Energa

ORLEN GROUP

Consolidated financial statements prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union for the year ended 31 December 2020

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Sales revenue	**10**	**12,496**	**11,479**
Revenue from the Price Difference Refund Fund	**38**	**57**	**693**
Cost of sales	**11.1**	(11,271)	(10,930)
Gross profit on sales		**1,282**	**1,242**
Other operating income	**11.4**	322	245
Selling and distribution expenses	**11.1**	(380)	(380)
General and administrative expenses	**11.1**	(377)	(364)
Other operating expenses	**11.5**	(183)	(284)
Financial income	**11.6**	77	40
Financial costs	**11.7**	(696)	(762)
Share in profit/(loss) of the entities measured by the equity method		(264)	(496)
Loss before tax		**(219)**	**(759)**
Income tax	**12**	(225)	(242)
Net loss for the period		**(444)**	**(1,001)**
Attributable to:			
Equity holders of the parent company		(393)	(952)
Non-controlling interests		(51)	(49)
Loss per share (in PLN)	**23**		
- basic		**(0.95)**	**(2.30)**
- diluted		**(0.95)**	**(2.30)**

Accounting policies and additional notes
to the consolidated financial statements are an integral part thereof

(This is translation of the consolidated financial statements originally issued in Polish)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Net profit or loss for the period		**(444)**	**(1,001)**
Items that will never be reclassified to profit or loss		***(36)***	***(68)***
Actuarial gains and losses on defined benefit plans	**25.1**	(45)	(84)
Deferred income tax		9	16
Items that may subsequently be reclassified to profit or loss		**(39)**	**(18)**
Foreign exchange differences from translation of foreign entities		5	-
Cash flow hedges	**29.6**	(54)	(22)
Deferred income tax		10	4
Share in other comprehensive income of entities measured using the equity method		(2)	(5)
Net other comprehensive income		**(77)**	**(91)**
Total comprehensive income		**(521)**	**(1,092)**
Attributable to:			
Equity holders of the parent company		(469)	(1,042)
Non-controlling interests		(52)	(50)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2020	As at 31 December 2019 (restated)	As at 1 January 2019 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	**13**	14,565	14,262	14,396
Intangible assets	**14**	242	223	246
Right-of-use assets	**15**	907	847	-
Goodwill	**16**	11	11	15
Investments in associates and joint ventures measured using the equity method	**17**	105	336	1,029
Deferred tax assets	**12.3**	207	262	313
Other non-current financial assets	**29.1**	77	190	65
Other non-current assets	**21.1**	141	144	118
		16,255	**16,275**	**16,182**
Current assets				
Inventories	**18**	824	756	687
Current tax receivables		30	61	4
Trade receivables	**29.4.1**	1,941	1,802	1,792
Other current financial assets	**29.1**	60	203	22
Cash and cash equivalents	**20**	221	1,461	2,724
Other current assets	**21.2**	337	409	188
		3,413	**4,692**	**5,417**
TOTAL ASSETS		**19,668**	**20,967**	**21,599**

	Note	As at 31 December 2020	As at 31 December 2019	As at 31 December 2019
EQUITY AND LIABILITIES				
Equity				
Share capital	**22.1**	4,522	4,522	4,522
Foreign exchange differences from translation of a foreign entity		5	-	-
Reserve capital	**22.4**	1,018	1,018	1,018
Supplementary capital	**22.5**	1,661	2,035	1,540
Cash flow hedge reserve	**22.6, 29.6**	(96)	(52)	(34)
Retained earnings	**22.7**	1,669	1,730	3,249
Equity attributable to equity holders of the parent company		**8,779**	**9,253**	**10,925**
Non-controlling interests	**22.8**	**(36)**	**11**	**61**
		8,743	**9,264**	**10,356**
Non-current liabilities				
Loans and borrowings	**29.4.2**	1,690	2,047	2,384
Bonds issued	**29.4.2**	2,520	2,326	4,484
Non-current provisions	**25**	923	786	642
Deferred tax liabilities	**12.3**	777	738	593
Deferred income and non-current grants	**27**	214	284	262
Lease liabilities	**34**	704	637	16
Other non-current financial liabilities	**26.1, 29.1**	22	82	45
Contract liabilities	**29.1**	11	12	12
		6,861	**6,912**	**8,438**
Current liabilities				
Trade liabilities	**29.1**	792	941	746
Contract liabilities		131	88	85
Current loans and borrowings	**29.4.2**	1,742	393	189
Bonds issued	**29.4.2**	41	2,219	108
Deferred tax liabilities		-	-	65
Deferred income and grants	**27**	187	186	186
Short-term provisions	**25**	763	583	942
Other financial liabilities	**29.1**	249	235	300
Other current liabilities	**26.2**	159	146	184
		4,064	**4,791**	**2,805**
Total liabilities		**10,925**	**11,703**	**11,243**
TOTAL EQUITY AND LIABILITIES		**19,668**	**20,967**	**21,599**

Accounting policies and additional notes
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(This is translation of the consolidated financial statements originally issued in Polish)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to equity holders of the parent company								
	Note	Share capital	Foreign exchange differences from translation of a foreign entity	Reserve capital	Supplementary capital	Revaluation reserve – hedging instruments	Retained earnings	Total	Non-controlling interests	Total equity
As at 1 January 2020		**4,522**	**-**	**1,018**	**2,035**	**(52)**	**1,730**	**9,253**	**11**	**9,264**
Actuarial gains and losses on defined benefit plans	**25.1**	-	-	-	-	-	(35)	**(35)**	(1)	**(36)**
Foreign exchange differences from translation of foreign entities		-	5	-	-	-	-	**5**	-	**5**
Cash flow hedges	**29.6**	-	-	-	-	(44)	-	**(44)**	-	**(44)**
Share of other comprehensive income of entities measured using the equity method		-	-	-	-	-	(2)	**(2)**	-	**(2)**
Sum of the other net comprehensive income		-	5	-	-	(44)	(37)	**(76)**	(1)	**(77)**
Loss for the period		-	-	-	-	-	(393)	**(393)**	(51)	**(444)**
Total comprehensive income for the period		**-**	**5**	**-**	**-**	**(44)**	**(430)**	**(469)**	**(52)**	**(521)**
Distribution of profits/coverage of losses from previous years		-	-	-	(374)	-	374	**-**	-	**-**
Transfer to non-controlling interests		-	-	-	-	-	(5)	**(5)**	5	**-**
As at 31 December 2020		**4,522**	**5**	**1,018**	**1,661**	**(96)**	**1,669**	**8,779**	**(36)**	**8,743**
As at 1 January 2019		**4,522**	**-**	**1,018**	**1,540**	**(34)**	**3,249**	**10,295**	**61**	**10,356**
Actuarial gains and losses on defined benefit plans	**25.1**	-	-	-	-	-	(67)	**(67)**	(1)	**(68)**
Cash flow hedges	**29.6**	-	-	-	-	(18)	-	**(18)**	-	**(18)**
Share of other comprehensive income of entities measured using the equity method		-	-	-	-	-	(5)	**(5)**	-	**(5)**
Sum of the other net comprehensive income		-	-	-	-	(18)	(72)	**(90)**	(1)	**(91)**
Loss for the period		-	-	-	-	-	(952)	**(952)**	(49)	**(1,001)**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**(18)**	**(1,024)**	**(1,042)**	**(50)**	**(1,092)**
Distribution of profits/coverage of losses from previous years		-	-	-	495	-	(495)	**-**	-	**-**
As at 31 December 2019		**4,522**	**-**	**1,018**	**2,035**	**(52)**	**1,730**	**9,253**	**11**	**9,264**

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2020	Year ended 31 December 2019 (restated)
Cash flows from operating activities			
Loss before tax		**(219)**	**(759)**
Adjustments for:		-	-
Share in (profit)/loss of entities measured using the equity method		264	496
Foreign exchange (gains)/losses		138	(12)
Amortization and depreciation	**11.2**	1,044	1,079
Net interest and dividends		219	315
(Profit)/loss on investing activities	**31**	678	893
Changes in working capital:			
Change in receivables	**31**	53	(377)
Change in inventories		(68)	(69)
Change in liabilities, excluding loans and borrowings	**31**	(93)	152
Change in contract liabilities		42	17
Change in prepayments and accruals	**31**	(115)	(22)
Change in provisions	**31**	15	(312)
		1,958	**1,401**
Income tax		**(83)**	**(148)**
Net cash from operating activities		**1,875**	**1,253**
Cash flows from investing activities			
Disposal of property, plant and equipment, intangible assets and investment property		20	7
Repayment of loans		170	-
Interest received		12	-
Purchase of property, plant and equipment and intangible assets		(1,600)	(1,675)
Investments in associates and joint ventures measured using the equity method		-	(181)
Loans granted		(180)	(189)
Other		-	1
Net cash from investing activities		**(1,578)**	**(2,037)**
Cash flows from financing activities			
Proceeds from debt incurred	**29.4.2**	3,943	852
Grants received		33	15
Repayment of debt incurred	**29.4.2**	(2,955)	(990)
Redemption of debt securities	**29.4.2**	(2,198)	(3)
Repayment of lease liabilities		(61)	(35)
Interest paid		(316)	(324)
Other		21	-
Net cash from financing activities		**(1,533)**	**(485)**
Net increase/ (decrease) in cash and cash equivalents		**(1,236)**	**(1,269)**
Cash and cash equivalents at the beginning of the period	**20**	**1,461**	**2,726**
Effect of exchange rate changes		*4*	*(4)*
Cash and cash equivalents at the end of the period	**20**	**221**	**1,461**
of which restricted cash		*82*	*91*

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ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY INFORMATION

1. General information

Grupa Kapitałowa Energa SA (the "Group") consists of **Energa Spółka Akcyjna** (the "Parent Company", the "Company") and its subsidiaries (see Note 2).

Name of the parent company: Energa SA
Legal form: Polish joint-stock company (spółka akcyjna)
Country of incorporation: Republic of Poland
Registered office: Gdańsk
Address: ul. Grunwaldzka 472, 80-309 Gdańsk
KRS (National Court Register No.): 0000271591
Business statistical number (REGON): 220353024
Tax ID No. (NIP): 957-095-77-22
The parent entity was set up for unlimited period of time.

The consolidated financial statements of the Group cover the year ended 31 December 2020 and contain appropriate comparative data.

The core business activities of the Group are:

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

As at 31 December 2020, PKN ORLEN S.A. is the Company's and Group's ENERGA SA controlling party and the ultimate parent company of the Energa SA Group.

2. Composition of the Group and joint ventures and associates

2.1. Composition of the Group at the end of the reporting period

As at 31 December 2020, the Group consists of Energa SA and the following companies:

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 December 2020	31 December 2019
Distribution Business Line (Segment)					
1	Energa-Operator SA	Gdańsk	distribution of electricity	100	100
2	Energa Operator Wykonawstwo Elektroenergetyczne Sp. z o.o.	Słupsk	contracting and design	100	100
Sales Business Line (Segment)					
3	Energa-Obrót SA	Gdańsk	trading in electricity	100	100
4	Energa Oświetlenie Sp. z o.o.	Sopot	lighting services	100	100
5	Energa SLOVAKIA s.r.o.	Bratislava	trading in electricity	100	100
6	Enspirion Sp. z o.o.	Gdańsk	organization and management of development of innovative power projects	100	100
Generation Business Line (Segment)					
7	Energa OZE SA	Gdańsk	generation of energy	100	100

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 December 2020	31 December 2019
8	Energa Elektrownie Ostrołęka SA	Ostrołęka	generation of energy	89.64	89.64
9	Energa Kogeneracja Sp. z o.o.	Elbląg	generation of energy	100	100
10	Energa Ciepło Ostrołęka Sp. z o.o. [1]	Ostrołęka	distribution of heat	89.64	100
11	Energa Serwis Sp. z o.o. [2]	Ostrołęka	repair and maintenance services	89.64	94.81
12	Energa Ciepło Kaliskie Sp. z o.o.	Kalisz	distribution of heat	91.24	91.24
13	CCGT Grudziądz Sp. z o.o.	Grudziądz	generation of energy	100	100
14	CCGT Gdańsk Sp. z o.o.	Gdańsk	generation of energy	100	100
Other Business Line					
15	Energa Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting, payroll and administrative services	100	100
16	Energa Finance AB (publ)	Stockholm	financial activities	100	100
17	Energa Informatyka i Technologie Sp. z o.o.	Gdańsk	information and communication technologies	100	100
18	Energa Logistyka Sp. z o.o.	Płock	logistics and supply	100	100
19	Energa Invest Sp. z o.o.	Gdańsk	investment project management	100	100
20	Centrum Badawczo-Rozwojowe im. M. Faradaya Sp. z o.o.	Gdańsk	development activities in engineering	100	100
21	Energa Ochrona Sp. z o.o.	Gdańsk	security activities	100	100
22	ECARB Sp. z o.o. [3]	Gdańsk	financial activities	100	-

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

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

[3] On 4 May 2020, the company was entered in the National Court Register (KRS). On 11 May 2020, Energa SA entered into an agreement with Energa OZE SA to sell 1,275 shares in the company. As a result of the transaction, Energa SA holds 64.6% of the shares, and Energa OZE SA holds 35.4% of the shares in the share capital of ECARB Sp. z o.o.

Additionally, as at 31 December 2020, the Group holds shares in joint ventures: Polska Grupa Górnicza Sp. z o.o. ("PGG"), Elektrownia Ostrołęka Sp. z o.o. (formerly Elektrownia Ostrołęka SA) and in associates Polimex-Mostostal S.A. ("Polimex") and ElectroMobility Poland SA (see description in Note 2.2).

2.2. Changes in the composition of the Group and in the investments in joint ventures and associates in the reporting period

2.2.1. Polska Grupa Górnicza

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

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

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

Energa Group exercises joint control over PGG under an investment agreement and an investors' agreement of 2017. The Investment Agreement provides for a number of mechanisms for the investors, including Energa Group, to enable regular monitoring of PGG's financial position and optimization measures. These competences are exercised by PGG's Supervisory Board, and each PGG shareholder is entitled to appoint one member of the Supervisory Board.

Furthermore, some of the investors, who jointly hold a majority of voting rights at PGG's Shareholders' Meeting, including Energa Group, signed an investors' agreement in 2017 in order to ensure stronger control over PGG. Under the investors' agreement, a joint position is to be agreed on, inter alia, when addressing key decisions within the competence of PGG's Shareholders' Meeting and Supervisory Board

Based on a valuation prepared by an external advisor using the discounted dividends method, the Group, exercising joint control over PGG, identified the need for recognizing an impairment loss on the investment. The fair value of the shares was determined as nil. Consequently, an impairment loss was recognized for the entire value of the investment in the PGG joint venture, accounted for in the consolidated financial statements using the equity method. An impairment loss of PLN 145m was recognised for the investment.

As at 31 December 2020, investments were shown in the consolidated financial statements at PLN 0.

2.2.2. Polimex-Mostostal

On 18 January 2017, the Management Board of Energa SA, together with Enea S.A., PGE S.A., PGNiG Technologie S.A. ("Investors"), and Polimex-Mostostal S.A., signed an investment agreement whereby the Investors undertook to make an equity investment in Polimex. Energa SA holds 39 million shares of PLN 2 par value each. As a result of that, its stake in Polimex reached approximately 16.5%.

The stake in Polimex was classified as an associate accounted for using the equity method. The Group has significant influence on the investment via its influence on financial and operating policies and decisions concerning the composition of Polimex' bodies.

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

Polimex is listed on the Warsaw Stock Exchange.

The investments in the consolidated financial statements amount to PLN 92m as at 31 December 2020. Details concerning the value of the investment are presented in Note 17.

2.2.3. Ostrołęka Power Plant

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

On this basis, Energa SA and Enea S.A. acquired joint control over company, whose purpose is to build and operate a new coal-fired unit.

On 27 February 2018, the transformation of Elektrownia Ostrołęka S.A. into a limited liability company (spółka z ograniczoną odpowiedzialnością) was registered.

The investment was classified as a joint venture and is accounted for using the equity method.

