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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31 December 2020 (PLN m)

STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Sales revenue	**9.1**	**87**	**86**
Cost of sales	**9.2**	(67)	(63)
Gross profit on sales		**20**	**23**
Other operating income		11	9
General and administrative expenses	**9.2**	(111)	(96)
Other operating expenses		(30)	(22)
Dividend income		510	644
Other financial income	**9.4**	241	184
Impairment losses for shares	**24.6**	(176)	(794)
Other financial costs	**9.5**	(674)	(361)
Loss before tax		**(209)**	**(413)**
Income tax	**10**	12	39
Net loss		**(197)**	**(374)**
Loss per share (in PLN)			
Loss per share (basic and diluted)	**19**	(0.48)	(0.90)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Net profit or loss for the period		**(197)**	**(374)**
Items that may subsequently be reclassified to profit or loss			
Cash flow hedges	**24.8**	(54)	(22)
Deferred income tax	**10**	10	4
Net other comprehensive income		**(44)**	**(18)**
Total comprehensive income		**(241)**	**(392)**

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

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

31 December 2020 (PLN m)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2020	As at 31 December 2019
ASSETS			
Non-current assets			
Intangible assets	**12**	8	14
Right-of-use assets	**13**	40	50
Shares in subsidiaries, associates and joint ventures	**11**	6,539	6,715
Bonds	**24.5.1**	1,716	1,719
Other non-current financial receivables	**24.5.1**	2,810	2,764
Deferred tax assets	**10.4**	44	39
Derivative financial instruments	**24.3**	68	3
Other non-current assets	**15**	201	160
		11,426	**11,464**
Current assets			
Cash pooling receivables	**23.2**	1,181	831
Trade receivables and other current financial receivables	**16**	335	310
Bonds	**24.5.1**	42	41
Current tax receivables		27	37
Cash and cash equivalents	**14**	89	822
Derivative financial instruments	**24.3, 24.8**	1	26
Other current assets	**17**	97	42
		1,772	**2,109**
TOTAL ASSETS		**13,198**	**13,573**

Financial statements as at and for the year ended 31 December 2020 (PLN m)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2020	As at 31 December 2019
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Share capital	**18.1**	4,522	4,522
Reserve capital	**18.4**	1,018	1,018
Supplementary capital	**18.5**	1,661	2,035
Cash flow hedge reserve	**24.8**	(96)	(52)
Non-offset losses	**18.6**	(153)	(330)
Total equity		**6,952**	**7,193**
Non-current liabilities			
Loans and borrowings	**24.5.2**	2,674	2,398
Bonds issued	**24.5.2**	1,154	1,065
Non-current provisions		16	-
Deferred income and non-current grants	**22**	43	52
Derivative financial instruments	**24.3, 24.8**	5	72
Non-current lease liabilities	**24.5.2**	32	41
Other non-current financial liabilities		2	-
		3,926	**3,628**
Current liabilities			
Cash pooling liabilities	**23.2**	266	192
Trade liabilities and other financial liabilities	**21.1**	22	19
Current lease liabilities	**24.5.2**	13	11
Derivative financial instruments		12	-
Current loans and borrowings	**24.5.2**	1,660	2,459
Bonds issued	**24.5.2**	11	10
Short-term provisions	**30**	221	-
Deferred income and grants	**22**	9	11
Accrued expenses		12	11
Other current liabilities	**21.2**	94	39
		2,320	**2,752**
Total liabilities		**6,246**	**6,380**
TOTAL EQUITY AND LIABILITIES		**13,198**	**13,573**

31 December 2020 (PLN m)

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Reserve capital	Supplementary capital	Cash flow hedge reserve	Non-offset losses	Total equity
As at 1 January 2020		**4,522**	**1,018**	**2,035**	**(52)**	**(330)**	**7,193**
Cash flow hedges	**24.8**	-	-	-	(44)	-	**(44)**
Net loss for the period		-	-	-	-	(197)	**(197)**
Total comprehensive income for the period		**-**	**-**	**-**	**(44)**	**(197)**	**(241)**
Distribution of retained earnings		-	-	(374)	-	374	**-**
As at 31 December 2020		**4,522**	**1,018**	**1,661**	**(96)**	**(153)**	**6,952**
As at 1 January 2019		**4,522**	**1,018**	**1,540**	**(34)**	**539**	**7,585**
Cash flow hedges	**24.8**	-	-	-	(18)	-	**(18)**
Net loss for the period		-	-	-	-	(374)	**(374)**
Total comprehensive income for the period		**-**	**-**	**-**	**(18)**	**(374)**	**(392)**
Distribution of retained earnings		-	-	495	-	(495)	**-**
As at 31 December 2019		**4,522**	**1,018**	**2,035**	**(52)**	**(330)**	**7,193**

