash and cash equivalents

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

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

	As at 30 September 2020 (unaudited)	As at 30 September 2019 (unaudited)
Cash at bank	91	444
Short-term deposits of up to three months	-	401
Total cash and cash equivalents presented in the statement of financial position, of which:	91	845
Unrealized foreign exchange differences and interest	-	1
Total cash and cash equivalents presented in the statement of cash flows	91	846

Due to the application of the split payment mechanism, the Company has restricted cash of less than PLN 1 m.

10. Dividends

On 29 June 2020, the Annual General Meeting adopted a resolution to offset the entire loss for 2019 against the Company's supplementary capital.

EXPLANATORY NOTES ON FINANCIAL INSTRUMENTS

11. Financial instruments

11.1 Carrying amount of financial instruments by category and class

As at 30 September 2020 (unaudited)	Financial assets measured at fair value through profit or loss	Financial assets and liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
Cash pooling receivables	-	1,716	-	-	1,716
Cash and cash equivalents	-	91	-	-	91
Derivative financial instruments	3	-	19	-	22
Shares in subsidiaries, associates and joint ventures	-	-	-	6,558	6,558
Bonds	-	1,733	-	-	1,733
Lease receivables	-	-	-	78	78
Other financial receivables	179	2,673	-	-	2,852
Trade receivables	-	8	-	-	8
Capital contributions	-	93	-	-	93
TOTAL	182	6,314	19	6,636	13,151
Liabilities					
Loans and borrowings	-	4,603	-	-	4,603
Preferential loans and borrowings	-	982	-	-	982
Loans and borrowings	-	3,621	-	-	3,621
Liabilities for debt securities issued	-	1,132	-	-	1,132
Derivative financial instruments	-	-	51	-	51
Lease liabilities	-	-	-	50	50
Trade liabilities and other financial liabilities	-	16	-	-	16
Trade liabilities	-	10	-	-	10
Liabilities for the purchase of property, plant and equipment and intangible assets	-	5	-	-	5
Capital contribution liabilities	-	1	-	-	1
Cash pooling liabilities	-	201	-	-	201
TOTAL	-	5,952	51	50	6,053

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 for debt securities issued	-	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

11.2 Fair value of financial instruments

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

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

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

	As at 30 September 2020 (unaudited) Level 2	As at 31 December 2019 Level 2
Assets		
Loan receivables	179	178
Hedging derivatives (CCIRS)	19	24
Other derivatives	3	5
Liabilities		
Hedging derivatives (CCIRS/IRS)	51	72

The amount due for the loan reflects a write-down to its nominal amount of PLN 170 m. A detailed description is presented in Note 14.

The fair value measurement of the receivable in respect of the non-bank loan was based on an analysis of future cash flows discounted using market interest rates prevailing on the balance sheet date, adjusted by a margin reflecting the specific risk attached to the loan-financed project.

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

Other derivatives include options to purchase shares in Polimex-Mostostal SA. The options were purchased from Towarzystwo Finansowe Silesia Sp. z o.o. under the agreement of 18 January 2017 and refer to the purchase, in three tranches, 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 October 2020 (under the annex of 24 July 2020), 30 July 2021 and 30 July 2022. The fair value measurement of the call options to purchase shares of Polimex-Mostostal SA was carried out using the Black-Scholes model. The measurement considered the current price and historic volatility of the company's share prices. The risk-free rate was determined on the basis of the yield of treasury bonds with maturities similar to the option expiration date.

11.3 Fair value of financial instruments not measured at fair value on a continuing basis

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

Loan from Energa Finance AB (publ)	Carrying amount	Fair value Level 2
As at 30 September 2020 (unaudited)	1,409	1,482
As at 31 December 2019	2,995	3,040

Hybrid bond issue	Carrying amount	Fair value Level 2
As at 30 September 2020 (unaudited)	1,132	1,128
As at 31 December 2019	1,075	1,062

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

11.4 Description of material items in each category of financial instruments

11.4.1 Financial assets

Financial assets measured at amortized cost

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

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

	As at 30 September 2020 (unaudited)	As at 31 December 2019
Energa-Operator SA	1,067	1,084
Energa OZE SA	659	667
Energa Kogeneracja Sp. z o.o.	7	9
TOTAL, of which:	1,733	1,760
Non-current	1,717	1,719
Current	16	41

11.4.2 Financial liabilities

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

Loans and borrowings

Contracted loans and borrowings as at 30 September 2020 and 31 December 2019 are presented in the table below:

	As at 30 September 2020 (unaudited)		As at 31 December 2019	
	PLN	EUR	PLN	EUR
Currency				
Reference rate	WIBOR	Fixed	WIBOR	Fixed
Loan/borrowing amount				
in currency	3,194	311	1,862	703
in PLN	3,194	1,409	1,862	2,995
of which maturing in:				
up to 1 year (short-term)	1,873	6	315	2,144
1 to 2 years	304	498	315	-
2 to 3 years	295	-	301	-
3 to 5 years	452	362	582	255
over 5 years	270	543	349	596

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

Liabilities for bonds issued

Liabilities for bonds issued, as at 30 September 2020 and 31 December 2019, are presented in the table below:

	As at 30 September 2020 (unaudited)		As at 31 December 2019	
	PLN	EUR	PLN	EUR
Currency				
Reference rate	WIBOR	Fixed	WIBOR	Fixed
Value of the issue				
in currency	-	250	-	252
in PLN	-	1,132	-	1,075
of which maturing in:				
up to 1 year (short-term)	-	-	-	10
2 to 3 years	-	566	-	-
3 to 5 years	-	-	-	532
over 5 years	-	566	-	533

Detailed information on bonds issued is presented in Note 11.5.

11.5 Available external financing

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

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

Financing institution	Type of liability	Purpose of financing	Agreement date	Financing limit (for the Group)	Available financing amount	Nominal debt of Energa SA as at 30/09/2020	Repayment date
European Investment Bank	Loan	Energa-Operator SA investment programme	16-12-2009	1,050	-	399	15-12-2025
European Investment Bank	Loan	Energa-Operator SA investment programme	10-07-2013	1,000	-	583	15-09-2031
European Bank for Reconstruction and Development	Loan	Energa-Operator SA investment programme	29-04-2010	1,076	-	394	18-12-2024
European Bank for Reconstruction and Development	Loan	Energa-Operator SA investment programme	26-06-2013	800	-	161	18-12-2024
Nordic Investment Bank	Loan	Energa-Operator SA investment programme	30-04-2010	200	-	38	15-06-2022
Energa Finance AB (publ)	Borrowing	Current operations	21-03-2013	498 ¹	-	498 ¹	28-02-2022
Energa Finance AB (publ)	Borrowing	Current operations	28-06-2017	905 ²	-	905 ²	28-02-2027
PKO Bank Polski SA	Credit limit	General corporate purposes	12-10-2011	300	131	169	07-06-2021
PKO Bank Polski SA	Bonds	Energa Elektrownie Ostrołęka SA investment programme	30-05-2012	100	25	-	31-12-2022
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	138	5 ³	19-09-2022
Bank PEKAO SA	Loan	Energa Elektrownie Ostrołęka SA investment programme	30-05-2012	85	-	7	29-05-2022
Nordic Investment Bank	Loan	Construction of Myślino Wind Farm	23-10-2014	68	-	38	15-09-2026
European Investment Bank	Hybrid bonds	Energa-Operator SA investment programme	04-09-2017	1,132 ⁴	-	1 132 ⁴	12-09-2037
Syndicated loan	Revolving loan	Financing of corporate objectives of Energa SA, including financing of day-to-day operations and financing of the investment programme, excluding capital expenditure on coal-fired energy	17-09-2019	2,000	1,100	900	17-09-2024 ⁵
Bank Gospodarstwa Krajowego	Revolving loan	Financing of corporate objectives of Energa SA, including financing of day-to-day operations and the investment programme, and refinancing of financial debt	03-07-2020	500	-	500	03-07-2022
SMBC	Revolving loan	Financing of corporate objectives of Energa SA, including financing of day-to-day operations, financing of the investment programme, and refinancing of financial debt, excluding capital expenditure on coal-fired energy	28-07-2020	543	543	-	28-07-2025
TOTAL				10,457	1,937	5,729	

¹ EUR 110 m liability translated at the average NBP exchange rate of 30 September 2020

² EUR 200 m liability translated at the average NBP exchange rate of 30 September 2020

³ value of guarantee limits awarded to Energa SA based on the concluded executive agreements (utilization of the global limit)

⁴ EUR 250 m liability translated at the average NBP exchange rate of 30 September 2020

⁵ loan granted for a period of 5 years from the date of signing the agreement, with an option to extend it twice for one-year periods; the designated date is the end date of the agreement term; the loan is considered short term.

11.6 Cash flow hedge accounting

All held hedging instruments serve to hedge cash flows and relate to the financial instruments allocated to the same risk category. The presented hedging instruments relate to the liabilities arising under loans between Energa Finance AB and Energa SA, hybrid bonds from the European Investment Bank and credits from the European Investment Bank. A detailed description of the hedge accounting is provided in point 16.6 of the condensed interim consolidated financial statements as at and for the period ended 30 September 2020.