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

A loan agreement was signed on 23 December 2019 between Energa SA, Enea SA and Elektrownia Ostrołęka Sp. z o.o. The maximum loan amount is PLN 340 m, to be disbursed in tranches on the basis of a reasoned request of Elektrownia Ostrołęka Sp. z o.o. for the purpose of the Project. The first tranche of PLN 160 m was disbursed on 23 December 2019, the second tranche of PLN 17 m was disbursed on 13 January 2020, and the third tranche of PLN 163 m was disbursed on 22 April 2020. Under the Loan Agreement, Energa SA carried out a conditional sale to Enea S.A. of a half of its total receivables from Elektrownia Ostrołęka Sp. z o.o. pursuant to the loan agreement. The receivables will be transferred to Enea S.A. following the fulfilment of the conditions precedent of the Agreement of 30 April 2019, at the later of 31 January 2021 or the date when the full price is paid by Enea S.A. to Energa S.A. After 31 January 2021, the receivables under the loan agreement may be converted by Energa SA and Enea SA into an equity stake in Elektrownia Ostrołęka Sp. z o.o.

On 13 February 2020, under the Agreement, Energa SA and Enea S.A. decided to suspend the financing for the Project of construction of a new 1,000 MW coal-fired unit, i.e. the proposed Ostrołęka C Power Plant in Ostrołęka ("Project"). The financing was suspended in particular in connection with the need and for the duration of conducting analyses regarding further Project activities, including its continued financing.

On 2 June 2020, the Management Board of Energa SA approved the final report from the analyses. The conclusions from the analyses do not support any continuation of the Project in its existing form, i.e. as a hard coal-fired power plant.

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

On 22 December 2020, Energa SA, PKN ORLEN S.A. and Polskie Górnictwo Naftowe i Gazownictwo S.A. signed an investment agreement concerning the directional rules of cooperation in construction of the gas-fired power unit at Ostrołęka C Power Plant. The parties to the investment agreement undertook to cooperate in delivering the Gas Project by establishing a new company that would take over selected assets and liabilities required for successful completion of the Gas Project from Elektrownia Ostrołęka Sp. z o.o. The new company under the name of CCGT Ostrołęka Sp. z o.o. was registered on 29 January 2021, with Energa SA as its sole shareholder.

The establishment of the aforementioned company was rendered possible by the execution of two agreements with Enea S.A. on 22 December 2020, namely a) the Memorandum of Understanding on cooperation in the spin-off of Elektrownia Ostrołęka Sp. z

o.o. whereby Enea SA renounced from participating in the delivery of the Gas Project and the issues described above related to the spin-off of the Gas Project were regulated and b) the Memorandum of Understanding on cooperation in settlement of Ostrołęka C Power Plant construction project whereby the costs associated with termination of the project would be settled on a pro rata basis by the parties to the Memorandum on the existing principles and within the limits adopted in the memorandum executed by the Company and Enea SA on 30 April 2019.

From the effective date of the Investment Agreement until 31 December 2020, the total value of Energa SA's capital contribution to Elektrownia Ostrołęka Sp. z o.o. (total price of shares acquired by the Company) amounted to PLN 351m.

As at 31 December 2020, investments were shown in the consolidated financial statements at PLN 0.

2.2.4. ElectroMobility Poland

ElectroMobility Poland SA was established in October 2016 by four Polish power companies: Energa SA, PGE Polska Grupa Energetyczna S.A., Enea S.A. and Tauron Polska Energia S.A. Each of the Companies has a 25% stake in its share capital. Until 31 December 2020, the total capital contributions to the company from Energa SA (nominal value of the shares acquired) was PLN 17.5m.

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

3. Composition of the Parent Company's Management Board

Throughout 2020 and 2021 until the day these consolidated financial statements were prepared, the composition of the Management Board of Energa SA was as follows:

1) from 17 December 2019 to 16 January 2020:
   - Jacek Goliński – President of the Management Board;
   - Jacek Kościelniak – Vice-President of the Management Board for Finance;
   - Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters;
   - Dominik Wadecki – Vice-President of the Management Board for Operations;
   - Adrianna Sikorska – Vice-President of the Management Board for Communication;
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 Operations;
   - Adrianna Sikorska – Vice-President of the Management Board for Communication;
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 Finance;
   - Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters;
   - Dominik Wadecki – Vice-President of the Management Board for Operations;
   - Adrianna Sikorska – Vice-President of the Management Board for Communication;
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 Finance;
   - Dominik Wadecki – Vice-President of the Management Board for Operations;
   - Adrianna Sikorska – Vice-President of the Management Board for Communication;
5) from 7 May 2020 until the day of preparation of these financial statements:
   - Jacek Goliński – President of the Management Board;
   - Marek Kasicki – Vice-President of the Management Board for Finance;
   - Dominik Wadecki – Vice-President of the Management Board for Operations;
   - Adrianna Sikorska – Vice-President of the Management Board for Communication;
   - Iwona Waksmundzka-Olejniczak – Vice-President of the Management Board for Corporate Matters.

4. Approval of the financial statements

These consolidated financial statements were approved for publication by the Company's Management Board on 14 April 2021.

5. Basis for the preparation of the financial statements

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

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

These consolidated financial statements have been prepared based on the assumption that the Group would continue as a going concern in the foreseeable future.

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

5.1. Statement of compliance

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

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

The Management Board of the Parent Company used its best knowledge in the application of standards and interpretations as well as measurement methods and principles for the individual items of the consolidated financial statements of the Energa SA Group in accordance with IFRS EU as at 31 December 2020. Due diligence was applied in the preparation of the accompanying supplementary information and notes.

The consolidated financial statements were prepared in the European Single Electronic Format (ESEF) in compliance with Regulation 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format.

5.2. Functional and presentation currency

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

6. Material items subject to professional judgment and estimates

In the process of applying accounting policies to the areas enumerated below, the management's professional judgement, in addition to the accounting estimates, which impacted the amounts presented in the consolidated
financial statements and the notes thereto, was of key importance. The assumptions used in making these estimates are based on management's best knowledge of current and future activities and events in specific areas. Detailed information on the adopted assumptions has been presented in the relevant notes in these consolidated financial statements.
The key assumptions for the future and other main sources of uncertainty occurring as at the end of the reporting period, which entail a significant risk of considerable adjustment of the carrying amount of assets and liabilities in the next financial year, are discussed below.

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

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

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

Measurement of provisions

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

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

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

Depreciation rates

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

Energy price paths

Energy price paths developed by independent industry experts are an important element of the estimation of value in use of cash generating units in the generation segment. They are also used to estimate provisions for post-employment benefits in the form of employee energy tariffs

The Group's applicable energy price paths were adopted by the Management Board of ENERGA SA on 19 November 2020 in accordance with the recommendation of PKN Orlen's Strategy and Strategic Projects Office and Energy Efficiency Management Department. Detailed information about the analysis of sensitivity to changes in the paths is disclosed in Notes 13 and 25.

Deferred tax asset

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

Fair value of financial instruments

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

Estimation of revenues on sales of electricity and distribution services

Meter readings of electricity sold to retail customers are made predominantly in the periods different from the reporting periods. Therefore, the entities comprising the Group make estimations of electricity and distribution services sold as at every last day of the reporting period, for the period not covered by meter readings. The amount of revenues recognised as at 31 December 2020 on the basis of the estimations was PLN 244 m (PLN 317 m as at 31 December 2019).

Impairment losses on receivables

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

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

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

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

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

7. Changes in estimates

In the current reporting period, the price paths used were modified and the paths in force in all PKN Orlen subsidiaries were adopted. Otherwise, the scope and the methodology of essential estimates have remained unchanged.

8. New standards and interpretations

No new standards and interpretations were introduced in the reporting period that would have a material impact on the Group's Accounting Policy and consolidated financial statements.

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

The following amendments to the existing standards published by the 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* (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of 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 operational relief for lease payments (endorsed for the EU on 9 October 2020 and applicable as from 1 June 2020 at the latest for the financial year starting on or after 1 January 2020).

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

8.2. Standards and interpretations already published and endorsed in the EU, which have not yet come into effect

When approving these financial statements, the Group did not apply the following standards, amendments to standards and interpretations that were published and endorsed in the EU but have not yet become effective:

- Amendments to IFRS 4 Insurance Contracts: extension of the temporary exemption from applying IFRS 9, endorsed for the EU on 16 December 2020 (the expiry date of the temporary exemption from applying IFRS 9 was extended from 1 January 2021 to annual periods starting on or after 1 January 2023);
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments, and IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts, and IFRS 16 Leases: Interest rate benchmark reform – Phase 2 (effective for annual periods starting on or after 1 January 2021).

In the event that the discussed standards are implemented, the Group expects no significant impact of the related changes on its reporting.

8.3. 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:

- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Associates: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (the European Commission decided to postpone the endorsement of the amendments indefinitely);
- IFRS 17 Insurance Contracts (effective for annual periods starting on or after 1 January 2023; prospective application; earlier application is permitted);
- Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and Improvements to International Financial Reporting Standards, 2018-2020 (effective for annual periods starting on or after 1 January 2022; earlier application is permitted);
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Short-term or Long-term (effective for annual periods starting on or after 1 January 2023; earlier application is permitted);
- Amendments to IAS 1 Presentation of Financial Statements: the amendments require that material rather than significant accounting principles (policies) be disclosed (effective for annual periods starting on or after 1 January 2023; earlier application is permitted);
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods starting on or after 1 January 2023; earlier application is permitted).

In the event that the said standards are implemented, the Group does not anticipate the related changes to have a material impact on its financial statements, except for IAS 37 Provisions, Contingent Liabilities and Contingent Assets, which explains what costs the entity uses in assessing whether a given contract will generate a loss. The Group expects that, at the time of initial application, amendments may have a significant impact on the Group's consolidated financial statements in the area of recognition of provisions for onerous contracts with prosumers, due to a different approach to recognition of costs used in assessing whether a given contract is onerous. However, the Group did not assess the impact of the changes on the consolidated financial statements.

9. Significant accounting policies

The most significant accounting policies applied by the Group are presented below. The policies have been applied continuously except of those described in Note 9.32.

9.1. Principles of consolidation

These consolidated financial statements include the financial statements of Energa SA and financial data of its subsidiaries prepared in each company for the year ended 31 December 2020.

Subsidiaries are consolidated in the period from the date the Group took control over them and they cease to be consolidated on the date such control ceases. Control is exerted by the Parent Company when, because of its investment, it is subject to exposure to varying returns, or if it holds rights to the variable returns and can also influence those returns by effecting control over the subsidiary.

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

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

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

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

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

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

9.2. Business combinations of entities under common control

Business combinations of entities under common control are settled by adding up the various line items of the relevant assets and liabilities as well as the revenues and expenses of the merged companies, after first converting their values using uniform measurement methods and making the relevant exclusions. In the case of the acquired company, individual balance sheet and profit and loss items included in the financial statements of that company are added up in the amounts presented in the Group's consolidated financial statements. The share capital of the company whose assets are transferred to another company, or of the

companies that are stricken from the commercial register as a result of the business combination, is subject to exclusion. After effecting this exclusion, the pertinent line items of the equity of the company to which the assets of the merged companies or of the newly-formed company are transferred are adjusted by the difference between the sum total of assets and liabilities and equity. All the account balances and transactions between the merging entities, including the profits or losses on business operations executed prior to the business combination and included in the assets and liabilities and equity undergoing combination, are also subject to exclusion.

The period-end financial statements of the company to which the merged companies' assets pass for the period in which the merger took place show comparative data for the previous financial year, which is presented as if the merger took place at the start of the previous financial year, but individual equity items as at the end of the previous year are disclosed as a sum total of the individual equity items.

9.3. Investments in joint ventures

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

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

9.4. Investments in associates

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

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

9.5. Conversion of items in foreign currencies

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

- cash is converted using the closing exchange rate (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.

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

Assets and liabilities of foreign entities consolidated using the full method are converted to the Group's presentation currency at the rate in effect at the end of the reporting period and their statements of profit or loss are converted at the average annual exchange rate for the reporting period. Foreign exchange gains/losses resulting from such a conversion are posted directly to other comprehensive income. When a foreign entity is sold, the accumulated deferred exchange differences recognized in other comprehensive income relating to that foreign entity are recognized in the statement of profit or loss.

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

Exchange rate applicable on the last day of the period		
Currency	**31 December 2020**	**31 December 2019**
EUR	4.6148	4.2585

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

Average exchange rate in the period		
Currency	**1 January - 31 December 2020**	**1 January - 31 December 2019**
EUR	4.4742	4.3018

9.6. Property, plant and equipment

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

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

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

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

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

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

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

9.7. Intangible assets

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

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

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

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

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

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

9.8. Right-of-use assets

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

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

a) the amount of initial valuation of a lease liability (see Note 9.19);

b) lease payments, if any, made at or prior to the commencement date, less any received lease incentives;

c) initial direct costs, if any, incurred by the lessee;

d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is used or restoring the underlying asset to the condition required by the terms and conditions of the lease unless those costs are incurred for the purpose of creation of inventories. The lessee assumes the obligation to cover those costs at the commencement date or as a result of use of the underlying asset over a given period.

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

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

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

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

9.9. Goodwill

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

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

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

9.10. Impairment of non-financial non-current assets

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

Where an individual asset generates no cash flow which would be largely independent of the cash inflows generated by other assets or groups of assets, the Group identifies a cash-generating unit ("CGU"). There are two applicable CGU structures within the Group. The first one designates sets of fixed assets, the second one designates assets invested in the form of stock in subsidiaries, associates and joint ventures.

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

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

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

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

9.11. External financing expenses

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

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

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

9.12. Inventories

Inventories include:

- assets designated for sale in the regular course of business activity;
- assets in production for sale; or
- assets taking the form of raw materials used in the manufacturing process or in the provision of services;
- as well as certificates of origin, certificate of energy efficiency and CO_2 emission allowances.

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

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

- coal and CO_2 emission allowances – according to the FIFO method;
- materials purchased to fulfill orders – using a detailed price identification method;
- other inventories – according to weighted average cost formula.

Certificates of origin

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

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

CO_2 emission allowances

The acquired CO_2 emission allowances are measured at purchase price. The CO_2 emission allowances received free of charge are measured at zero value and recorded off-balance sheet.

Energy efficiency certificates

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

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

9.13. Cash and cash equivalents

Cash and cash equivalents include:

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

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

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

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

9.14. Other assets

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

Accruals and deferred income

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

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

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

9.15. Assets classified as held for sale

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

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

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

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

9.16. Equity

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

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

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

9.17. Provisions for employee benefits

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

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

Provisions for pensions and other post-employment defined benefit plans

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

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

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

Provision for jubilee bonuses

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

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

Provision for employee restructuring

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

9.18. Other provisions

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

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

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

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

Provision for liabilities for gas emissions

The provision for liabilities for gas emissions is recognized gradually over the annual reporting period, based on actual CO_2 emissions, while taking into account the free emission allowances according to the following rules and order:

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

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

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

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

Provision for onerous contracts

If the Group is a party to an agreement under which the marginal costs of meeting the obligation exceed the economic benefits that will be obtained under the agreement, the present obligation resulting from the agreement is recognized by the Group and measured as a provision. Marginal contract costs include at least the net cost of contract termination, the lower of the cost of fulfilling the contract and the cost of any damages or penalties resulting from non-performance. The marginal costs of fulfilling the contract are:

- Costs directly related to the contract, i.e. those that affect the performance of the contract,
- Costs do not include service costs that will be incurred regardless of whether the Group complies with the contract or not,
- Costs that cannot be avoided by the Group's activities.

9.19. Lease liabilities

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

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

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

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

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

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

9.20. Contract liabilities

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

9.21. Other liabilities

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

9.22. Accrued costs and deferred income

Accrued costs

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

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

Deferred income

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

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

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

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

9.23. Leases

Group as a lessee

Finance lease contracts whereby the right to control the use of an identified asset over a given period of time is conveyed in exchange for consideration are recognized in the statement of financial position as at the commencement date of the lease in the amount of the discounted future lease payments. Leasing fees are allocated between financial costs and reduction of principal lease debt balance, in the manner that allows us to receive a fixed interest rate on the outstanding debt. Financial costs are posted directly to the statement of profit or loss.