31 December 2020 (PLN m)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Cash flows from operating activities			
Loss before tax		**(209)**	**(413)**
Adjustments for:			
Foreign currency (gains)/losses		120	(2)
Loss on investing activities (including impairment losses for shares)		365	849
Amortization and depreciation	**9.2**	15	17
Net interest and dividends	**26**	(520)	(509)
Changes in working capital:			
Change in provisions		236	-
Change in receivables		(42)	60
Change in liabilities, excluding loans, credits and bonds		129	91
Change in prepayments and accruals		(13)	(24)
		81	**69**
Income tax paid		**(98)**	**(130)**
Net cash from operating activities		**(17)**	**(61)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(21)	(47)
Proceeds from the redemption of bonds by subsidiaries		3	3,039
Purchase of shares in subsidiaries, associates and joint ventures		-	(181)
Cash pooling expenditures		(276)	(357)
Dividends received		510	644
Interest received		192	304
Loan granted		(680)	(3,055)
Proceeds from loans repayment		454	-
Capital contributions		(23)	(40)
Other		23	20
Net cash from investing activities		**182**	**327**
Cash flows from financing activities			
Redemption of debt securities		-	(1,000)
Proceeds from credits	**24.5.2**	3,905	800
Repayment of credits	**24.5.2**	(4,578)	(984)
Interest paid		(238)	(310)
Repayment of lease liabilities		(12)	(11)
Other		21	-
Net cash from financing activities		**(902)**	**(1,505)**
Net decrease in cash and cash equivalents		**(737)**	**(1,239)**
Cash and cash equivalents at the beginning of the period		**826**	**2,065**
Cash and cash equivalents at the end of the period	**14**	**89**	**826**

31 December 2020 (PLN m)

ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

1. General information

Company information:

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

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

On 26 February 2020, Polski Koncern Naftowy ORLEN SA ("PKN ORLEN SA") filed a motion with the European Commission constituting a notice of concentration in connection with the planned assumption of control over the Company and on 31 March 2020 obtained the European Commission's decision approving the concentration. Thus, the call's legal condition was fulfilled. On 18 April 2020, PKN ORLEN SA signed an agreement with the State Treasury in connection with the planned assumption of control over the Company. The process of settlement of the transaction of purchase of the Company's shares by PKN ORLEN SA was completed on 30 April 2020. As a result of the call, PKN ORLEN SA purchased 376,488,640 shares of the Company that account for 90.92% of its share capital and 93.28% of the overall number of votes at the Company's general meeting.

As at 31 December 2020, PKN ORLEN SA is the Company's parent.

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

The basic line of business of Energa SA is holding activity. The Company acts as a parent in the Energa SA Group and, accordingly, it prepares consolidated financial statements of the Group.
The annual consolidated financial statements of the Group were prepared in accordance with the requirements of International Financial Reporting Standards (IFRS) endorsed in the European Union (EU). In order to achieve full understanding of the financial position and results of the Company as the parent entity in the Group, these financial statements should be read in conjunction with the annual consolidated financial statements for the period ended 31 December 2020. These statements are available on the Company's website.

2. Composition of the Company's Management Board

In 2020 and up to the date of preparation of these financial statements, the composition of the Management Board of Energa SA was as follows:

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

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

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

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

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

3. Approval of the financial statements

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

4. Basis for the preparation of the financial statements

These financial statements have been prepared on the historical cost basis, except for financial instruments measured at fair value through profit or loss and hedging derivatives.
These financial statements have been prepared based on the assumption that Energa SA would continue as a going concern in the foreseeable future. As at the date of these financial statements, there is no evidence indicating that the Company's continued business activity as a going concern is threatened.

4.1. Statement of compliance

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

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

4.2. Functional and presentation currency

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

5. Material items subject to professional judgment and estimates

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

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

Impairment of assets

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

Deferred tax asset

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

Fair value of financial instruments

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

6. Changes in estimates

In the current reporting period, the price paths used were changed and the paths in force in all PKN Orlen subsidiaries were adopted. Otherwise, no changes were made to the scope or methods used for making material estimates.