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 used as the basis for recognizing hedge ineffectiveness for the period	Nominal amounts of hedging instrument in millions of	
				EUR	PLN
As at 30 September 2020 (unaudited)					
CCIRS III	20	Liabilities – Derivative financial instruments	None	200	-
CCIRS IV	19	Assets – Derivative financial instruments	None	250	-
	18	Liabilities – Derivative financial instruments			
IRS	13	Liabilities – Derivative financial instruments	None	-	350
As at 31 December 2019					
CCIRS I	22	Assets – Derivative financial instruments	None	400	-
CCIRS II	2	Assets – Derivative financial instruments	None	25	-
CCIRS III	35	Liabilities – Derivative financial instruments	None	200	-
CCIRS IV	34	Liabilities – Derivative financial instruments	None	250	-
IRS	3	Liabilities – Derivative financial instruments	None	-	600

Under the cash flow hedge accounting implemented, the cash flow hedge reserve (the effective portion of the change in the value of the hedging instrument, less deferred tax) decreased in the reporting period by PLN 67 m. The Company continued the hedge accounting in conformity with IAS 39, and no ineffectiveness was identified in the period under review.

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

	9 -month period ended 30 September 2020 (unaudited)	9 -month period ended 30 September 2019 (unaudited)
At the beginning of the reporting period	(52)	(34)
Amount recognized in the cash flow hedge reserve in the period, equal to the change in the fair value of hedging instruments	16	65
Accrued interest not due transferred from the reserve to financial income/costs	(9)	(7)
Revaluation of hedging instruments transferred from the reserve to financial income/costs	(90)	(64)
Income tax on other comprehensive income	16	1
At the end of the reporting period	(119)	(39)

As at 30 September 2020, no ineffectiveness was identified resulting from the cash flow hedge accounting applied.

OTHER EXPLANATORY NOTES
12. Related party disclosures

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

12.1 Transactions involving parties related to the State Treasury

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

12.2 Related party transactions

	9-month period ended 30 September 2020 (unaudited)	9-month period ended 30 September 2019 (unaudited)
Net revenue on the sale of products, goods and materials	58	66
Cost of purchase	11	12
Dividend income	510	644
Other financial income	149	155
Financial costs	441	87

	As at 30 September 2020 (unaudited)	As at 31 December 2019
Assets		
Long-term receivables	55	71
Other long-term financial receivables – subsidiaries	2,383	2,586
Other short-term financial receivables – joint ventures	179	178
Cash pooling receivables	1,716	831
Trade receivables	7	7
Other short-term financial receivables	299	302
Long-term bonds	1,717	1,719
Short-term bonds	16	41
Other current assets	23	4
Equity and liabilities		
Long-term loan liabilities	1,403	851
Long-term lease liabilities	-	1
Other non-current financial liabilities	1	-
Cash pooling liabilities	201	192
Short-term provision	233	-
Short-term trade liabilities	4	3
Other short-term financial liabilities	5	6
Short-term lease liabilities	1	1
Short-term part of loans and borrowings	6	2,144
Other current liabilities	3	32

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

There were no transactions involving the acquisition of shares in subsidiaries, associates or joint ventures in the year 2020.

12.3 Compensation paid or payable to the Company's Management Board and Supervisory Board members

	9-month period ended 30 September 2020 (unaudited)	9-month period ended 30 September 2019 (unaudited) (restated)
Management Board	5	3
Supervisory Board	<1	<1
TOTAL	5	3

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

12.4 Compensation paid or payable to key management (except for members of the Company's Management Board or Supervisory Board)

The amount of benefits paid or payable to key management in the period from 1 January 2020 to 30 September 2020 was PLN 14 m versus PLN 9 m in the corresponding prior year period.

12.5 Security for the repayment of liabilities

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

13. Contingent assets and liabilities

The Company did not have any material contingent assets or liabilities.

14. Other information significantly affecting the assessment of the Company's financial position and profit or loss
Impact of COVID-19 on the Company's operations

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

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

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

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

As regards the IT activities, in the event of a prolonged COVID-19 epidemic, the Company identifies potential risks consisting in delays in the implementation of its capital expenditure projects and, consequently, in the new revenue streams planned in connection with such projects. The above may be caused by unavailability of a part of workforce due to sickness, need for taking care of family members or secondment to carry out assignments designed to keep critical business systems operational. In addition, the delivery of IT equipment to the Company's employees may be delayed due to supply chain disruptions at global manufacturers of such equipment.

In view of the above, in the Company's opinion, there are no indications that its continuing in business as a going concern may be at risk. In addition, the Company does not identify any direct impact of the current situation on its results of operations at the end of the third quarter of 2020.