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

9.24. Financial instruments

9.24.1. Financial assets

The Group identifies the following categories of financial assets:

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

Financial assets measured at amortized cost

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

1) a financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of the principal amount and interest on the principal amount outstanding.

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

Financial assets measured at fair value through other comprehensive income

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

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

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

granting of credits, as well as the profit margin. Profits or losses arising from changes in fair value are recognized through other comprehensive income. Impairment profits or losses, profits and losses on account of foreign exchange differences and interest calculated using the effective interest rate method are recognized in the profit and loss statement.

Financial assets at fair value through profit or loss

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

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

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

Among other things, the loan granted to Elektrownia Ostrołęka Sp. z o.o. for which no SPPI test according to IFRS 9 has been conducted, is measured in the aforementioned manner.

9.24.2 Impairment of financial assets

At the end of each reporting period, the Group evaluates whether there exists evidence of impairment of a financial asset or a group of financial assets.

The Group implemented the model of expected credit losses on receivables using the simplified approach admissible under IFRS 9. The rationale for the application of the above model are as follows:

- the receivables held by the Group 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.

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

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

9.24.3 Financial liabilities

The Group identifies the following categories of financial liabilities:

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

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

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

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

The liabilities measured at amortized cost include, first of all, trade liabilities, liabilities on account of purchase of property, plant

and equipment, bank credits, loans and debt securities.

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

When calculating amortized cost, the cost of obtaining the loan or credit 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.

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

The Group derecognizes a financial liability from its statement of financial position if the liability has expired, i.e. when the obligation defined in the respective agreement has been performed, has been canceled or has expired. Replacement of an existing debt instrument with an instrument with substantially different terms, made between the same entities, is recognized by the Group as an expiry of the original liability and the recognition of a new financial liability. Similarly, significant modifications of terms and conditions of an agreement relating to the existing financial liability are recognized by the Group as expiry of the original liability and recognition of a new financial liability. The resulting exchange differences arising from the respective carrying values are recognized in the profit and loss statement.

9.24.4. Hedge accounting

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

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

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

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

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

Presentation

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

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

- any revaluation of hedges is presented in the same line of the statement of profit or loss in which the revaluation of the hedged position is presented;
- the ineffective portion of changes in the valuation of hedging instruments is recognized in the result on financial instruments held for trading.

9.25 Income tax

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

Current tax

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

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

Deferred tax

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

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

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

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

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

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

9.26 Revenue on the sale of products, goods and services

Sales revenues are recognized when and to the extent reflecting satisfaction by the Group of an obligation to make a performance (provide a service) or deliver goods. An obligation is performed when the customer takes control of the asset being handed over.

Revenue is recognized to reflect the delivery of the promised goods or services to the customer in an amount that reflects the consideration to which the entity is expected to be entitled in exchange for those goods or services.

The Group only recognizes revenue from contracts with customers where all of the following criteria are met:

- 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 commercial substance;
- It is probable that the entity will collect the consideration, to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Depending on the 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. For the most part, revenue generated by the Group is recognized at a specific point in time. See Note 10 for details of the over-time vs. point-in-time revenue breakdown.

The Group presents all unconditional rights to consideration separately as a receivable. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Revenue includes specifically:

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

and excise tax; and

2) amounts due from sale of materials and products based on the net price, after adjustments for granted discounts and rebates.

With regard to sales of electricity, heat, and distribution services, the customers are (private and commercial) end users of electricity. Electricity generated within the Group is mostly sold via an electricity exchange. Certificates of origin for electricity are mostly sold within the Group.

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

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

An electricity distribution service sold to end users by an entity operating in the field of electricity trading may serve as an example of agency activity.

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

Revenue from connection fees is recognized in the period in which the connection fees are due. Grid connection services are a separate obligation to perform.

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

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

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

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

No variable component is identified by the Group in the consideration.

9.27 Operating expenses

Cost of sales includes:

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

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

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

9.28 Other operating income and expenses

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

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

9.29 Financial income and costs

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

- disposal of financial assets;
- revaluation of financial assets;
- revenue from profit-sharing in other entities;
- interest;
- changes in the amount of provision resulting from the approaching date of incurring the cost (unwinding discount effect);

- foreign exchange differences resulting from operations performed during the reporting period and book valuation of assets and liabilities at the end of the reporting period, except for exchange differences recognized in the initial value of property, plant and equipment, to the extent they are recognized as adjustment of interest expense; and
- other items related to financing activity.

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

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

9.30 Earning/loss per share

Earnings/losses 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.

9.31 Statement of cash flows

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

9.32. Changes in accounting principles and corrections of data from previous years

Effective 1 January 2020, contractual assets are presented in the "Trade receivables and other receivables" item of the statement of financial position and disclosed in Note 29.1 as "Upward adjustment of the sales revenue". In the previous financial years, contractual assets were presented separately in the statement of the financial position.

This change in policy is the result of a market practice study carried out by the Group with regard to the presentation of contractual assets in entities with a similar profile of activities and re-assessment of the item's materiality vis-à-vis the statement as a whole. As a result of the study and in order to maintain comparability of the financial information presented with the practice of other entities in the industry, the Group amended its accounting policy with regard to the presentation of contractual assets and restated comparative data accordingly.

Furthermore, in these financial statements, the Group restated comparative data with regard to an amendment of improper presentation of liabilities concerning an upward adjustment for purchases of electricity and distribution services, which were presented as contractual liabilities as at 31 December 2019, whereas the proper item to present them in should have been "Trade liabilities".

In the contractual liabilities item, the Group also recognized advance payments and amounts paid by contractors with regard to future periods, which in the previous year were presented as other short-term liabilities.

As a result of the adjustments with regard to the change in the accounting principles and presentation adjustments as discussed above, the Group restated as follows the comparative data in the statement of the financial position as at 1 January 2019 and 31 December 2019.

	As at 1 January 2019 (previously reported)	Adjustment	As at 1 January 2019 (restated)
ASSETS			
Trade receivables	1 429	363	1 792
Contract assets	363	(363)	-
TOTAL	**1 792**	**-**	**1 792**
LIABILITIES			
Non-current liabilities			
Deferred income and non-current grants	274	(12)	262
Contract liabilities	-	12	12
Current liabilities			
Trade liabilities	617	129	746
Contract liabilities	129	(44)	85
Deferred income and grants	187	(1)	186
Other current liabilities	268	(84)	184
TOTAL	**1 475**	**-**	**1 475**

	As at 31 December 2019 (previously reported)	Adjustment	As at 31 December 2019 (restated)
ASSETS			
Current assets			
Trade receivables	1 489	313	1 802
Contract assets	313	(313)	-
TOTAL	**1 802**	**-**	**1 802**
LIABILITIES			
Non-current liabilities			
Deferred income and non-current grants	296	(12)	284
Contract liabilities	-	12	12
Current liabilities			
Trade liabilities	802	139	941
Contract liabilities	139	(51)	88
Deferred income and grants	188	(2)	186
Other current liabilities	232	(86)	146
TOTAL	**1 657**	**-**	**1 657**

	Year ended 31 December 2019 (dane poprzednio raportowane)	Adjustment	Year ended 31 December 2019 (restated)
Cash flows from operating activities			
Profit/(loss) before tax	**(759)**		**(759)**
Adjustments for:			
Share in (profit)/loss of entities measured by the equity method	496		496
Foreign currency (gains)/losses	(12)		(12)
Amortization and depreciation	1 079		1 079
Net interest and dividends	315		315
(Profit)/loss on investing activities, including goodwill impairment allowance	893		893
Changes in working capital:			
Change in receivables	(427)	50	(377)
Change in contract assets	50	(50)	-
Change in inventories	(69)		(69)
Change in liabilities excluding loans and borrowings	160	(8)	152
Change in contract liabilities	10	7	17
Change in prepayments and accruals	(23)	1	(22)
Change in provisions	(312)		(312)
	1 401		**1 401**
Income tax	**(148)**		**(148)**
Net cash from operating activities	**1 253**		**1 253**
Cash flows from investing activities			
Disposal of property, plant and equipment and intangible assets	7		7
Purchase of property, plant and equipment and intangible assets	(1 675)		(1 675)
Investments in associated entities and joint ventures measured using the equity method	(181)		(181)
Loans granted	(189)		(189)

Other	1		1
Net cash from investing activities	**(2 037)**		**(2 037)**
Cash flows from financing activities			
Proceeds from debt incurred	852		852
Grants received	15		15
Repayment of debt incurred	(990)		(990)
Redemption of debt securities	(3)		(3)
Repayment of lease liabilities	(35)		(35)
Interest paid	(324)		(324)
Net cash from financing activities	**(485)**		**(485)**
Net increase/(decrease) in cash and cash equivalents	**(1 269)**		**(1 269)**
- Change in cash and cash equivalents due to exchange rate differences	**(3)**		**(3)**
Cash and cash equivalents at the beginning of the period	**2 726**		**2 726**
Unrealized exchange rate differences		(4)	**(4)**
Cash and cash equivalents at the end of the period*	**1 457**	4	**1 461**
- *Of limited disposability*	*91*		*91*

* The year-end value of cash and cash equivalents in 2019 as presented in the published 2019 Cash Flow Statement was 1 457 m. For the ESEF purposes, this item was shown as at the end of 2020 adjusted by unrealized foreign exchange differences, which were recognized in a separate item.

NOTES ON OPERATING SEGMENTS

10. Business lines (operating segments)

The Group presents segment information in accordance with IFRS 8 Operating Segments for the current and for comparative reporting periods. The Group is organized and managed within three segments and other activities, which are distinguished according to the type of products offered. The Group's reporting is analysed into the three business segments and other activities called *business lines* by the Group:

- Distribution – distribution of electricity by Energa-Operator SA (Distribution System Operator), as well as operations directly associated with the distribution operations conducted by other Group companies;
- Generation – generation of electricity from conventional and renewable sources, generation and distribution of heat, and repair and maintenance activities, related directly to the generation of energy;
- Sales – trading in electricity (wholesale and retail) and lighting services;
- Other activities – shared services centers in the accounting, HR and payroll, administration and ITC areas, as well as financial activities, real estate management, logistics, supply and security areas. The Parent Company is also classified as included in the *Other* business line.

The key measures used by the Management Board of Energa SA to assess the performance of the business lines are net profit and EBITDA, i.e. operating profit or loss (calculated as the profit or loss before tax adjusted by the share in profit or loss of entities accounted for using the equity method, financial income and financial costs), plus amortization and depreciation, and impairment losses on non-financial non-current assets.

The rules applied to the determination of the business lines' performance and measurement of the business lines' assets and liabilities are consistent with the rules used to prepare the consolidated financial statements. Share in profit or loss of entities accounted for using the equity method is recognized in consolidation eliminations and adjustments.

Transactions between business lines are settled on an arm's length basis.

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

The tables below show the breakdown of revenues and expenses for the period from 1 January to 31 December 2020 and of financial assets and liabilities as at 31 December 2020, by reporting segment, together with appropriate comparative information. In the tables presenting data for 2019, we modified the presentation by removing the total for 3 segments and other activities (described as "Other" in 2019) to make the data in years of 2019 and 2020 comparable.

Year ended 31 December 2020 or as at 31 December 2020	Distribution	Sales	Generation	Other activities	Consolidation eliminations and adjustments	Total activity
Revenue						
Sales to external customers	4,264	7,074	1,058	100	-	**12,496**
Sales between business lines	61	28	254	595	(938)	**-**
Revenue from the Price Difference Refund Fund	-	57	-	-	-	**57**
Total business line revenue	**4,325**	**7,159**	**1,312**	**695**	**(938)**	**12,553**
EBITDA	**1,790**	**156**	**165**	**(79)**	**5**	**2,038**
Amortization and depreciation	847	52	131	29	(15)	**1,044**
Impairment losses on non-financial non-current assets	-	-	330	-	-	**330**
Operating profit or loss	**943**	**104**	**(296)**	**(108)**	**20**	**664**
Net financial income/costs	(181)	(5)	(51)	229	(611)	**(619)**
Share in profit/(loss) of the entities measured by the equity method	-	-	-	-	(264)	**(264)**
Profit or loss before tax	**762**	**99**	**(347)**	**121**	**(855)**	**(219)**
Income tax	(148)	(31)	(44)	(1)	(1)	**(225)**
Net profit or loss	**614**	**68**	**(391)**	**120**	**(856)**	**(444)**
Assets and liabilities						
Cash and cash equivalents	5	55	37	124	-	**221**
Total assets	**14,415**	**2,729**	**4,025**	**13,885**	**(15,386)**	**19,668**
Financial liabilities	5,152	34	892	5,513	(4,855)	**6,736**
Other business line information						
Capital expenditure	1,350	66	274	28	3	**1,721**

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

Year ended 31 December 2020	Distribution	Sales	Generation	Other activities	Consolidation eliminations and adjustments	Total activity
Revenue on sales of products and goods for resale and materials, including:	**41**	**6,842**	**1,195**	**222**	**(406)**	**7,894**
Electricity	36	6,783	906	3	(273)	**7,455**
Certificates of origin	-	-	95	-	-	**95**
Gas	-	123	-	-	-	**123**
Other goods for resale, finished goods, and materials	5	3	194	219	(133)	**288**
Excise tax	-	(67)	-	-	-	**(67)**
Revenues on sales of services, including:	**4,284**	**260**	**117**	**473**	**(532)**	**4,602**
Distribution and transit services	4,151	-	31	-	(42)	**4,140**
Customer connection fees	49	-	-	-	-	**49**
Rental income	36	4	4	2	(15)	**31**
Other services	48	256	82	471	(475)	**382**
TOTAL	**4,325**	**7,102**	**1,312**	**695**	**(938)**	**12,496**
of which:						
Revenue from goods, products and materials transferred or services provided on a continuous basis	4,187	6,839	937	3	(315)	**11,651**
Revenue from goods, products and materials transferred or services provided at a specific time	138	263	375	692	(623)	**845**

Year ended 31 December 2019	Distribution	Sales	Generation	Other activities	Consolidation eliminations and adjustments	Total activity
Revenue on sales of goods, products and materials, including:	**51**	**6,363**	**1,245**	**230**	**(777)**	**7,112**
Electricity	44	6,251	939	-	(618)	**6,616**
Certificates of origin	2	-	98	-	(4)	**96**
Gas	-	180	-	-	(1)	**179**
Other goods for resale, finished goods, and materials	5	6	208	230	(154)	**295**
Excise tax	-	(74)	-	-	-	**(74)**
Revenues on sales of services, including:	**4,062**	**190**	**111**	**369**	**(365)**	**4,367**
Distribution and transit services	3,926	-	31	-	(41)	**3,916**
Customer connection fees	64	-	-	-	-	**64**
Rental income	36	4	65	2	(15)	**92**
Other services	36	186	15	367	(309)	**295**
TOTAL	**4,113**	**6,553**	**1,356**	**599**	**(1,142)**	**11,479**
of which:						
Revenue from goods, products and materials transferred or services provided on a continuous basis	3,970	6,357	970	-	(660)	**10,637**
Revenue from goods, products and materials transferred or services provided at a specific time	143	196	386	599	(482)	**842**

Impact of the Act of 28 December 2018 amending the Excise Duty Act and certain other acts. In 2020, the Group recognized in its accounts the impact of the provisions regulating electricity prices in the statement of profit or loss in the item showing the revenue from the Price Difference Reimbursement Fund, contributing to the gross profit on sales, whereas in the statement of the financial position it was recognized as other short-term assets.