7. New standards and interpretations

7.1. 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 IAS 1 Presentation of Financial Statements, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material, endorsed in the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 3 Business Combinations, definition of business, endorsed in the EU on 21 April 2020 (applicable to business combinations where the date of takeover falls at the start of the first annual period beginning on or after 1 January 2020 and to acquisitions of assets occurring on or after the start day of the aforesaid annual period);
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform, endorsed by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 16 Leases - Covid-19-related rent concessions (endorsed by the EU on 9 October 2020 and effective at the latest as of 1 June 2020 for the financial year beginning on or after 1 January 2020);
- Amendments to References to the Conceptual Framework in IFRS Standards, endorsed in the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

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

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

- Amendments to IFRS 4 Insurance Contracts, Extension of the Temporary Exemption from Applying IFRS 9, endorsed in the EU on 16 December 2020 (the fixed date of expiry of the temporary extension from applying IFRS 9 was deferred from 1 January 2021 also to the annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases - Interest Rate Benchmark Reform - Phase 2, endorsed in the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

7.3. 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:

- IFRS 17 Insurance Contracts along with subsequent amendments to IFRS 17 (applicable to annual periods beginning on or after 1 January 2023);
- Amendments to IAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use (applicable to annual periods beginning on or after 1 January 2022);
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract (applicable to annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 3 Business Combinations – Amendments to References to the Conceptual Framework along with Amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sales or contributions of assets between an investor and its associate/joint venture and subsequent amendments (the effective date of the amendments has been deferred until the completion of the research on the equity method);
- Amendments to various standards "Annual Improvements to IFRS (2018-2020 cycle)" – changes introduced during the annual cycle of improvements to IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) aimed mainly at removing inconsistencies and agreeing on the wording (amendments to IFRS 1, IFRS 9 and IAS 41 applicable to annual periods beginning on or after 1 January 2022. Amendments to IFRS 16 relate solely to an illustrating example and, consequently, no effective date has been specified),
- Amendments to IAS 1 Presentation of Financial Statements require disclosure of material accounting policies rather than significant accounting policies (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – definition of accounting estimates and explanation how to distinguish changes in accounting estimates from changes in accounting policies (effective for annual periods beginning on or after 1 January 2023),
- Proposed amendments to IFRS 16 Leases - Covid-19-related rent concessions after 30 June 2021.

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

8. Significant accounting policies

The most significant accounting policies applied by the Company are presented below. These policies are applied on a continuous basis except for the changes attributable to the amendments to IFRS EU.

8.1. Conversion of items in foreign currencies

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

- cash is converted using the closing exchange 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.

8.2. Intangible assets

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

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

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

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

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

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

8.3. Shares in subsidiaries, associates and joint ventures

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

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

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

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

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

8.5. Cash and cash equivalents

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

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

Cash is measured at par value.

8.6. Leases

The Company as a lessee

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

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

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

In 2020, the cost of interest on lease liabilities amounted to PLN 1 m, whereas the costs associated with variable lease payments not recognized in the valuation of lease liabilities amounted to PLN 5 m.

The Company's accounting policy envisages:

- non-application of the requirements of IFRS 16 to short-term leases, characterized by the maximum term of contact of up to 12 months, and leases of low-value assets, i.e. below PLN 10,000, with the exception of right of perpetual usufruct of land;
- recognition of a lease liability at the contract's commencement date in the amount of the initial measurement of the lease liability, i.e. at the present value of the lease payments outstanding at the lease's commencement date;
- the lease liabilities are reduced by any lease incentives payable if their value can be determined at the time of commencement of the lease;
- the Company discounts lease payments using the interest rate implicit in the lease if that rate can be determined on the basis of the contract; otherwise, the lessee's incremental borrowing rate shall be used;
- financial costs, i.e. interest, and variable lease payments not included in the measurement of the lease liability, shall be recognized on an ongoing basis in the statement of profit or loss;
- after the commencement date, the lessee shall measure the right-of-use assets applying a cost model, i.e. shall reduce the value of the asset by depreciation charges and impairment losses and adjust it for any remeasurement of the lease liability to reflect any reassessment or lease payment modification;

- the amortization and depreciation period shall be equal to the lease term unless the leased asset is expected to be bought; in the latter case, the period of the economic useful life of the asset is set straight away.