Impact on ratings of PKN ORLEN SA taking 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. According to Fitch Ratings, the decision reflected, among other things, the risk of the Company becoming tightly linked with a lower rated group (BBB- vs. the Company's rating of BBB) following PKN ORLEN SA's acquisition of the Company's shares, as well as the risk of a breach of the change of control clauses in the Company's financing agreements.

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

The Company promptly took measures aimed at securing approvals of financing institutions for departures from currently applicable terms of financing with regard to potential breaches of change of control clauses or current rating downgrading clauses, with the intention to securing 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 financial statements, the Company has secured a formal approval or signed annexes to the financing agreements providing for a waiver of the contractual financial covenants in relation to the change of control and rating downgrade clauses with most of the lenders, i.e. the European Bank for Reconstruction and Development, the Nordic Investment Bank and five institutions which provided the Company with a syndicated loan.

On 29 May 2020, Fitch Ratings Agency downgraded long-term foreign- and local-currency Issuer Default Ratings (IDRs)

for Energa SA from BBB to BBB- with a Stable Outlook, the rating for the bonds issued by the Company's subsidiary Energa Finance AB (publ) down to BBB-, and the rating for Energa SA's hybrid bonds down to BB.

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

Guarantee limits

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

Ostrołęka C Power Plant

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

On 2 June 2020, the Management Board of Energa SA approved the final report from the analyses carried out together with ENEA S.A. concerning the technical, process, economic, organizational and legal aspects and the continued financing of the project of construction of a new coal-fired unit, i.e. the proposed Ostrołęka C Power Plant in Ostrołęka, with approx. 1,000 MW in output. The conclusions from the analyses performed do not support any continuation of the Project in its existing form, i.e. as a hard coal-fired power plant. This was an indication that an impairment loss should be recognized for the loan granted to Elektrownia Ostrołęka Sp. z o.o. under the agreement of 17 July 2019 (in the amount of PLN 58 m, with a half of the amount due thereunder having been assigned to ENEA S.A., hence the impairment loss is PLN 29m only), and of the loan granted under the agreement of 23 December 2019 (in the amount of PLN 340 m, with the impairment loss for a half of that amount - pursuant to the Memorandum of Understanding (MoU) between the Sponsors of 30 April 2019, whereunder a half of the loan disbursed by Energa is ENEA S.A.'s amount due because of the fulfilment of the conditions set forth in the MoU).

As at 30 June 2020, the Company recognized a provision in the amount of PLN 269 m for its capital expenditure commitments to Elektrownia Ostrołęka Sp. z o.o. ("SPV"), following the proposed settlement of the Ostrołęka C Power Plant construction project, submitted on 23 June 2020 by the General Contractor ("GC"). As at 30 September 2020, the amount of the provision was remeasured to PLN 233 m.

The amount of the provision is an estimate based, *inter alia*, on the amounts of claims in the area of work in progress and suspension costs corresponding to the proposals presented by the GC. The amount of these claims is currently subject to detailed analyses on the part of the SPV, *inter alia*, in terms of the correctness and reasonableness of the cost documentation provided. We draw attention to the fact that with regard to the vast majority of the claims, no documentation at all has been submitted to Elektrownia Ostrołęka Sp. z o.o., and an analysis of the documentation provided to date shows that the original amounts of the claims are significantly overstated and often raise doubts on the part of the SPV. For this reason, the Company is unable to quantify the precise financial impact of the settlement of the project, and the provision for Energa SA's future capital expenditure commitment as the Sponsor to the SPV is the best estimate that can be made in view of the high degree of uncertainty as to the eventual amounts of the claims.

In quantifying the amount of the provision and the respective shares of future expenditure to settle the project, the Company also took account of the provisions of the agreements between the project sponsors. On that basis, the Company assumes the return of a part of the funds, therefore it has shown a receivable from ENEA S.A. in the amount of expected discounted flows of PLN 14 m.

Financing agreements

On 3 July 2020, the Company executed a PLN 500 m loan agreement with Bank Gospodarstwa Krajowego. The loan is a working capital loan and it will be used for general corporate purposes.

On 28 July 2020, Energa SA executed a 120 m euro loan agreement with SMBC BANK EU AG. The loan is a working capital loan and it will be used for general corporate and capex purposes, with the exclusion of capital expenditure on coal-fired power generation.

15. Significant subsequent events

On 29 October 2020, the Extraordinary General Meeting of the Company adopted a resolution to withdraw Energa SA's shares from trading on the regulated market operated by Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange).

Management Board Members

Jacek Goliński
President of the Management Board

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

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

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

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

Energa Centrum Usług Wspólnych Sp. z o.o.
Entity responsible for keeping ledgers
and preparing financial statements
Energa Centrum Usług Wspólnych Sp. z o.o.
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Gdańsk, 5 November 2020