NOTES TO CONSOLIDATED STATEMENT OF PROFIT OR LOSS

11. Revenues and expenses

11.1 Costs by nature

	Year ended 31 December 2020	Year ended 31 December 2019
Depreciation and amortization of property, plant and equipment, intangible assets and investment property	1,044	1,079
Impairment losses on property, plant and equipment, intangible assets and investment property (including advances paid)	*330*	*497*
Consumption of materials and energy	861	881
External services	1,383	1,391
Taxes and fees	589	543
Employee benefit expenses	1,304	1,190
Impairment loss on trade receivables and contract assets	39	36
Other costs by nature	87	80
Change in product inventories	(8)	(2)
Cost of producing services for own needs	(227)	(213)
Cost of products and materials sold	6,626	6,192
Total operating expenses	**12,028**	**11,674**
of which:		
Cost of sales	11,271	10,930
Selling and distribution expenses	380	380
General and administrative expenses	377	364

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

	Year ended 31 December 2020	Year ended 31 December 2019
Items included in cost of sales:	**1,307**	**1,491**
Depreciation/amortization of property, plant and equipment and right-of-use assets	942	963
Impairment loss on property, plant and equipment	329	495
Depreciation/amortization of intangible assets and right-of-use assets	34	33
Impairment loss on intangible assets	1	-
Depreciation of investment property	1	-
Items included in selling and distribution expenses:	**40**	**46**
Depreciation/amortization of property, plant and equipment and right-of-use assets	18	23
Depreciation/amortization of intangible assets and right-of-use assets	22	23
Items included in general and administrative expenses:	**27**	**39**
Depreciation/amortization of property, plant and equipment and right-of-use assets	19	20
Depreciation/amortization of intangible assets and right-of-use assets	8	16
Depreciation of investment property	-	1
Impairment loss on investment property	-	2

11.3. Employee benefit expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Wages and salaries	929	830
Social security contributions	170	158
Post-employment benefits and jubilee bonuses	60	73
Other employee benefit expenses, including:	145	129
Energy tariff – current costs	13	11
Company Social Benefit Fund - charges for the current financial year	35	33
Employee Pension Plan	43	42
Employee training	3	7
Expenses related to health and safety	8	6
Other	43	30
TOTAL	**1,304**	**1,190**

11.4 Other operating income

	Year ended 31 December 2020	Year ended 31 December 2019
Profit on disposal of property, plant and equipment/intangible assets	8	1
Penalties, fines, indemnities received	30	36
Grants	21	19
Release of impairment losses for current assets	3	3
Reversal of provisions (e.g. court cases)	145	167
Reimbursement of tax	1	-
Reimbursement of costs of court proceedings	9	-
Redeemed liabilities	-	1
Revenues related to illegal energy consumption	3	10
Infrastructure acquired free of charge	98	5
Other	4	3
TOTAL	**322**	**245**

11.5. Other operating expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Cost of remedying chance losses	43	41
Donations	6	10
Recognition of impairment losses for current assets	2	9
Recognition of provisions	106	169
Indemnities	4	29
Costs related to illegal energy consumption	1	3
Litigation expenses	12	4
Goodwill impairment allowance	-	4
Surplus of employment restructuring costs over revenue from release of actuarial provisions	2	-
Lump sum tax on disbursed interest	-	13
Other	7	2
TOTAL	**183**	**284**

11.6. Financial income

	Year ended 31 December 2020	Year ended 31 December 2019
Income on financial instruments, including:	**74**	**40**
Interest income	40	37
Revaluation of financial assets (including reversal of impairment losses)	11	-
Foreign exchange differences	2	3
Other	21	-
Other financial income	**3**	**-**
TOTAL	**77**	**40**

11.7. Financial costs

	Year ended 31 December 2020	Year ended 31 December 2019
Costs of financial instruments, including:	**447**	**324**
Interest expenses	228	300
Revaluation of financial assets (including creating of impairment losses)	187	20
Foreign exchange differences	32	3
Loss on disposal of investment	-	1
Other financial costs, of which:	**249**	**438**
Revaluation of investment measured using the equity method	183	372
Lease interest	36	33
Actuarial and other interest	26	29
Other	4	4
TOTAL	**696**	**762**

12. Income tax

12.1. Tax liabilities

Major components of income tax liability for the year ended 31 December 2020 are as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Statement of profit or loss		
Current income tax expense	(108)	(33)
Adjustments to income tax for prior years	(4)	7
Deferred income tax	(113)	(216)
Tax burden recognized in the statement of profit or loss	**(225)**	**(242)**
Statement of comprehensive income		
Deferred income tax	19	20
Tax gain recognized in the statement of comprehensive income	**19**	**20**

With regard to income tax, the Group was principally subject to the general regulations in 2020. Except for the Energa Tax Group (see description in Note 12.4), there were no other occurrences that would require calculation of tax liabilities using methods different from the general regulations in this respect.

The expiration date of the right to settle a tax loss by Energa Group companies, that are not part of the Tax Capital Group, is no later than 31 December 2025.

12.2. Reconciliation of the effective tax rate

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

	Year ended 31 December 2020	Year ended 31 December 2019
Profit or loss before tax	**(219)**	**(759)**
Tax liability at Poland's statutory rate of 19%	**42**	**144**
Adjustments to income tax for prior years	(4)	7
Tax liability on permanently non tax-deductible expenses	(110)	(217)
Tax liability on permanently non-taxable income	7	16
Tax liability on profit-sharing in entities measured using the equity method	(50)	(94)
Tax losses	-	-
Temporary differences for which no deferred tax asset was recognized	(39)	(1)
Adjustment of the asset to the value to be realized in the future	(71)	(97)
Tax liability at the effective tax rate in the statement of profit or loss	**(225)**	**(242)**

The current tax liability is calculated on the basis of applicable tax regulations. Application of those regulations differentiates between the tax profit (loss) and accounting net profit (loss) in connection with exclusion of non-taxable revenues and non-deductible expenses and items of income or expense which are never taxable. Tax liabilities are calculated on the basis of tax rates applicable in the given financial year. A 19% tax rate was applicable in 2020 and 2019. Current regulations do not provide for differentiated tax rates for future periods.

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

12.3. Deferred income tax

The deferred income tax results from the following items:

	As at 31 December 2020	Revision recognized in the financial result	Revision recognized in the other comprehensive income	As at 31 December 2019
Deferred tax assets	**728**	**(8)**	**19**	**717**
On the difference between the tax and carrying value of property, plant and equipment, intangible assets and inventories	283	53	-	230
On the difference between the tax and carrying value of financial assets and liabilities	272	49	10	213
Power infrastructure acquired free of charge	2	(16)	-	18
On provisions for post-employment benefits	91	(2)	9	84
On provisions for jubilee bonuses	54	5	-	49
On provisions for redemption of property rights	23	5	-	18
On provisions for reclamation and decommissioning costs of property, plant and equipment	21	6	-	15
On provisions for gas emission liabilities	37	4	-	33
Unpaid employee salaries and benefits	5	-	-	5
On other provisions	50	(18)	-	68
Accrued expenses	45	1	-	44
Tax losses	6	(22)	-	28
Other	7	(2)	-	9
Adjustment of the asset to the value to be realized in the future	(168)	(71)	-	(97)
Set-off	**(521)**	**-**	**-**	**(455)**

Deferred tax assets after set-off	**207**	**262**

The total amount of temporary differences with regard to investments in subsidiaries where no deferred income tax asset was recognized is PLN 1 497 m, as at 31 December 2020 and PLN 938 m as at 31 December 2019 respectively. The reason why no deferred income tax asset was created is that the Group does not intend to sell these investments, i.e. the temporary differences will not reverse in future.

	As at 31 December 2020	Revision recognized in the financial result	Revision recognized in the other comprehensive income	As at 31 December 2019
Deferred tax liability	**1 298**	**105**	**-**	**1 193**
On the difference between the tax and carrying value of property, plant and equipment and intangible assets	1 082	66	-	1 016
Accrued revenues	36	2	-	34
On the difference between the tax and carrying value of energy certificates	6	(1)	-	7
On the difference between the tax and carrying value of financial assets and liabilities	171	43	-	128
Other	3	(5)	-	8
Set-off	**(521)**			**(455)**
Deferred tax liability after set-off	**777**			**738**

The total amount of temporary differences with regard to investments in subsidiaries where no deferred income tax liability was recognized is PLN 2 914 m as at 31 December 2020 and PLN 2 961 m as at 31 December 2019 respectively. The reason why no deferred income tax provision was created is that the Group does not intend to sell these investments, i.e. the temporary differences will not reverse in future.

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

	Year ended 31 December 2020	Year ended 31 December 2019
Deferred tax assets		
At the beginning of the reporting period	**814**	**662**
Increases	188	235
recognized in profit or loss	169	219
recognized in other comprehensive income	19	16
Decreases	(106)	(83)
recognized in profit or loss	(106)	(83)
At the end of the reporting period	**896**	**814**
Adjustment of the asset to the value to be realized in the future		
At the beginning of the reporting period	**(97)**	**-**
Increases	(71)	(97)
Decreases	-	-
At the end of the reporting period	**(168)**	**(97)**
Set-off	**(521)**	**(455)**
Deferred tax assets at the end of the reporting period, after set-off	**207**	**262**
Deferred tax liabilities		
At the beginning of the reporting period	**1,193**	**942**
Increases	121	267
recognized in profit or loss	121	267
Decreases	(16)	(16)
recognized in profit or loss	(16)	(12)
recognized in other comprehensive income	-	(4)
At the end of the reporting period	**1,298**	**1,193**

Set-off	**(521)**	**(455)**
Deferred tax liability at the end of the reporting period, after set-off	**777**	**738**

12.4. ENERGA Tax Group

On 25 September 2017, Energa SA together with its related parties: Energa-Operator SA, Energa-Obrót SA, Energa OZE SA, Energa Informatyka i Technologie Sp. z o.o., Energa Centrum Usług Wspólnych Sp. z o.o., Energa Logistyka Sp. z o.o., Energa Oświetlenie Sp. z o.o., Enspirion Sp. z o.o. and five other companies executed an agreement establishing a tax group under the name of PGK Energa 2018. The agreement was registered by the Head of the Pomorski Tax Authority on 26 October 2017. Energa SA was selected as the company representing the 2018 Energa Tax Group in respect to the duties arising from the Corporate Income Tax Act and the Tax Ordinance Act.

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

On 9 November 2020, a new agreement under the name of PGK ENERGA 2021 was executed. The agreement was signed for a term of three years from 1 January 2021 until 31 December 2023. The following companies make up the new PGK tax group: Energa SA, Energa-Operator SA, Energa-Obrót SA, Energa OZE SA, Energa Informatyka i Technologie Sp. z o.o., Energa Logistyka Sp. z o.o. and Energa Oświetlenie Sp. z o.o.

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

13. Property, plant and equipment

	Own land	Right of perpetual usufruct of land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross value								
As at 1 January 2020	**106**	**1**	**14,323**	**7,113**	**373**	**1,009**	**867**	**23,792**
Direct purchase	-	-	-	-	-	-	1,500	**1,500**
Settlement of property, plant and equipment under construction	2	-	759	461	19	134	(1,375)	**-**
Sale, disposal	-	-	2	(3)	(10)	(21)	-	**(32)**
Liquidation	-	-	(58)	(60)	-	(20)	(3)	**(141)**
Received free of charge	-	-	14	-	-	-	-	**14**
Redemption	-	-	-	1	1	-	-	**2**
Capitalized financing expenses	-	-	-	-	-	-	10	**10**
Provision for land reclamation and liquidation costs	-	-	35	5	-	-	-	**40**
Other changes in value	-	(1)	(5)	(2)	(1)	(1)	(2)	**(12)**
As at 31 December 2020	**108**	**-**	**15,070**	**7,515**	**382**	**1,101**	**997**	**25,173**
Accumulated depreciation and impairment losses								
As at 1 January 2020	**-**	**(1)**	**(5,398)**	**(3,200)**	**(256)**	**(640)**	**(35)**	**(9,530)**
Amortization/depreciation and net liquidation value	-	1	(515)	(288)	(25)	(97)	-	**(924)**
Recognition of impairment losses	(2)	-	(70)	(158)	1	(3)	(219)	**(451)**
Reversed impairment losses	2	-	23	69	-	-	31	**125**
Other decreases in impairment losses	-	-	5	16	-	-	-	**21**
Sale, disposal	-	-	(3)	3	9	21	-	**30**
Liquidation	-	-	56	56	-	20	-	**132**
Redemption	-	-	-	-	(1)	-	-	**(1)**
Other changes in value	-	-	(4)	(7)	-	1	-	**(10)**
As at 31 December 2020	**-**	**-**	**(5,906)**	**(3,509)**	**(272)**	**(698)**	**(223)**	**(10,608)**
Net value as at 1 January 2020	**106**	**-**	**8,925**	**3,913**	**117**	**369**	**832**	**14,262**
Net value as at 31 December 2020	**108**	**-**	**9,164**	**4,006**	**110**	**403**	**774**	**14,565**

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

Impairment tests for property, plant and equipment

In 2020, property, plant and equipment and goodwill were assessed for any internal and external triggers of impairment of recoverable amount, which was described in note 16.

In the second half of 2020, impairment tests for cash generating units (CGUs) were performed using the income method based on the discounted value of estimated cash flows from operating activities, taking into account, among others, the following assumptions:

- the test date is 31 December 2020;
- the macroeconomic assumptions approved by the Management Board of Energa SA and applied at PKN Orlen Group with respect to BASE and PEAK electricity prices, coal and natural gas prices and prices of CO_2 emission allowances. The forecasts were prepared until 2030 included. Consequently, the data from the last year of the projection were extrapolated for the subsequent years. Price forecasts were adopted for certificates of origin, biomass and capacity market rates for the Polish market based on a report prepared for the Group by an independent agency; the forecasts were prepared with the timeframe until 2065;
- number of free 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);
- replacement capital expenditure at the levels allowing for maintenance of the production capacity of the existing non-current assets, 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 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 in accordance with the provisions of the Capacity Market Act of 8 December 2017, as amended, with the rates adopted on the basis of the auctions held and won in 2019 and 2020 and for the years that go beyond the contracted period based on the price paths;
- the length of financial forecasts for the individual companies/CGUs 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 consecutive years; and
- 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.

Wind farms (Karcino CGU, Karścino CGU, Bystra CGU, Myślino CGU, Parsówek CGU and Przykona CGU)

The tests were conducted for the full useful life, which allowed for a more reliable valuation of the units the total useful life of which is limited, on a model basis, to 25 years from the commissioning of the farm. Calculations to determine the value in use cover the period from January 2021 until the last year of the wind farm's operation. The discount rates set on the basis of the pre-tax weighted-average cost of capital (WACC), used for the calculation, fell within the range from 5.44% to 5.97% (on average 4.18% after tax). Discount rates used for the calculation range from 7.64% to 8.08% (avg.6.02% after tax).

Based on the impairment tests conducted, a need was identified for complete reversal of impairment losses on the Bystra wind farm in the amount of PLN 13.8 m. Recoverable amount of the wing farms was calculated in the amount of PLN 1,237.6 m.

Photovoltaic farms (PV Delta CGU, PV Czernikowo)

The tests were conducted for the full useful life, which allowed for a more reliable valuation of the units the total useful life of which is limited, on a model basis, to 25 years from the commissioning of the farm. Calculations to determine the value in use cover the period from January 2021 until December 2039. The discount rates set on the basis of the pre-tax weighted-average cost of capital (WACC), used for the calculation, fell within the range from 4.70% to 5.39% (on average 4.18% after tax). Discount rates used for the calculation range from 6.84% to 7.45% (avg.6.02% after tax).

Based on the impairment tests conducted, the need was identified for revaluating impairment losses on the photovoltaic farms. The impairment loss on PV Delta in the amount of PLN 0.8 m was reversed and the impairment loss on PV Czernikowo in the amount of PLN 1.4 m was recognized. Recoverable amount of the photovoltaic farms was calculated in the amount of PLN 16.5 m.

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

Calculations to determine the recoverable amount were conducted based on the financial projections for the full useful life of the unit, namely from January 2021 until December 2042, while taking into account the cash flows derived from the company's ongoing obligatory development investments. A discount rate based on the pre-tax weighted-average cost of capital (WACC), adopted for the calculation, was 9.46% (7.49% after tax), an additional premium for the projection's risk included. Discount rate used for the calculation equals 7.30% (5.96% after tax).

Based on the outcome of the conducted test, a need was identified for complete reversal of impairment losses on Elbląg CHP CGU in the amount of PLN 69.1 m. Recoverable amount was calculated in the amount of PLN 260.3 m.

Kalisz Combined Heat and Power Plant (Kalisz CHP CGU)

Calculations to determine the recoverable amount were conducted based on the financial projections for the full useful life of the unit, namely from January 2021 until December 2042, while taking into account the cash flows derived from the company's ongoing obligatory development investments. A discount rate based on the pre-tax weighted-average cost of capital (WACC), adopted for the calculation, was 9.13% (7.49% after tax), an additional premium for the projection's risk included. Discount rate used for the calculation equals 9.72% (8.49% after tax).