The Company as a lessor

In the case of finance leases, the Company recognizes lease receivables in its statement of financial position and in its accounting records as non-current or current financial assets. They are measured at amortized cost, using the interest rate of the lease.
The Company divides the base fee into the principal part and the interest part. The interest part of the base fee is income from finance leases recognized in financial income.
The principal part of the lease fee attributable to a given accounting period represents repayment of the receivables from the user. The fee is divided using the interest rate of the lease.
Leases where the Company retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease receivables are recognized on a straight-line basis during the lease period. The initial direct costs incurred in the course of negotiating operating lease agreements are added to the carrying amount of the leased asset and are recognized as cost during the term of the lease.

8.7. Other assets

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

- they result from past events – an expenditure is incurred in order to attain the entity's operational objective;
- their amount may be measured reliably;
- they contribute to future economic benefits of the entity; and
- they refer to future reporting periods.

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

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

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

Other assets also include receivables on account of settlements of the Energa Tax Group, receivables on account of public and legal settlements (except for settlements on account of corporate income tax, presented as a separate item in the statement of financial position), surplus of Company Social Benefit Fund's assets over liabilities, and advances paid for future purchases of property, plant and equipment and intangible assets.

Advances are presented in line with the type of assets to which they refer as non-current or current assets, respectively. As non-pecuniary assets, advances are not discounted.

8.8. Equity

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

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

8.9. Other liabilities

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

8.10. Deferred income and grants

Deferred income includes:

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

Grants recognized while measuring preferential credits

If the Company 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.

8.11. Cash pooling

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

8.12. Financial instruments

8.12.1. Financial assets

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

- financial assets at amortized cost;

- financial assets at fair value through comprehensive income; and
- financial assets at fair value through profit or loss.

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

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

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

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

The remaining financial assets are measured at fair value through profit or loss, including valuation of the loan granted to Elektrownia Ostrołęka Sp. z o.o. for which no SPPI test according to IFRS 9 has been conducted.

8.12.2. Impairment of financial assets

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

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

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

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

In the case of purchased bonds, the Company assesses increase in credit risk from the moment of initial recognition individually for every bond issuer while taking into consideration all reasonable information that can be documented, including future-related data. The Company assesses changes in default risk over the expected life of the bond. In order to make such assessment, the Company compares risk of default for a given bond as at the reporting date against risk of default for that financial instrument as at the date of initial recognition while taking into consideration all reasonable information that can be documented.
As at the date of these statements, the Company assesses risk of default on the held bonds as low.

8.12.3. Financial liabilities

At Energa SA, financial liabilities exist that are classified as held at amortized cost.

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

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

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

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

8.12.4. Hedge accounting

Hedging derivatives and hedge accounting

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

- at the inception of the hedge, the Company formally designates and documents the hedging relationship and the risk management objective as well as strategy for undertaking the hedge. The documentation includes the identification of the hedge instrument, the hedged position, the nature of risk and the method for a current assessment of the effectiveness of the hedge in offsetting the risk of changes in cash flows associated with the hedged risk;
- the hedge is expected to be highly effective in offsetting changes in cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- a planned transaction, which is the subject of a hedge, must be highly probable and must be exposed to variations in cash flows that could ultimately affect the statement of profit or loss;

- effectiveness of the hedge can be reliably assessed, i.e. cash flows related to the hedged position resulting from the hedged risk and the fair value of the hedge can be reliably measured; and
- the hedge is assessed on an ongoing basis and determined to have been highly effective throughout the reporting periods for which the hedge was designated.

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

Changes in the fair value measurement of derivative financial instruments designated as cash flow hedges are recognized in other comprehensive income and captured on a cumulative basis in the cash flow hedge reserve in proportion thereof that is an effective hedge, whereas any ineffective portion of the hedge is posted to the statement of profit or loss.
The accumulated amounts of hedging instrument revaluation to fair value, previously recognized in the cash flow hedge reserve, are transferred through other comprehensive income to the statement of profit or loss in the period or periods in which the hedged position affects the statement of profit or loss.

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

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

Presentation

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

- the effective portion of any change in the valuation of hedges is posted to other comprehensive income and accumulated in revaluation reserve;
- interest on hedges is presented in the same item of the statement of profit or loss, which presents interest result on the hedged position;
- any revaluation of hedges transferred from other comprehensive income is presented in the same line of the statement of profit or loss in which the currency revaluation of the hedged position is presented in the same period in which the hedged item affects the financial result; and
- the ineffective portion of changes in the valuation of hedging instruments is recognized in financial income/costs.