Based on the outcome of the conducted test, it was concluded that no impairment loss on the Kalisz CHP CGU was required. Recoverable amount was calculated in the amount of PLN 54.1 m.

Ostrołęka B Power Plant (Ostrołęka B CGU)

The value in use in the test was calculated on the basis of financial projections for a finite useful life, namely from January 2021 until December 2025, while taking into consideration the period of available support from the capacity market for coal units. To calculate the value in use of Ostrołęka B CGU:

- allowance was made for the support in the form of a five-year capacity contract for the years 2021–2025; and
- a discount rate calculated on the basis of the weighted average cost of capital (WACC) at 7.87% (5.03% after tax) was adopted. Discount rate 6.84% (6,38% before tax) was adopted for the test of calculation value in use in 2019 year.

Based on the outcome of the test performed in the first half of the year 2020, it was concluded that a 100% impairment loss on Ostrołęka B CGU in the amount of PLN 473 m was required.

Based on the outcome of the test performed as at 31 December 2020, it was concluded that reversal of the impairment loss on Ostrołęka B CGU in the amount of PLN 414 m was required. The value of Ostrołęka B CGU after reversal of the impairment loss amounts of PLN 91 m.

Heat plant in Ostrołęka (Ciepło Ostrołęka CGU)

The value in use was calculated on the basis of financial projections for the period from January 2021 until December 2025 and the residual value. A discount rate based on the after-tax weighted-average cost of capital (WACC), adopted for the calculation, was 4.16%.

Based on the outcome of the conducted test, it was concluded that no impairment loss on Ciepło Ostrołęka CGU was required. Recoverable amount was calculated in the level of PLN 72.2 m.

Heat plant in Kalisz (Ciepło Kaliskie CGU)

The value in use was calculated on the basis of financial projections for the period from January 2021 until December 2025 and the residual value. A discount rate determined using the after-tax weighted-average cost of capital (WACC), adopted for the calculation, equals of 4.16%.

Based on the outcome of the conducted test, it was concluded that no impairment loss on Ciepło Kaliskie CGU was required. Recoverable amount was calculated in the level of PLN 70.8 m.

Sensitivity analysis

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

Parameter	Value	Impact on CGU's valuation [PLN m]		Change in impairment loss/impairment loss reversal amount [PLN m]
	and direction of change	Increase in value	Decrease in value	
Discount rates	[+ 0.5 pp]		-98.7	-2.3
	[- 0.5 pp]	121.0		2.3
Electricity prices	[+ 1%]	44.2		20.1
	[- 1%]		-44.2	-20.1
Heat prices	[+ 1%]	12.1		1.2
	[- 1%]		-12.1	-1.2
EUA prices	[+ 1%]		-9.9	-8.3
	[- 1%]	9.9		8.3
Coal prices	[+ 1%]		-9.1	-8.9
	[- 1%]	9.1		8.9

14. Intangible assets

	Development costs	Software, licenses and patents	Other intangible assets	Intangible assets not in use	Total
Gross value					
As at 1 January 2020	**1**	**815**	**71**	**68**	**955**
Direct purchase	-	28	-	67	**95**
Settlement of intangible assets not in use	1	48	6	(55)	**-**
Sale, disposal	-	(23)	-	-	**(23)**
Liquidation	-	(4)	(7)	-	**(11)**
Reclassification between groups	-	(2)	2	-	**-**
Other changes in value	-	21	-	(1)	**20**
As at 31 December 2020	**2**	**883**	**72**	**79**	**1,036**
Accumulated depreciation and impairment losses					
As at 1 January 2020	**-**	**(664)**	**(43)**	**(25)**	**(732)**
Amortization/depreciation and net liquidation value	-	(52)	(12)	-	**(64)**
Increase in impairment losses	-	(1)	-	-	**(1)**
Liquidation	-	4	7	-	**11**
Other changes in value	-	(8)	-	-	**(8)**
As at 31 December 2020	**-**	**(721)**	**(48)**	**(25)**	**(794)**
Net value as at 1 January 2020	**1**	**151**	**28**	**43**	**223**
Net value as at 31 December 2020	**2**	**162**	**24**	**54**	**242**

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

15. Right-of-use assets

	Land	Rights of perpetual usufruct of land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant and equipment	Software, licenses and patents	Total
Gross value								
As at 1 January 2020	**509**	**242**	**103**	**13**	**16**	**4**	**20**	**907**
Direct purchase	107	1	3	-	5	-	-	**116**
Revaluation - increase	4	5	9	-	-	-	-	**18**
Liquidation	-	-	(4)	-	(1)	-	-	**(5)**
Redemption	-	-	-	(1)	(1)	-	-	**(2)**
Revaluation - decrease	(1)	(2)	-	-	-	-	-	**(3)**
Reclassification between groups	44	(44)	-	-	-	-	-	**-**
Other changes in value	-	-	(1)	-	-	-	(20)	**(21)**
As at 31 December 2020	**663**	**202**	**110**	**12**	**19**	**4**	**-**	**1,010**
Accumulated depreciation and impairment losses								
As at 1 January 2020	**(20)**	**(7)**	**(16)**	**(3)**	**(5)**	**(1)**	**(8)**	**(60)**
Amortization/depreciation and net liquidation value	(25)	(1)	(17)	(2)	(6)	(1)	-	**(52)**
Recognition of impairment losses	-	(26)	-	(2)	(1)	-	-	**(29)**
Reversed impairment losses	-	26	-	-	-	-	-	**26**
Liquidation	-	-	1	-	1	-	-	**2**
Reclassification between groups	(2)	2	-	-	-	-	-	**-**
Redemption	-	-	-	-	1	-	-	**1**
Other changes in value	-	-	1	-	-	-	8	**9**
As at 31 December 2020	**(47)**	**(6)**	**(31)**	**(7)**	**(10)**	**(2)**	**-**	**(103)**
Net value as at 1 January 2020	**489**	**235**	**87**	**10**	**11**	**3**	**12**	**847**
Net value as at 31 December 2020	**616**	**196**	**79**	**5**	**9**	**2**	**-**	**907**

The costs associated with leases of low-value assets stand at PLN 0.3 m as at 31 December 2020, whereas the costs associated with variable lease payments not included in measurement of lease liabilities amount to PLN 4.7 m and the costs associated with short-term leases are PLN 1.7 m.

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

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

16. Goodwill

As at 31 December 2020, an impairment test of goodwill was carried out for the company which was established as a result of the Energa Ciepło Kaliskie heat asset acquisition. The method used for the test was the discounted cash flow method based on financial projections for the asset to which the goodwill is allocated for the period from January 2021 to December 2025 and the residual value. In the projections, the volume of sales from own sources was estimated on the basis of the values planned for 2021, with account being taken of new heating grid connections in accordance with the connection agreements in place. The expected increase in the distribution volume results directly from the manner in which the increase in the heat sales was estimated in view of the new additions planned. The discount rate determined on the basis of the weighted-average cost of capital (WACC) before tax and used for the calculation was 4.16%. To extrapolate cash flow projections beyond the particular planning period, the growth rate of 2.0% was adopted, which does not exceed the average long-term inflation rates in Poland. The testing results showed no need for an impairment write-down on goodwill. The recoverable value was determined at PLN 64 m.

The estimated impact of the change in the discount rate on the valuation of the above assets is presented below. A sensitivity analysis shows that the change in the discount rate, reflected over the entire forecast period, might require write-downs as estimated below.

Parametr	Wartość i kierunek zmiany	Wpływ na wartość z wyceny [mln PLN]		Zmiana wartości odpisu [mln PLN]
		Zwiększenie wartości	Zmniejszenie wartości	
Discount rates	[+ 0,5 p.p.]		-15	-11
	[- 0,5 p.p.]	24		0

In the previous reporting period in 2019, following the conducted test, a need was found to recognize impairment losses on the full goodwill arising as a result of the transaction of purchase of Energa Ciepło Ostrołęka district heating assets in the amount of PLN 3.5 m.

	Year ended 31 December 2020	Year ended 31 December 2019
Net value at the beginning of the period	11	15
Impairment loss recognized	-	(4)
Net value at the end of the period	**11**	**11**

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

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

Investments measured using the equity method	As at 31 December 2020	As at 31 December 2019
Polska Grupa Górnicza S.A.	-	199
Elektrownia Ostrołęka Sp. z o.o.	-	-
Polimex-Mostostal S.A.	92	123
ElectroMobility Poland S.A.	13	14
Total	**105**	**336**

Below we present condensed financial information of the companies measured by the equity method and reconciliation of the financial information to the carrying amount of shares in the companies recognized in the Group's consolidated financial statements. The 2020 data are based on the companies' financial data. In the case of Polska Grupa Górnicza S.A., these data are the data as at end for the period of 5 months ended on 31 May 2020 (the data at the time of the decision on recognition of the impairment loss on the investment). As for the other companies the preliminary data were presented as at and for the period of 12 months ended on 31 December 2020.

Condensed statement of comprehensive income	Polska Grupa Górnicza S.A.*	Elektrownia Ostrołęka Sp. z o.o.	Polimex-Mostostal SA	ElectroMobility Poland S.A.
	For the period ended 31 December 2020			
Revenues	2,942	-	1,600	-
Amortization and depreciation	-	-	37	-
Interest income	-	-	5	-
Interest expenses	-	19	23	-
(Loss)/profit before tax from continuing operations	**(420)**	**(625)**	**59**	**(4)**
Income tax	(67)	-	12	-
Net (loss)/profit from continuing operations	**(353)**	**(625)**	**47**	**(4)**
Net profit on discontinued operations	**-**	**-**	**-**	**-**
Other comprehensive income	**-**	**-**	**(5)**	**-**
Total comprehensive income	**(353)**	**(625)**	**42**	**(4)**
Dividends paid	**-**	**-**	**-**	**-**

* data as at and for the 5-month period ended on 31 May 2020

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

Condensed balance sheet	Polska Grupa Górnicza S.A.*	Elektrownia Ostrołęka Sp. z o.o.	Polimex-Mostostal SA	ElectroMobility Poland SA
	As at 31 December 2020			
Cash and cash equivalents	128	36	368	16
Other current assets (excl. cash)	1,583	3	820	2
Total current assets	**1,711**	**38**	**1,187**	**18**
Non-current assets	**10,336**	**95**	**651**	**39**
Financial liabilities (excl. trade liabilities)	524	420	72	-
Other current liabilities (incl. trade liabilities)	3,556	492	864	3
Total current liabilities	**4,080**	**912**	**936**	**3**
Financial liabilities	2,442	-	113	-
Other liabilities	2,157	-	106	-
Total non-current liabilities	**4,599**	**-**	**220**	**-**
Net assets	**3,368**	**(779)**	**682**	**54**

* data as at and for the 5-month period ended on 31 May 2020

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

Condensed financial information	Polska Grupa Górnicza S.A.*	Elektrownia Ostrołęka Sp. z o.o.	Polimex-Mostostal SA	ElectroMobility Poland SA
	2020			
Net assets of the joint venture/associate at the beginning of the period	**3,711**	**(154)**	**641**	**58**
Net profit/(loss) for the period	(353)	(625)	47	(4)
Other comprehensive income	-	-	(45)	-
Recapitalization by investors	-	-	-	-
Other differences	10	-	(1)	-
Net assets of the joint venture/associate at the end of the period	**3,368**	**(779)**	**682**	**54**
Stake held by the Group in the joint venture/associate	15.32%	50.00%	16.48%	25.00%
Interest in the joint venture/associate	516	-	112	13
Goodwill	-	-	-	-
Other differences	-	-	-	-
Impairment loss on investments	(516)	-	(21)	-
Carrying amount of shares	**-**	**-**	**92**	**13**

* data as at and for the 5-month period ended on 31 May 2020

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

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

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

In the case of dividend payments to shareholders of ElectroMobility Poland S.A. as well as to shareholders of Elektrownia Ostrołęka Sp. z o.o., there are no specific restrictions on dividend distributions. Polimex-Mostostal S.A., in turn, assumed a contractual obligation not to pay any dividend or interim dividend to its shareholders without a prior consent of the creditors (banks and bondholders).

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

Polska Grupa Górnicza S.A.

As at 30 June 2020, based on a valuation prepared by an external advisor using the discounted dividends method, the Energa Group, exercising joint control over PGG, identified the need for recognizing an impairment loss on the investment.
The fair value of the shares was determined as nil. Consequently,
an impairment loss was recognized on the entire value of the investment in the PGG joint venture measured in the consolidated financial statements using the equity method. An impairment loss of PLN 145m was recognised
for the investment. As at 31 December 2020, the value of the investments in the consolidated financial statements at PLN 0.

Polimex-Mostostal S.A.

As at 30 September 2020, the shares held in Polimex-Mostostal SA were measured in compliance with the arm's length principle. Following the valuation, an impairment of these shares was identified and an impairment loss of PLN 38 m was recognized. The value of the held shares was measured once again as at 31 December 2020. The measurement revealed the aggregate value of shares at PLN 145 m, in excess of their carrying value. However, the entity deemed that the surplus was of temporary nature and, therefore, no impairment loss was reversed. The investments in the consolidated financial statements amount to PLN 92 m as at 31 December 2020.

18. Inventories

	31 December 2020			31 December 2019		
	Historical cost	Impairment losses	Net value	Historical cost	Impairment losses	Net value
Energy certificates of origin	540	-	**540**	413	-	**413**
Materials	108	(1)	**107**	143	(1)	**142**
CO2 emission allowances	144	-	**144**	178	-	**178**
Semi-finished products and production in progress	8	-	**8**	-	-	**-**
Merchandise	25	-	**25**	23	-	**23**
TOTAL	**825**	**(1)**	**824**	**757**	**(1)**	**756**

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

19. CO_2 emission allowances

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

CO_2 emission allowances	Year ended 31 December 2020	Year ended 31 December 2019
	(thousands of tons)	
CO_2 emissions from all installations (thousands of tons), including:	**1,742**	**2,174**
Number of emission allowances awarded free of charge	79	506
Number of emission allowances paid for	1,663	1,668
Cost of the obligation to redeem CO_2 emission allowances (PLN m)	**197**	**175**

20. Cash and cash equivalents

Cash at bank earns interest at variable interest rates negotiated with the banks, 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 Group's current cash needs, and earn interest at interest rates negotiated individually with banks.

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

	As at 31 December 2020	As at 31 December 2019
Cash at bank and in hand	221	926
Short-term deposits of up to three months	-	535
Total cash and cash equivalents presented in the statement of financial position	**221**	**1,461**
of which unrealized foreign exchange differences and interest	-	(4)

Restricted cash presented in the consolidated statement of cash flows mainly consists of funds in the VAT account (split payment) and securing settlements with Izba Rozliczeniowa Giełd Towarowych S.A.

21. Other assets

21.1 Other non-current assets

	As at 31 December 2020	As at 31 December 2019
Long-term prepayments and accrued expenses	78	84
Investment property	35	39
Advances for property, plant and equipment under construction and intangible assets	28	21
TOTAL	**141**	**144**

21.2 Other current assets

	As at 31 December 2020	As at 31 December 2019
VAT receivables	117	161
Advances for deliveries	56	105
Deferred costs	90	88
Compensation due from Price Difference Refund Fund	60	55
Other tax receivables	7	-
Other current assets	7	-
TOTAL	**337**	**409**

22. Share capital and other components of equity

22.1 Share capital

As at 31 December 2020, the share capital of Energa SA amounted to PLN 4,522 m and was divided into shares as specified below:

	As at 31 December 2020	As at 31 December 2019
AA series bearer shares with par value of PLN 10.92 each	269,139,114	269,139,114
BB series registered shares with par value of PLN 10.92 each	144,928,000	144,928,000
Total number of shares	**414,067,114**	**414,067,114**

22.2 Major shareholders

	Year ended 31 December 2020	Year ended 31 December 2019
State Treasury		
share in capital	0.00%	51.52%
share in voting rights	0.00%	64.09%
PKN ORLEN SA		
share in capital	90.92%	0.00%
share in voting rights	93.28%	0.00%
Other shareholders		
share in capital	9.08%	48.48%
share in voting rights	6.72%	35.91%

22.3. Shareholders' rights

At the end of the reporting period, PKN ORLEN SA owned 376,488,640 shares of the Company constituting 90.92% of its share capital and entitling PKN ORLEN SA to exercise 521,416,640 votes at the General Meeting, which makes up 93.28% of the total number of votes at the General Meeting (including 144,928,000 registered BB series shares, preferred with respect to the voting right at the General Meeting in such manner that one BB series share gives the right to two votes at the General Meeting).

According to the Parent Company's articles of association in effect on the date of these financial statements, Supervisory Board members are appointed and dismissed by the General Meeting, but PKN ORLEN SA is personally entitled to appoint and dismiss Supervisory Board members so that PKN ORLEN SA holds an absolute majority of the votes in the Supervisory Board.

22.4. Reserve capital

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

22.5. Supplementary capital

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

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

22.6. Cash flow hedge reserve

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

22.7. Retained earnings and restrictions on dividend payment

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

22.8. Non-controlling interests

As at 31 December 2020, equity attributable to non-controlling interest refer to minority shareholders of companies in the generation business line, in particular Energa Elektrownie Ostrołęka S.A.

23. Net earnings per share

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

	Year ended 31 December 2020	Year ended 31 December 2019
Loss attributable to the shareholders of the Parent Company	(393)	(952)
Loss attributable to ordinary equity holders of the Parent Company	**(393)**	**(952)**
Number of shares at the end of the reporting period (in millions)	414	414
Number of shares used to calculate earnings per share (in millions)	414	414
Loss per share (basic and diluted) (in PLN)	**(0.95)**	**(2.30)**

24. Dividends

In 2020, the Group incurred a net loss. By the date of approval of these financial statements for publication, no decision had been made as to the coverage of the 2020 net loss, it may be assumed, however, that like in the previous years, the loss will be covered with the Company's reserve capital.

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

25. Provisions

25.1. Provisions for employee benefits

The Group measures provisions for post-employment benefits and for jubilee bonuses (see description in Note 9.17.) using actuarial methods.

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

	Pension, and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	TOTAL
As at 1 January 2020	**168**	**221**	**51**	**261**	**701**
Current service cost	9	5	2	18	34
Past service cost	-	(4)	-	5	1
Actuarial gains and losses	18	20	7	25	70
financial	19	14	7	19	59
demographic	-	-	-	-	-
other	(1)	6	-	6	11
Benefits paid	(13)	(10)	(2)	(27)	(52)
Interest costs	4	4	1	5	14
As at 31 December 2020, including:	**186**	**236**	**59**	**287**	**768**
Current	**12**	**10**	**1**	**25**	**48**
Non-current	**174**	**226**	**58**	**262**	**720**

The impact on other comprehensive income of the actuarial profit and loss on the provisions for Pensions and other benefits, Energy tariff, and the Company Social Benefits Fund is 45 m, and it is visible in the Consolidated Statement of Comprehensive Income.

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

The impact on other comprehensive income of the actuarial profit and loss on the provisions for Pensions and other benefits, Energy tariff, and the Company Social Benefits Fund is 84 m, and it is visible in the Consolidated Statement of Comprehensive Income.

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

	Year ended 31 December 2020	Year ended 31 December 2019
Discount rate	1.20%	2.00%
Employee turnover rate	3.14%	3.21%
Expected salary growth rate	3.00%	3.00%
Expected growth rate of the base of the Company Social Benefit Fund charge	4.00%	4.00%
Expected energy equivalent growth rate	0.90%	1.43%

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

Actuarial provisions	Carrying amount PLN	Analysis of sensitivity to discount rate changes		Analysis of sensitivity to salary growth rate changes		Analysis of sensitivity to energy equivalent changes	
		deviation in PLN					
		+0.5 p.p.	*-0.5 p.p.*	*+0.5%*	*-0.5%*	*+0.5%*	*-0.5%*
As at 31 December 2020							
Provision for pension and similar benefits	186	(10)	11	9	(8)	-	-
Energy tariff	236	(16)	18	-	-	17	(15)
Company Social Benefit Fund	59	(5)	6	6	(5)	-	-
Jubilee bonuses	287	(12)	13	12	(11)	-	-
TOTAL	**768**	**(43)**	**48**	**27**	**(24)**	**17**	**(15)**
Contribution to profit before tax		*12*	*(13)*	*(12)*	*11*	-	-
As at 31 December 2019							
Provision for pension and similar benefits	168	(9)	9	8	(7)	-	-
Energy tariff	221	(15)	17	-	-	17	(15)
Company Social Benefit Fund	52	(4)	5	5	(4)	-	-
Jubilee bonuses	260	(10)	11	10	(10)	-	-
TOTAL	**701**	**(38)**	**42**	**23**	**(21)**	**17**	**(15)**
Contribution to profit before tax		*10*	*(11)*	*(10)*	*10*	-	-

25.2. Other provisions

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Obligation concerning property rights	Provision for capital expenditure commitments	Other provisions	TOTAL
As at 1 January 2020	**128**	**78**	**174**	**96**	**-**	**192**	**668**
Interest costs	-	1	-	-	-	-	**1**
Recognized	86	34	197	574	219	64	**1,174**
Reversed	(20)	-	-	-	(1)	(134)	**(155)**
Used	(3)	-	(174)	(546)	-	(53)	**(777)**
Transfer from prepayments and accruals	7	-	-	-	-	-	**7**
As at 31 December 2020, including:	**197**	**113**	**197**	**124**	**218**	**69**	**918**
Current	**125**	**-**	**197**	**124**	**218**	**51**	**715**
Non-current	**72**	**113**	**-**	**-**	**-**	**18**	**203**

The amount of the recognized provision for land reclamation and liquidation costs in 2020 arises mainly from a change in the discount rate to 1.22% and making a new provision for wind farm in Przykona.

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Obligation concerning property rights	Other provisions	TOTAL
As at 1 January 2019	**114**	**63**	**158**	**433**	**249**	**1,017**
Interest costs	-	2	-	-	-	**2**
Recognized	44	13	177	265	165	**664**
Reversed	(28)	-	(2)	(4)	(144)	**(178)**
Used	(2)	-	(159)	(598)	(78)	**(837)**

As at 31 December 2019, including:	**128**	**78**	**174**	**96**	**192**	**668**
Current	**114**	**-**	**174**	**96**	**151**	**535**
Non-current	**14**	**78**	**-**	**-**	**41**	**133**

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

Provision for land reclamation and liquidation costs

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

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

- FW Bystra – provision recognized in 2012 and amortized until 2037;
- FW Karścino – provision recognized in 2009 and amortized until 2034;
- FW Karcino – provision recognized in 2010 and amortized until 2035;
- FW Myślino – provision recognized in 2015 and amortized until 2040;
- FW Parsówek – provision recognized in 2016 and amortized until 2041;
- FW Przykona – provision recognized in 2020 and amortized until 2045.

Provisions for legal claims

As a result of transition to a different political system in the 1990s, serious problems arose in the present legal and economic system with transmission installations built in the former legal system on private properties. The main purpose of the provisions for legal claims are the court cases relating to power infrastructure located on private land without the necessary legal titles. The balance of these provisions was PLN 66 m at the end of 2020, whilst at the end of 2019 equals PLN 67 m.

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

Other provisions

This category mainly presents provisions with regard to the excise duty, which is chargeable to the end-user for the electricity volume sold, at PLN 8.5 m; for undue compensation paid do Lasy Państwowe, at PLN 18.1 m; for the real estate tax, at PLN 6.5 m; and a provision for onerous contracts (see Note 38). fees payable to the Polska Fundacja Narodowa [Polish National Foundation], at PLN 18 m.

Provision for settlement of the coal-based project in Ostrołęka

As a result of the decision concerning the change of the power-generating unit's technology from coal- to gas-based for the investment project pursued by Elektrownia Ostrołęka Sp. z o.o.("SPV") analyses are underway to account for the costs incurred by the General Contractor (GC).

The value of the provision for the General Contractor's claims amounted to PLN 218 m in Q4 2020. The amount of the provision is an estimate based, inter alia, on the amounts of claims filed by the GC in the area of settlement of work in progress and suspension costs. The amount of these claims is currently subject to detailed analyses on the part of the SPV, inter alia, in terms of their reasonableness and correctness of the documentation provided. Given the failure to finalize the process of settlement of the coal-based project with GC, Energa SA is unable to determine accurately its financial implications for the Group as at the balance sheet date. The estimated provision for future investment commitments of Energa SA as a shareholder of SPV represents 50% of coverage of GC's claims against the SPV and constitutes the best possible estimate in the face of high degree of uncertainty as to the final amount of the settlement of the coal-based project. The 50% share in the estimated liabilities towards GC is proportionate to Energa SA share in the company's share capital. The proportionate settlement of the coal-based project was agreed with the other shareholder, Enea SA, in the Memorandum of Understanding on cooperation in settlement of Ostrołęka C Power Plant construction project signed on 22 December 2020.

26. Other liabilities

26.1. Other non-current financial liabilities

	As at 31 December 2020	As at 31 December 2019
Finance lease liabilities	5	72
Others*	17	10
Total	**22**	**82**

*in 2020, it concerned a good performance bond, guarantees

26.2 Other current liabilities

	As at 31 December 2020	As at 31 December 2019 (restared)
Liabilities on account of taxes, customs duties, social security insurance, wages and salaries and others	**100**	**93**
VAT	18	15
Liabilities on account of social security insurance	55	53
Excise tax	-	1
Personal income tax	21	17
Environmental and other fees	5	5
Other	1	2
Other non-financial liabilities	**59**	**53**
Payroll liabilities	49	51
Other	10	2
TOTAL	**159**	**146**

* Restated comparative data for the previous financial year - details described in Note 9.32.

27. Deferred income and grants

	As at 31 December 2020	As at 31 December 2019 (restared)
Grants received	233	221
Property, plant and equipment received free of charge	-	84
Rental income	-	-
Accruals for annual bonus and other employee bonuses	110	110
Accruals for unused holiday leaves	40	33
Awards for Management Boards	15	13
Other prepayments and accruals	3	9
TOTAL, of which:	**401**	**470**
Non-current	214	284
Current	187	186

As at 31 December 2020, the Company recognizes as grants received primarily the valuation effect of the preferential credits from the European Investment Bank (EIB) settled over the credit repayment period (see the description in Notes 9.22. and 29.5.) in the amount of PLN 51 m and co-financing of PLN 25 m received to execute the project of construction of a biomass-fired power unit in Elbląg, which is recognized over the depreciation period of the assets until 2054. Additionally, companies from the generation business line received funding from the National Fund for Environmental Protection and Water Management in the amount of PLN 28 m to rebuild district heating networks. Furthermore, Energa-Operator SA secured co-financing for the "Rebuilding of district heating networks to meet Smart Grid standards through installation of intelligent grid metering and automation to mobilize consumers to improve efficient energy consumption and effective management of the electricity and heating system to improve security of supplies" project.

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

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

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

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

	As at 31 December 2020	As at 31 December 2019
Loans granted to employees	5	7
Cash	3	4
Fund's liabilities	7	11
Balance after set-off	**1**	**-**
Charges to the Fund in the period	35	33

NOTES ON FINANCIAL INSTRUMENTS

29. Financial instruments

29.1. Carrying amount of financial instruments by category and class

As at 31 December 2020	Measured at fair value through profit or loss for the period	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
Trade receivables	-	-	1,941	-	**1,941**
in it: assesments of sales revenues	-	-	353	-	**353**
Cash and cash equivalents	-	-	221	-	**221**
Other financial assets	16	53	68	-	**137**
Loans granted	-	-	-	-	**-**
Derivative financial instruments	16	53	-	-	**69**
Other	-	-	68	-	**68**
TOTAL	**16**	**53**	**2,230**	**-**	**2,299**
Liabilities					
Credits and loans	-	-	3,432	-	**3,432**
Preferential credits and loans	-	-	1,241	-	**1,241**
Credits and loans	-	-	2,186	-	**2,186**
Bank overdrafts	-	-	5	-	**5**
Bonds issued	-	-	2,561	-	**2,561**
Trade liabilities	-	-	792	-	**792**
Contract liabilities	-	-	142	-	**142**
Other financial liabilities	-	17	215	743	**975**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	155	-	**155**
Derivative financial instruments	-	17	-	-	**17**
Dividend liabilities	-	-	2	-	**2**
Lease liabilities	-	-	-	743	**743**
Other	-	-	58	-	**58**
TOTAL	**-**	**17**	**7,142**	**743**	**7,902**

As at 31 December 2019 (restated)	Measured at fair value through profit or loss for the period	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
Trade receivables	-	-	1,802	-	**1,802**
in it:					
assessments of sales revenues	-	-	*313*	-	*313*
Cash and cash equivalents	-	-	1,461	-	**1,461**
Other financial assets	183	24	186	-	**393**
Loans granted	178	-	-	-	**178**
Derivative financial instruments	5	24	-	-	**29**
Other	-	-	186*	-	**186**
TOTAL	**183**	**24**	**3,449**	**-**	**3,656**
Liabilities					
Credits and loans	-	-	2,440	-	**2,440**
Preferential credits and loans	-	-	1,376	-	**1,376**
Credits and loans	-	-	1,064	-	**1,064**
Bonds issued	-	-	4,545	-	**4,545**
Trade liabilities	-	-	941	-	**941**
Contract liabilities	-	-	100	-	**100**
Other financial liabilities	-	72	206	676	**954**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	160	-	**160**
Derivative financial instruments	-	72	-	-	**72**
Dividend liabilities	-	-	2	-	**2**
Lease liabilities	-	-	-	676	**676**
Other	-	-	44	-	**44**
TOTAL	**-**	**72**	**8,232**	**676**	**8,980**

- in particular, the value of the margin deposit and the guarantee fund, at PLN 162 m in total

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

Year ended 31 December 2020	Assets measured at fair value through profit or loss for period	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Hedging derivatives	TOTAL
Interest income/(cost)	-	40	(168)	60	(188)
Foreign exchange differences	-	-	(159)	129	(30)
Reversal of impairment losses/increase in value	-	36	-	-	36
Recognition of impairment losses/decrease in value	-	(75)	-	-	(75)
Other	(176)	-	21	-	(155)
Net profit/(loss)	**(176)**	**1**	**(306)**	**69**	**(412)**
Other comprehensive income	-	-	-	**(54)**	(54)
Comprehensive income	**(176)**	**1**	**(306)**	**15**	**(466)**

*revaluation of investments with regard to extended loans of (187) m in total, and derivatives of 11 m in total

Year ended 31 December 2019	Assets measured at fair value through profit or loss for period	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Hedging derivatives	TOTAL
Interest income/(cost)	(3)	37	(270)	27	**(263)**
Foreign exchange differences	-	-	36	(36)	**-**
Reversal of impairment losses/increase in value	-	46	-	-	**46**
Recognition of impairment losses/decrease in value	-	(82)	-	-	**(82)**
Other	(21)	-	-	-	**(21)**
Net profit/(loss)	**(24)**	**1**	**(234)**	**(63)**	**(320)**
Other comprehensive income	-	-	-	(22)	**(22)**
Comprehensive income	**(24)**	**1**	**(234)**	**(85)**	**(342)**

*in the financial statements as at 31 December 2019, the cost of interest on hedging derivatives was presented with the opposite sign

29.3. Fair value of financial instruments

29.3.1. Financial instruments measured at fair value on a continuing basis

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

The table below 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 Group can access at the measurement date;
- level 2 – fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;

level 3 – fair value based on unobservable inputs for the asset or liability.