8.13. Revenue

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

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

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

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

On the other hand, if:

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

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

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

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

Revenue on sales of products comprises revenue on sales of services, including in particular revenue from the sale of the rights to use the Energa brand and revenue on account of the participation of subsidiaries in brand promotion expenses. Revenue from recharging is recognized as revenue from core operating activity. Sales revenue adjustments are allocated to the period to which they relate until the approval of the financial statements for publication. Dividend income is recognized when the right to dividend is acquired.

Due to their immateriality, the Company does not present contract assets and contract liabilities items in the statement of financial position.

A breakdown of revenue in line with the above principles has been presented in Note 9.1.

8.14. Costs

Operating expenses consist of the following:

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

8.15. Other operating income and expenses

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

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

8.16. Financial income and costs

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

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

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

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

The Company nets income and costs from foreign exchange differences.

8.17. Net earnings/loss per share

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

NOTES TO STATEMENT OF PROFIT OR LOSS

9. Revenues and expenses

9.1. Sales revenue

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

The revenue structure by type is as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Licensing fees income	54	58
Revenue on sales of IT services	12	10
Rental income	9	9
Revenue from other services	12	9
TOTAL	**87**	**86**

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9.2. Costs by type

	Year ended 31 December 2020	Year ended 31 December 2019
Amortization/depreciation of property, plant and equipment, intangible assets and right-of-use assets	15	17
Consumption of materials and energy	2	3
External services	43	57
Taxes and fees	7	3
Employee benefit expenses	62	32
Other costs by nature	49	47
TOTAL	**178**	**159**
of which:		
Cost of sales	67	63
General and administrative expenses	111	96

9.3. Employee benefit expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Remuneration	51	25
Social security contributions	7	4
Other employee benefit expenses	4	3
TOTAL	**62**	**32**

9.4. Other financial income

	Year ended 31 December 2020	Year ended 31 December 2019
Interest income	209	181
Measurement of derivatives	11	-
Foreign exchange differences	-	3
Other	21	-
TOTAL	**241**	**184**

9.5. Other financial costs

	Year ended 31 December 2020	Year ended 31 December 2019
Interest expenses	218	302
Provision for settlement of the coal-based project in Ostrołęka	218	-
Revaluation of financial assets	188	47
Impairment write-downs for capital contributions	12	-
Measurement of other derivatives	-	7
Foreign exchange differences	30	-
Lease liabilities interest expense	1	2
Other financial costs	7	3
TOTAL	**674**	**361**

10. Income tax

10.1. Tax liabilities

The key components of the tax liability for the years ended 31 December 2020 and 31 December 2019 are as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Statement of profit or loss		
Current income tax	17	24
Deferred income tax	(5)	15
Tax benefit recognized in the statement of profit or loss	**12**	**39**
Statement of comprehensive income		
Deferred income tax	10	4
Tax benefit recognized in other comprehensive income	**10**	**4**

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10.2. Reconciliation of effective tax rate

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

	Year ended 31 December 2020	Year ended 31 December 2019
Loss before tax on continuing operations	**(209)**	**(413)**
Tax at Poland's statutory rate of 19%	**40**	**78**
Tax impact of permanently non-taxable income and non-tax-deductible expenses:	(28)	(39)
- on dividends received	97	122
- on impairment losses on financial assets	(72)	(158)
- on provisions recognized	(45)	-
- other	(8)	(3)
Tax at the effective tax rate	**12**	**39**
Tax gain recognized in the statement of profit or loss	12	39

The current tax liability is calculated on the basis of applicable tax regulations. Application of those regulations differentiates tax profit (loss) from net accounting 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 used in 2019 and 2020. Current regulations do not provide for differentiated tax rates for future periods.

10.3. Energa Tax Group

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

On 9 November 2020, Energa SA executed a new PGK Energa 2021 tax group agreement. The agreement was concluded with the following related parties: 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. The agreement was concluded for 3 fiscal years, that is until 31 December 2023.

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

The Energa Tax Group companies posting tax profit transfer the appropriate income tax amount to Energa SA, which handles the settlements with the tax authority as the representative company. The Energa Tax Group companies posting tax losses obtain a tax gain in the amount in which they contributed to reducing the tax liability attributable to the entire tax group. Settlements on account of the Energa Tax Group do not affect deferred tax but only the current tax liability.