	31 December 2020 Level 2	31 December 2019 Level 2
Assets		
Hedging derivatives (CCIRS I)	-	22
Hedging derivatives (CCIRS II)	-	2
Hedging derivatives (CCIRS III)	21	-
Hedging derivatives (CCIRS IV)	32	-
Other derivatives	16	5
Loans granted	-	178
Liabilities		
Hedging derivatives (CCIRS III)	4	35
Hedging derivatives (CCIRS IV)	1	34
Hedging derivatives (IRS)	12	3

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

Other derivatives include options to purchase shares in Polimex-Mostostal S.A. The options were purchased from Towarzystwo Finansowe Silesia Sp. z o.o. under the agreement of 18 January 2017 and subsequent annexes thereto and refer to the purchase, in 22 tranches, of a total of 7 million shares of Polimex-Mostostal S.A., at the nominal price of PLN 2 per share. The option exercise dates were agreed between 31 August 2021 and 30 November 2026. The fair value measurement of the call options to purchase shares of Polimex-Mostostal S.A. was carried out using the Black-Scholes model. The measurement took account of the current price and historic volatility of the company's share prices. The risk-free rate was determined on the basis of the yield of treasury bonds with maturities similar to the option expiration date.

29.3.2. Financial instruments not measured at fair value on a continuing basis

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

Liabilities arising from the issue of Eurobonds and hybrid bonds	Carrying amount	Fair value	
		Level 1	Level 2
As at 31 December 2020	**2,561**	**1,476**	**1,144**
Eurobonds	1,396	1,476	-
hybrid bonds	1,165	-	1,144
As at 31 December 2019	**4,545**	**3,482**	**1,062**
Eurobonds	3,470	3,482	-
hybrid bonds	1,075	-	1,062

Fair value measurement of liabilities arising from the bonds issued in the euro was estimated: in the case of Eurobonds on the basis of quotations from the Bloomberg system from 31 December 2020, which are determined based on transactions on the Luxembourg stock exchange and over-the-counter trading, while in the case of hybrid bonds based on the analysis of future cash flows discounted using the interest rates in effect as at 31 December 2020.

29.4. Description of significant items in the various categories of financial instruments

29.4.1. Financial assets

Assets measured at amortized cost

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

Trade receivables and contract receivables	Not overdue	Overdue (days)					Total
		<30	30-90	90-180	180-360	>360	
As at 31 December 2020							
Before impairment losses	1,682	154	54	28	35	305	**2,258**
Impairment losses	(24)	(4)	(4)	(11)	(20)	(254)	**(317)**
After impairment losses	**1,658**	**150**	**50**	**17**	**15**	**51**	**1,941**
As at 31 December 2019							
Before impairment losses	1,573	132	50	16	31	310	**2,112**
Impairment losses	(24)	(4)	(4)	(6)	(17)	(255)	**(310)**
After impairment losses	**1,549**	**128**	**46**	**10**	**14**	**55**	**1,802**

Hedging derivatives

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

Financial assets at fair value through profit or loss

The Group classifies call options to purchase Polimex-Mostostal S.A. shares as financial assets measured at fair value through profit or loss.

Impairment losses on financial assets

	Impairment loss on trade receivables and contract assets	Impairment losses for bonds, treasury bills and other debt instruments	Impairment losses on shares in associates
Impairment losses as at 1 January 2020	**310**	**36**	**372**
Recognition of impairment losses	75	-	183
Used	(32)	-	-
Unused amounts written off (reversal of the allowance)	(36)	-	-
Impairment losses as at 31 December 2020	**317**	**36**	**555**
	-	**-**	**-**
Impairment losses as at 1 January 2019	**313**	**36**	**-**
Recognition of impairment losses	82	-	372
Used	(39)	-	-
Unused amounts written off (reversal of the allowance)	(46)	-	-
Impairment losses as at 31 December 2019	**310**	**36**	**372**

29.4.2. Financial liabilities

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

	Credits and loans	Liabilities on account of the issue of debt securities	Total financing liabilities
As at 31 December 2019	**2,440**	**4,545**	**6,985**
Disbursement	3,943	-	**3,943**
Repayment/Redemption	(2,955)	(2,198)	**(5,153)**
Foreign exchange differences	-	269	**269**
Payment of interest	(68)	(147)	**(215)**
Interest accrued in the period	71	93	**164**
Other changes	1	(1)	-
As at 31 December 2020	**3,432**	**2,561**	**5,993**

The interest paid recognized in the consolidated statement of cash flows includes also the amounts relating to the instruments securing interest payments associated with held financial PLN 67 m and lease liabilities PLN 34 m.

Credits and loans

	As at 31 December 2020	As at 31 December 2019
Currency	PLN	
Reference Rate	WIBOR, rediscount rate	
Credit/loan amount	**3,432**	**2,440**
of which maturing in:		
up to 1 year (short-term)	1,742	393
1 to 3 years	769	786
3 to 5 years	533	764
over 5 years	388	497

As at 31 December 2020 and 31 December 2019, the amount of credit limits available to the Group was PLN 5,575.1m (61.4% used) and PLN 5,311m (45.9% used), respectively.

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

Liabilities under bonds issued

	As at 31 December 2020	As at 31 December 2019
Currency	EUR	
Reference Rate	fixed	
Value of the issue		
in a foreign currency	555	1,067
in PLN	2,561	4,545
of which maturing in:		
up to 1 year (short-term)	41	2,219
2 to 3 years	577	-
3 to 5 years	-	532
over 5 years	1,943	1,794

Detailed information on bonds issued is provided in Note 29.5.

29.5. 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 publication, 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 31 December 2020 is presented in the table below:

Financing institution	Type of liability	Purpose of financing	Agreement date	Financing limit	Available financing amount	Nominal debt as at 31 December 2020	Repayment date
European Investment Bank	Credit	Energa-Operator SA CapEx Program	16-12-2009	1,050	-	377	15-12-2025
European Investment Bank	Credit	Energa-Operator SA CapEx Program	10-07-2013	1,000	-	746	15-09-2031
European Bank for Reconstruction and Development	Credit	Energa-Operator SA CapEx Program	29-04-2010	1,076	-	370	18-12-2024
European Bank for Reconstruction and Development	Credit	Energa-Operator SA CapEx Program	26-06-2013	800	-	381	18-12-2024
Nordic Investment Bank	Credit	Energa-Operator SA CapEx Program	30-04-2010	200	-	32	15-06-2022
Bondholders	Eurobonds	General corporate purposes	07-03-2017	1,384[1]	-	1,384[1]	07-03-2027
PKO Bank Polski SA	Credit limit	General corporate purposes	12-10-2011	300	295	5	07-06-2021
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	136	64[2]	19-09-2022
Nordic Investment Bank	Credit	Construction of Myślino Wind Farm	23-10-2014	68	-	36	15-09-2026
NFOSiGW	Loan	Energa OZE SA CapEx Program	23-12-2014	1	-	1	30-06-2021
WFOŚiWG	Loan	Elektrownia CCGT Gdańsk Sp. z o.o. CapEx Program	27-06-2014	7	-	7	30-06-2024
NFOSiGW	Loan	Energa Elektrownie Ostrołęka SA CapEx Program	30-08-2018	134	16	118	20-12-2028
European Investment Bank	Hybrid bonds	Energa-Operator SA CapEx Program	04-09-2017	1,154[3]	-	1,154[3]	12-09-2037
Syndicated credit	Revolving credit	financing of corporate objectives of Energa SA, including financing of day-to-day operations and financing of the CapEx program, excluding capital expenditure on coal-fired energy	17-09-2019	2,000	1,150	850	17-09-2024[4]
Bank Gospodarstwa Krajowego	Revolving credit	financing of corporate objectives of Energa SA, including financing of day-to-day operations and the	03-07-2020	500	-	500	03-07-2022

Financing institution	Type of liability	Purpose of financing	Agreement date	Financing limit	Available financing amount	Nominal debt as at 31 December 2020	Repayment date
		CapEx program, and refinancing of financial debt					
SMBC	Revolving credit	financing of corporate objectives of Energa SA, including financing of day-to-day operations, financing of the CapEx program, and refinancing of financial debt, excluding capital expenditure on coal-fired energy	28-07-2020	554	554	0	28-07-2025
TOTAL				**10,428**	**2,151**	**6,025**	

[1] liability under Eurobonds in the total amount of EUR 300 m converted using the average NBP exchange rate of 31 December 2020
[2] value of guarantee limits granted to Energa Group companies based on the concluded execution agreements (utilization of the global limit)
[3] hybrid bonds liability of EUR 250 m converted using the average NBP exchange rate of 31 December 2020
[4] credit granted for a period of 5 years from the date of signing the agreement, with an option to extend it for a one-year period; the designated date is the end date of the agreement's term; the credit is considered short term.

29.6. Cash flow hedge accounting

FX risk hedging

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

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

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

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

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

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

Interest rate risk hedging

In April and June 2018, the Company concluded interest rate swap (IRS) transactions to hedge the interest rate risk arising from the financing used under (see Note 29.5.):

- credit agreement concluded with EIB in 2013 – PLN 100 m; and
- credit agreement concluded with EIB in 2009 – PLN 100 m.

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

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

As the hedged positions under the hedging relationships, the Group designated the risk related to the WIBOR 3M interest rate arising from interest payments on the financial liabilities stated above in the period no longer than four years from the date of the hedging transactions.

The Group designated the IRS transactions under which the Group receives floating-rate cash flows in PLN and pays fixed-rate cash flows in PLN as the hedging instruments. Interest cash flows received by the Group correspond with interest cash flows under the hedged financial liabilities. The Group expects that the hedged cash flows will continue until June 2022 and not longer.

All 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 the loans between Energa Finance AB and Energa SA, hybrid bonds and credits from the European Investment Bank.

The fair value of hedging instruments was:

	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 31 December 2020					
CCIRS III	21	Assets – Other financial assets	None	200	-
CCIRS IV	32	Assets – Other financial assets	None	250	-
CCIRS III	(4)	Liabilities – Other financial liabilities	None	200	-
CCIRS IV	(1)	Liabilities – Other financial liabilities	None	250	-
IRS	(12)	Liabilities – Other financial liabilities	None	-	350
As at 31 December 2019					
CCIRS I	22	Assets – Other financial assets	None	400	-
CCIRS II	2	Assets – Other financial assets	None	25	-
CCIRS III	(35)	Liabilities – Other financial liabilities	None	200	-
CCIRS IV	(34)	Liabilities – Other financial liabilities	None	250	-
IRS	(3)	Liabilities – Other financial liabilities	None	-	600

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

Under cash flow hedge accounting, the cash flow hedge reserve (the effective portion of changes in the value of the hedge less deferred tax) decreased in the reporting period by PLN 44 m, while in comprehensive period by PLN 18 m.

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

Change in the cash flow hedge reserve during the reporting period	Year ended 31 December 2020	Year ended 31 December 2019
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	84	(59)
Accrued interest not due transferred from the reserve to financial income/costs	(9)	1
Revaluation of hedging instruments transferred from the reserve to financial income/costs	(129)	36
Income tax on other comprehensive income	10	4
At the end of the reporting period	**(96)**	**(52)**

As at 31 December 2020, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

29.7. Security for the repayment of liabilities

As at the end of the reporting period and as at 31 December 2020, there were no material assets securing repayment of liabilities or contingent liabilities.

30. Financial risk management principles and objectives

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

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

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

The Management Board verifies and agrees 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). The two documents have been introduced across the Energa Group, which allows the holding company to manage these risk groups effectively. Both documents define financial risk management procedures for individual Group companies and introduce appropriate reporting obligations.

30.1. Market risk

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

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

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

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

Interest rate risk

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

The Group identifies exposure to the risk of WIBOR interest rate changes, which involves primarily long-term financial debt. The Group's financial policy envisages that the risk of changing interest rates is mitigated by keeping a portion of debt at fixed rates. Additionally, at the holding company level the Energa Group has entered into a number of transactions hedging the interest rate risk (IRS). As at 31 December 2020, 49% (in 2019, 73%) of financial debt presented in the statement of financial position (loans and credits 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 its analyses of sensitivity to the interest rate risk, the Group applies a parallel shift of the interest rate curve by a potential possible change in the reference interest rates during the next year. The levels of reference interest rates on the final day of a reporting period were used for this purpose. The extent of potential changes to interest rates was assessed on the basis of volatility of implied interest rate options quoted on the inter-bank market. In the case of WIBOR, due to the low liquidity of the interest rate option market, the shift of the interest rate curve has been assumed arbitrarily.

In the case of 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 the financial result before tax and other comprehensive income to reasonably possible interest rate changes, assuming that there are no variations in other risk factors for these financial instrument classes that are exposed to the interest rate risk. Volatility of interest rates was calculated based on the average yearly value of volatility derived from historical data of daily quotations in 2020 year:

Financial assets and liabilities	31 December 2020		Interest rate risk sensitivity analysis as at 31 December 2020			
	Carrying amount	Value at risk	WIBOR		EURIBOR	
	PLN	PLN	*WIBOR +50 bp*	*WIBOR -50 bp*	*EURIBOR +50 bp*	*EURIBOR -50 bp*
Assets						
Cash and cash equivalents	221	221	1	(1)	-	-
Other derivatives	16	16	-	-	-	-
Liabilities	-	-	-	-	-	-
Preferential credits and loans	1,241	1,241	6	(6)	-	-
Credits and loans granted on market terms	2,186	2,186	11	(11)	-	-
Bonds and debt securities issued	2,561	-	-	-	-	-
Change in profit before tax			**(16)**	**16**	**-**	**-**
Hedging derivatives (assets)	53	53	50	(51)	(57)	56
Hedging derivatives (liabilities)	17	17	3	(3)	-	-
Change in other comprehensive income			**53**	**(54)**	**(57)**	**56**

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 and cash equivalents	1,461	1,461	7	(7)	-	-
Other derivative assets	5	5	-	-	-	-
Liabilities	-	-	-	-	-	-
Preferential credits and loans	1,376	1,376	7	(7)	-	-
Credits and loans granted on market terms	1,064	1,064	5	(5)	-	-
Bonds and debt securities issued	4,545	-	-	-	-	-
Change in profit before tax			**(5)**	**5**	**-**	**-**
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**

Foreign exchange risk

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

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

The table below presents sensitivity of the financial result before tax and other comprehensive income to reasonably possible changes of exchange rates, assuming that there are no changes of other risk factors for such classes of financial instruments which are exposed to the exchange rate change risk. Volatility of exchange rates was calculated based on the average yearly value of volatility derived from historical data of daily quotations in 2020 year:

Financial assets and liabilities	31 December 2020		FX risk sensitivity analysis as at 31 December 2020	
	Carrying amount	Value at risk	EUR/PLN	
	PLN	*PLN*	*EUR/ PLN rate +15.00%*	*EUR/ PLN rate -15.00%*
Assets				
Trade receivables and contract assets	1,941	-	-	-
Cash and cash equivalents	221	65	10	(10)
Hedging derivatives (assets)	53	2,375	356	(356)
Liabilities	-	-	-	-
Trade liabilities	792	1	(0)	0
Bonds and debt securities issued	2,561	2,561	(384)	384
Hedging derivatives (liabilities)	17	-	-	-
Change in profit before tax			**(63)**	**63**
Change in other comprehensive income*			**45**	**(45)**

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 +4.0%*	*EUR/PLN rate -4.0%*
Assets				
Trade receivables and contract assets	1,802	3	-	-
Cash and cash equivalents	1,461	619	25	(25)
Hedging derivatives (assets)	24	1,842	74	(74)
Liabilities	-	-	-	-
Trade liabilities	941	5	-	-
Bonds and debt securities issued	4,545	4,545	(182)	182
Hedging derivatives (liabilities)	72	2,202	88	(88)
Change in profit before tax			**(8)**	**8**
Change in other comprehensive income*			**13**	**(13)**

* in respect of hedging derivatives

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

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

Commodity risk

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

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

Accordingly, it is important to refer the actual risk exposure to the assumed financial result for the year. Market risk exposure arises on all open positions (transactions) and it is mitigated using the Value at Risk (VaR) risk management model. The model mitigates market risk related, among others, to volatility of electricity prices, prices of CO_2 certificates or property rights. The model assumes that risk is incurred within the acceptable boundaries only for an open position of the product portfolio, by imposing risk exposure limits on each portfolio and for Energa-Obrót SA as a whole. Value at Risk (VaR) is regularly monitored and reported to make sure that it does not exceed the set levels and takes into account, among others, the open position volume (difference between volume sold and bought), volatility of product prices and correlation between individual products in the portfolio.

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

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

30.2. Credit risk

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

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

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

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

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

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

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

	As at 31 December 2020			As at 31 December 2019		
	Weighted average credit losses	Value gross	Impairment loss	Weighted average credit losses	Value gross	Impairment loss
Highest customer rating	0.0%	515	-	0.0%	684	-
Medium customer rating	0.0%	234	-	0.2%	139	-
Lowest customer rating	1.5%	37	(1)	0.7%	60	(1)

	As at 31 December 2020			As at 31 December 2019		
	Weighted average credit losses	Value gross	Impairment loss	Weighted average credit losses	Value gross	Impairment loss
Customers with no rating in the sales business line	1.7%	734	(13)	1.7%	737	(13)
Disputed receivables	83.1%	313	(259)	82.2%	320	(263)
Other receivables	10.3%	425	(44)	19.7%	173	(34)

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

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

No significant concentrations of credit risk exist within the Group.

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

30.3.Liquidity risk

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

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

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

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

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2020					
Interest-bearing credits and loans	358	1,418	1,372	403	**3,551**
Bonds	29	44	836	2,074	**2,983**
Trade liabilities	777	15	-	-	**792**
Other financial liabilities	195	54	133	593	**975**
TOTAL	**1,359**	**1,531**	**2,341**	**3,070**	**8,301**
31 December 2019					
Interest-bearing credits and loans	114	337	1,681	528	**2,660**
Bonds	2,226	41	788	1,964	**5,019**
Trade liabilities	937	4	-	-	**941**
Other financial liabilities	201	34	123	596	**954**
TOTAL	**3,478**	**416**	**2,592**	**3,088**	**9,574**

Assets are comprised mainly of cash and cash equivalents and trade receivables. The structure of cash and cash equivalents is presented in Note 20. Aging analysis of trade receivables is presented in Note 29.4.1. and for lease liabilities, see Note 34.

NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

31. Statement of cash flows

Loss on investing activities

	Year ended 31 December 2020	Year ended 31 December 2019
Result on disposal of property, plant and equipment and intangible assets	(2)	-
Impairment losses on property, plant and equipment, intangible assets and investment property	330	497
Impairment loss on shares and loans	371	389
Revaluation of financial assets	(11)	-
Sale of investment property	(12)	-
Other	2	7
TOTAL	**678**	**893**

Change in receivables

	Year ended 31 December 2020	Year ended 31 December 2019 (restated)*
Change in trade receivables	139	(10)
Change in VAT receivables	43	(83)
Change in advances for deliveries	50	(83)
Change in other financial receivables	126	(154)
Change in other non-financial receivables	(12)	(54)
Other	(15)	7
TOTAL	**53**	**(377)**

* All of the changes were disclosed in the note 9.32

Change in liabilities excluding loans and credits

	Year ended 31 December 2020	Year ended 31 December 2019 (restated)*
Change in trade liabilities	(149)	177
Change in other financial liabilities	20	(65)
Change in other current liabilities	13	(36)
Change in lease liabilities	(66)	-
Adjustment by the change in investment commitments	5	96
Adjustment by the change in liabilities on account of measurement of hedging derivatives	67	(32)
Other	17	12
TOTAL	**(93)**	**152**

* All of the changes were disclosed in the note 9.32

Change in provisions

	Year ended 31 December 2020	Year ended 31 December 2019
Change in non-current provisions	137	144
Change in short-term provisions	(38)	(358)
Adjustment by the change in actuarial provisions recognized in other comprehensive income	(44)	(84)
Other	(40)	(14)
TOTAL	**15**	**(312)**

Change in prepayments and accruals

	Year ended 31 December 2020	Year ended 31 December 2019 (restated)*
Change in prepayments and accruals	(67)	7
Property, plant and equipment received free of charge	(15)	(13)
Grants received	(33)	(16)
TOTAL	**(115)**	**(22)**

* All of the changes were disclosed in the note 9.32

OTHER NOTES

32. Capital expenditure commitments

As at the end of the current reporting period, the Group's commitments to bear expenditure on the purchase of property, plant and equipment and intangible assets, which have not yet been recognized in the statement of financial position, were approx. PLN 5,484 m, of which:

- The value of the development plan of Energa-Operator SA to satisfy the current and future demand for electricity in the years 2020–2025 (agreed upon with the President of the Energy Regulatory Office) decreased by real expenditures incurred during realization of the plan in 2020 year – approx. PLN 5,362 m;
- projects carried out at the Ostrołęka B Power Plant (among others: upgrade of power units, construction of a flue gas denitrification and desulphurization installation) – approx. PLN 1.3 m;
- upgrade of the cooling water pump system – approx. PLN 4.5 m, and other replacement capex projects at the Ostrołęka Power Plant – approx. PLN 0.5 m;
- CCGT Grudziądz and CCGT Gdańsk – construction of gas and steam power plants - approx. PLN 46 m;

- construction of three water gas boilers, each with a capacity of 38 MWt, at the Elbląg CHP – PLN 50 m;
- biomass-fired unit's steam boiler and turbine set optimization project implemented in Energa Kogeneracja Sp. z o.o. – approx. PLN 3.7 m;
- steam turbine set optimization in terms of the available steam flow, taking into account BB20p block load variability in Energa Kogeneracja Sp. z o.o. – approx. PLN 3 m;
- upgrade of the 110 kV switchyard in Energa Kogeneracja Sp. z o.o – approx. PLN 2.5 m;
- other work in Energa Kogeneracja Sp. z o.o – approx. PLN 2.5 m;
- rebuilding of the administration and workshop facility at Energa Oświetlenie Sp. z o.o. – PLN 5.7 m; and
- purchase of software licenses (Oracle, Microsoft, TETRA system licenses) – approx. PLN 2 m.

33. Related party disclosures

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

33.1. Transactions involving parties related to the State Treasury

As at 31 December 2020, PKN Orlen SA was the Group's controlling entity. Revenues generated by the Group on transactions with PKN Orlen SA amount of PLN 21 m, whilst the costs related with transactions amount of PLN 13 m in 2021 year.

The Group conducts transactions also with other parties related to the State Treasury in the ordinary course of business.

Transactions pertained mainly to the purchase and sale of electricity and property rights, sale of electricity distribution services (including transit), settlements with the transmission system operator on the balancing market, for transmission services, system services and intervention work services, and the purchase of fuels (mainly coal). 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 (credits, guarantees, banking fees and commissions) with Bank PKO BP, Bank Pekao SA and Bank Gospodarstwa Krajowego (banking fees and commissions).

With regard to disclosures of dealings with entities related via the State Treasury, the Group applies the exemption under paragraph 25 of IAS 24.

33.2. Transactions with joint ventures and associates

Energa SA Group companies' sales to associates and joint ventures in the period ended 31 December 2020 and in the corresponding period of the previous year were reported at an immaterial level. In 2020, purchases from associates and joint ventures amounted to PLN 163 m (in the corresponding prior year period, purchases from associates and joint ventures were PLN 231 m). As at 31 December 2020, the level of liabilities was immaterial (as at 31 December 2019, liabilities were at PLN 178 m, which were due in particular to the loan extended to the Ostrołęka Power Plant joint venture; as at 31 December 2020, the loan in the nominal amount of PLN 199 m was to be written off in full). The liabilities as at 31 December 2020 amounted to PLN 56 m, compared to PLN 22 m as at 31 December 2019. All above transactions pertaining to the year 2020 were concluded primarily with Polska Grupa Górnicza SA and involved mostly coal purchases.

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

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

33.4. Remuneration paid or payable to key management and Supervisory Boards of Group companies

	Year ended 31 December 2020	Year ended 31 December 2019 (restated)
Management Board of the Parent Company	7	5
Supervisory Board of the Parent Company	<1	<1
Management Boards of subsidiaries	29	26
Supervisory Boards of subsidiaries	3	4
Other key management	61	23
TOTAL	**100**	**58**

34. Liabilities under financial lease agreements

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

	Lease payments payable as at			
	31 December 2020		31 December 2019	
	Minimum lease payments	Current value of payments	Minimum lease payments	Current value of payments
Up to 1 year	73	38	71	39
Within 1 to 5 years	237	111	225	113
Over 5 years	1,168	593	1,061	524
Total minimum lease payments	**1,478**	**742**	**1,357**	**676**
Less financial costs	736	-	681	-
Present value of minimum lease payments	**743**	**742**	**676**	**676**

35. Capital management

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

The Group monitors its basic debt ratio, that is net debt to EBITDA, estimated on the consolidated basis. As at the balance sheet date, this ratio was 2.87.

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

	As at 31 December 2020	As at 31 December 2019
Interest-bearing credits and loans	3,432	2,440
Bonds and debt securities issued	2,561	4,545
Cash and cash equivalents, excluding restricted cash	(139)	(1,370)
Net debt	**5,854**	**5,615**
EBITDA	**2,038**	**2,039**
Net debt / EBITDA	**2.87**	**2.75**

* All details were disclosed in the note 10

36. Contingent assets and liabilities

36.1. Contingent liabilities

As at 31 December 2020, the Group identifies contingent liabilities of PLN 309 m (PLN 325 m as at 31 December 2019), including mainly the contingent liabilities relating to legal claims filed against Energa Group companies likely to be effectively dismissed by the companies or for which no cash outflow can be reliably estimated and no provision has been recognized for those claims.

Disputes relating to the power infrastructure of Energa-Operator SA located on private land are the largest contingent liability. If there is uncertainty as to the validity of a claim amount or legal title to land, the Group recognizes contingent liabilities. As at 31 December 2020, the estimated value of those claims recognized as contingent liabilities is PLN 248 m, compared with PLN 250 m on 31 December 2019. Based on the available legal opinions, the estimates define the risk of a situation in which a liability arises to be below 50%.

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

36.2. Contingent assets

As at the end of the reporting period and as at 31 December 2020, there were no material contingent assets.

37. Employment structure

The average headcount in the Group* was as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Blue collar employees	3,520	3,522
Non-blue collar employees	6,336	6,361
TOTAL	**9,856**	**9,883**

** the data relate to employment contracts, excluding inactive employees*

As at 31 December 2020, total employment under contracts of employment at the Energa SA Group stood at 9,731 (both active and inactive employees), 36% of whom were blue collar workers.

38. Other information significantly affecting the assessment of the Group's assets, financial position and profit or loss

Global coronavirus pandemic

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

The SARS-CoV-2 coronavirus pandemic causing the COVID-19 disease is a phenomenon with an undoubtedly massive impact on the global economy and the situation in Poland.

The Group identifies the following market risks that had and may have a continued impact on the Group's results:

- Declining demand for electricity, especially from end customers from A, B and C tariff groups – the Group estimates that the volume of energy sold to end customers has declined by approx. 5% in relation to the pre-pandemic budgets;
- The need for Energa-Obrót SA to sell excess electricity at a loss as a result of smaller electricity consumption by end-users;
- Deterioration of consumers' payment behaviour resulting from their worsened financial situation;
- Reduced labor productivity, which may result from sickness absence, forced quarantine and work reorganization designed to prevent the spread of the virus, including teleworking arrangements;
- The need for Energa-Obrót SA to maintain, in 2020, a high level of security deposits at the Exchange Clearing House (Izba Rozliczeniowa Giełd Towarowych SA) and the need for Energa-Obrót SA to furnish additional security for purchase transactions to the Exchange Clearing House in order to increase the level of security deposits, which may be a direct effect of falling electricity prices.

The Group estimates that the adverse impact of the above risk factors on the Group's EBITDA for the year 2020 amounted to approx. PLN 66 m.

The negative impact of the 2020 pandemic on the Group's financial results, in particular in the sales area, turned out to be smaller than assumed in the financial plan. The volume of 2020 retail sales was 7% above the plan (taking into account the effects of the pandemic), which translated into a significantly lower loss on the sale of surplus energy during 2020.

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

As regards the financial activities, based on possible scenarios for the further development of the pandemic situation analyses, the Group does not identify the risk of default on its obligations, including obligations under financing agreements. The Group has also taken liquidity protection measures in connection with changes in the market environment.

In the face of the above threats, the Group is carefully monitoring the developments in many areas of its business, taking measures to mitigate the adverse impact of the coronavirus epidemic on its financial position. Various scenarios are being analyzed on an ongoing basis and appropriate remedies and mitigants are being put in place to reduce the possible effects of materialization of individual risks.

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

In view of the above, it should be stated that there are no indications that the Group's continuing in business as a going concern may be at risk.

Purchase of a majority stake in Energa SA by PKN ORLEN SA

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

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

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

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

Thus, PKN ORLEN SA took control of the Company.

Thereafter, on 21 September 2020, PKN ORLEN SA announced a new call to subscribe to the sale of the Company's shares. The transaction was settled on 30 November 2020. Following settlement of the share purchase transaction, PKN ORLEN increased its holding in the Company's share capital and in the overall number of votes in the Company to 90.92% and 93.28%, respectively.

Planned withdrawal of Energa SA shares from trading

On 29 October 2020, the Extraordinary General Meeting of Energa SA 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).

On 10 December 2020, as a result of the action brought by a group of shareholders, the Regional Court in Gdańsk decided to halt the enforcement of the abovementioned resolution for the duration of the proceedings to state invalidity of or revoke the resolution. The Company contests the above decision and has taken the appropriate legal measures.

Fitch rating downgrade

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

The 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.

As at the balance sheet date, the Company has secured a formal approval or signed annexes to the financing agreements with lenders providing for waivers of the change of control and rating downgrade clauses.

Act Amending the Excise Tax Act and Certain Other Acts

The Act Amending the Excise Tax Act and Certain Other Acts (hereinafter the "Act") came into force on 1 January 2019.

On 30 September 2020, under Article 9.1 and 9.2 of the Act, the Group requested Zarządca Rozliczeń SA to adjust the received amount of the price difference and financial compensation, and, on 22 October 2020, submitted a request for adjustment containing additional items.

As the amount of the price difference and financial compensation paid to the Group on the basis of the previously submitted requests for payment of the price difference or financial compensation is lower than that stated in the adjustment request, the Group expects to be paid the difference between these amounts, namely PLN 60 m. As the adjustment of compensation payments for the previous periods was also recognized in 2020, the total amount of Revenue from the Price Difference Reimbursement Fund was PLN 57 m.

Conclusion of credit agreements

On 3 July 2020, Energa SA concluded a PLN 500 m credit agreement with Bank Gospodarstwa Krajowego. The credit is a working capital credit and it will be used for general corporate purposes.

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

39. Significant subsequent events

Formation of new companies

On 26 January 2021, CCGT Ostrołęka Sp. z o.o. was established and on 29 January 2021 it was registered in the National Court Register. Energa SA acquired all shares in its share capital which stands at PLN 0.2 m.

On 20 January 2021, Energa Green Development Sp. z o.o. was formed. On 9 February 2021, it was registered in the National Court Register. Energa SA acquired all shares in its share capital which stands at PLN 0.6 m.

Transfer of assets between Group companies

On 15 February 2021, a portion of the assets of Energa Kogeneracja Sp. z o.o., including PGG SA registered shares, was spun off and transferred to the acquiring company, ECARB Sp. z o.o., in exchange for the shares in the increased share capital of ECARB Sp. z o.o. that were acquired by the partners in the spun off company, namely Energa SA and Energa OZE SA.

Extension of loan repayment deadline

On 26 February 2021, the annexes were executed to two agreements governing the loans granted to Elektrownia Ostrołęka Sp. z o.o. by Energa SA and ENEA S.A. According to the annexes, the deadline was extended for repayment of the loan in the amount of PLN 58 m granted under the loan agreement of 17 July 2019 and the loan in the aggregate amount of PLN 340 m granted under the loan agreement of 23 December 2019. The new deadline for repayment of the loans was set at 30 June 2021.

Signatures of Members of the Management Board of Energa SA:

Jacek Goliński

President of the Management Board

.....

Adrianna Sikorska

Vice-President of the Management Board for Communication

.....

Marek Kasicki

Vice-President of the Management Board for Finance

.....

Dominik Wadecki

Vice-President of the Management Board for Operations

.....

Iwona Waksmundzka-Olejniczak

Vice-President of the Management Board for Corporate Matters

.....

Signature of the person responsible for the preparation of the financial statements:

Magdalena Kamińska

Director of the Finance Department

.....

Bartłomiej Bieńkowski

Head of the Financial Reporting and Taxes Section

.....

Gdańsk, 13 April 2021