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

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10.4. Deferred income tax

Deferred income tax is derived from the following items:

	As at 31 December 2019	Change recognized in profit or loss	Change recognized in other comprehensive income	As at 31 December 2020
Deferred tax assets before set-off				
on the difference between the tax and carrying value of financial assets and liabilities	19	(4)	-	15
on the difference between the tax and carrying value of property, plant and equipment and intangible assets	2	2	-	4
on valuation of hedging derivatives	13	-	9	22
on unrealized foreign exchange differences	11	31	-	42
on provisions	2	3	-	5
tax loss	16	(16)	-	-
other	3	-	-	3
TOTAL	**66**	**16**	**9**	**91**

	As at 31 December 2019	Change recognized in profit or loss	Change recognized in other comprehensive income	As at 31 December 2020
Deferred tax liability before set-off				
on the difference between the tax and carrying value of financial assets and liabilities	16	2	-	18
on valuation of hedging derivatives	1	-	(1)	-
on foreign exchange differences and interest on hedging instruments	4	25	-	29
other	6	(6)	-	-
TOTAL	**27**	**21**	**(1)**	**47**
Deferred tax assets after set-off	**39**	**(5)**	**10**	**44**

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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		
Opening balance before set-off:	**66**	**85**
Increases:	**45**	**5**
recognized in profit or loss	36	1
recognized in other comprehensive income	9	4
Decreases:	**(20)**	**(24)**
recognized in profit or loss	(20)	(24)
Set-off	**(47)**	**(27)**
Closing balance	**44**	**39**
Deferred tax assets	**44**	**39**
Deferred tax liabilities		
Opening balance before set-off:	**27**	**66**
Increases:	**27**	**4**
recognized in profit or loss	27	4
Decreases:	**(7)**	**(43)**
recognized in profit or loss	(6)	(43)
recognized in other comprehensive income	(1)	-
Set-off	**(47)**	**(27)**
Closing balance	**-**	**-**
Deferred tax liabilities	**-**	**-**

As at 31 December 2020, the Company does not recognize the deferred income tax asset on account of impairment losses on the shares in related parties in the amount of PLN 160 m and the provision for investment commitments of Elektrownia Ostrołęka Sp. z o. o. in the amount of PLN 41 m due to the fact that the Company does not expect any tax benefits in the future, whether from the establishment of that provision or disposal of shares in subsidiaries.

NOTES TO STATEMENT OF FINANCIAL POSITION

11. Shares in subsidiaries, associates and joint ventures

Name and legal form	Registered office	Value of shares in ledgers of Energa SA	Share of Energa SA in share capital, in overall number of votes and in management (%)	Net profit (loss) for 2020 (PLN m)	Equity (PLN m)
Subsidiaries					
Energa-Operator SA	Gdańsk	4,471	100.00	582	7,292
Energa OZE SA	Gdańsk	989	100.00	(317)	840
Energa-Obrót SA	Gdańsk	331	100.00	41	489
Energa Kogeneracja Sp. z o.o.	Elbląg	234	64.59	(183)	203
Energa Oświetlenie Sp. z o.o.	Sopot	234	100.00	13	227
Energa Invest Sp. z o.o.	Gdańsk	68	100.00	(5)	50
CCGT Grudziądz Sp. z o.o.	Grudziądz	41	100.00	<(1)	50
Energa Informatyka i Technologie Sp. z o.o.	Gdańsk	37	100.00	9	63
CCGT Gdańsk Sp. z o.o.	Gdańsk	22	100.00	<1	30
Energa Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	6	100.00	2	45
Enspirion Sp. z o.o.	Gdańsk	5	100.00	5	7
Energa Ochrona Sp. z o.o.	Gdańsk	1	100.00	<1	4
Energa Logistyka Sp. z o.o.	Płock	-	100.00	(1)	9
Energa Finance AB (publ)	Stockholm	-	100.00	2	77
Other companies	-	1	-	-	-
Associates					
Polimex-Mostostal SA	Warsaw	82	16.48	47	774
ElectroMobility Poland SA	Warsaw	17	25.00	(4)	54
Joint ventures					
Elektrownia Ostrołęka Sp. z o.o.	Ostrołęka	-	50.00	(625)	(779)
Total value of shares		**6,593**			

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

Impairment tests for shares

In the first and second half of 2020, shares held by the Company were assessed for any internal and external impairment triggers. As part of such a process, inter alia, the value of net assets of a given company is regularly compared with the value of the shares held therein by Energa SA. Since certain evidence existed that could result in the impairment of shares of some Group companies held by Energa SA, impairment tests were conducted.

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

- 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 were adopted; 2030 forecasts were applied to 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;
- 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) were assumed;
- capital expenditures were assumed at the levels allowing for maintenance of the production capacity of the existing non-current assets after replacement investments, including capital expenditures to adjust industrial emission levels to the requirements of Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions and the Commission Implementing Decision (EU) 2017/1442 establishing best available techniques (BAT) conclusions, which was published on 17 August 2017;
- support was maintained for production of energy from the existing renewable sources in the form of revenue from property rights and incorporation for some installations of the won auctions for sale of electricity from renewable energy sources in accordance with the Renewable Energy Sources Act of 20 February 2015, as amended (Journal of Laws 2017 No. 0, Item 1148);
- revenue from the capacity market was assumed 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 forecasts for the individual companies was assumed in such a way as to ensure that the cash flow used to calculate residual value was as similar as possible to the cash flows expected in the coming years;
- a growth rate of 2.0 per cent, which does not exceed the assumed average long-term inflation growth rates in Poland, was adopted to extrapolate the cash flow forecast for the purpose of calculation of residual value.

The discount rates set on the basis of the after-tax weighted-average cost of capital (WACC), used for the calculation, fell within the range from 3.54% to 7.49%.

Energa Centrum Usług Wspólnych Sp. z o.o.

The value in use was calculated on the basis of financial projections for the period of January 2021 – December 2025 and the residual value.
Based on the results of testing conducted in the second half of 2020, it was found that no impairment losses needed to be recognized on the company's shares.

Energa Finance AB (publ)

The calculations to determine the value in use in the second half of 2020 were carried out based on the forecast operating flows for the full duration of the company's assumed existence, i.e. January 2021 – March 2027, and measurement at fair value of the Eurobonds issued by the company and the loan granted to Energa SA. Recognition of outflows on account of payment of tax on foreign exchange differences materially impacted the value of measured shares.

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

Based on the results of the test conducted in the second half of 2020, it was found that an additional impairment loss of PLN 19 m on the company's shares needed to be recognized. As a result of recognition of these impairment losses, the value of the company's shares amounted to PLN 0 at the end of December 2020.

Energa Informatyka i Technologie Sp. z o.o.

The value in use was calculated on the basis of financial projections for the period of January 2021 – December 2025 and the residual value.
Based on the results of testing conducted in the second half of 2020, it was found that no impairment losses needed to be recognized on the company's shares.

Energa Invest Sp. z o.o.

The value in use was calculated on the basis of financial projections for the period of January 2021 – December 2025 and the residual value.
Based on the results of testing conducted in the second half of 2020, it was found that no impairment losses needed to be recognized on the company's shares.

Energa Kogeneracja Sp. z o.o.

The recoverable amount in the second half of 2020 was calculated on the basis of financial projections for the period of January 2021 – December 2031 and the residual value. The standard 5-year projection period was extended due to the fact that the period's cash flows were distorted by the planned adjustment of BB20p power unit's boiler to the BAT regulations in 2025 and inflows from 'green' property rights generated by the BB20 installation. The extension of the projection period makes it possible to determine the residual value based on representative cash flows and, therefore, to conduct a more reliable valuation of the Company's shares.
Based on the results of testing conducted in the first half of 2020, it was found that an impairment loss of PLN 79 m on the company's shares and contributions needed to be recognized. Based on the results of testing conducted in the second half of 2020, it was found that an impairment loss of PLN 5 m on the company's shares needed to be recognized.

Energa Logistyka Sp. z o.o.

The value in use was calculated on the basis of financial projections for the period of January 2021 – December 2026 and the residual value. The standard 5-year projection period was extended, which made it possible to determine the residual value on the basis of representative cash flows and, therefore, to conduct a more reliable valuation of the company's shares.
Use in testing of an additional premium for specific risk in connection with recognition in projections of the optimization program led to the value of shares in the company being maintained in the second half of 2020 at the previous level (based on the results of testing conducted in the second half of 2019, impairment losses on the company's shares were recognized in the full amount).

Energa-Obrót SA

The value in use was calculated on the basis of financial projections for the period of January 2021 – December 2025 and the residual value. The standard 5-year projection period was extended, which made it possible to determine the residual value on the basis of representative cash flows and, therefore, to conduct a more reliable valuation of the company's shares.
Based on the results of testing conducted in the second half of 2020, it was found that no impairment losses needed to be recognized on the company's shares.

Energa Ochrona Sp. z o.o.

The value in use was calculated on the basis of financial projections for the period of January 2021 – December 2025 and the residual value.
Based on the results of testing conducted in the second half of 2020, it was found that no impairment losses needed to be recognized on the company's shares.

Energa-Operator SA

The value in use was calculated on the basis of financial projections for the period of January 2021 – December 2025 and the residual value.
Based on the results of testing conducted in the second half of 2020, it was found that no impairment losses needed to be recognized on the company's shares.

Energa OZE SA

The value in use was calculated on the basis of financial projections for the period of January 2021 – December 2025 and the residual value.

Based on the results of testing conducted in the second half of 2020, it was found that no impairment losses needed to be recognized on the company's shares.

Sensitivity analysis

The estimated impact of the change of the WACC level on the overall valuation of the above-mentioned shares conducted on the basis of tests is presented below. An adverse change in WACC at the level specified below necessitates recognition of an increase of impairment losses by a further PLN 41 m.

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

Parameter	Value and direction of change	Impact on overall valuation of tested CGUs [PLN m]		Change in impairment loss/impairment loss reversal amount [PLN m]
		Increase in value	Decrease in value	
Discount rates	[+ 0.5 pp]		(7,190.1)	(41.0)
	[- 0.5 pp]	13,167.5		50.5

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

. Parameter	Value and direction of change	Impact on overall valuation of tested CGUs [PLN m]		Change in impairment loss/impairment loss reversal amount [PLN m]
		Increase in value	Decrease in value	
Electricity prices	[+ 1%]	138.0		8.4
	[- 1%]		(138.0)	(8.4)
Prices of green certificates of origin	[+ 1%]	16.7		0.5
	[- 1%]		(16.7)	(0.5)
Heat prices	[+ 1%]	11.8		11.8
	[- 1%]		(11.8)	(11.8)
Fuel prices	[+ 1%]		(8.8)	(8.8)
	[- 1%]	8.8		8.8
EUA prices	[+ 1%]		(2.5)	(2.5)
	[- 1%]	2.5		2.5

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

12. Intangible assets

	Licenses and patents	Other intangible assets	Intangible assets not in use	TOTAL
Gross value				
As at 1 January 2020	**11**	**22**	**37**	**70**
Purchase of intangible assets (including assets not in use)	-	-	19	**19**
Settlement of intangible assets not in use	24	1	(25)	**-**
Sale, disposal	(23)	-	-	**(23)**
As at 31 December 2020	**12**	**23**	**31**	**66**
Accumulated amortization				
As at 1 January 2020	**(10)**	**(21)**	**-**	**(31)**
Amortization for the period	(1)	(1)	-	**(2)**
As at 31 December 2020	**(11)**	**(22)**	**-**	**(33)**
Impairment loss				
As at 1 January 2020	**-**	**-**	**(25)**	**(25)**
As at 31 December 2020	**-**	**-**	**(25)**	**(25)**
Net value as at 1 January 2020	**1**	**1**	**12**	**14**
Net value as at 31 December 2020	**1**	**1**	**6**	**8**

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

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

13. Right-of-use assets

	Licenses and patents	Buildings, premises and civil and marine engineering facilities	Vehicles	TOTAL
Gross value				
As at 1 January 2020	**1**	**59**	**1**	**61**
Revaluation	-	2	-	**2**
Direct purchase	-	-	1	**1**
Other changes in value	(1)	-	-	**(1)**
As at 31 December 2020	**-**	**61**	**2**	**63**
Accumulated amortization				
As at 1 January 2020	**-**	**(11)**	**-**	**(11)**
Amortization for the period	-	(11)	(1)	**(12)**
As at 31 December 2020	**-**	**(22)**	**(1)**	**(23)**
Net value as at 1 January 2020	**1**	**48**	**1**	**50**
Net value as at 31 December 2020	**-**	**39**	**1**	**40**

Financial statements as at and for the year ended 31 December 2020 (PLN m)

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

The Company does not apply the requirements of IFRS 16 to short-term leases and leases of low-value assets, i.e. below PLN 10,000.

14. Cash and cash equivalents

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

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

	As at 31 December 2020	As at 31 December 2019
Cash at bank	89	672
Short-term deposits of up to three months	-	150
Total cash and cash equivalents presented in the statement of financial position, of which:	**89**	**822**
Unrealized foreign exchange differences and interest	-	4
Total cash and cash equivalents presented in the statement of cash flows	**89**	**826**

A decline in cash during the reporting period is attributable primarily to repayment of financial liabilities.

In connection with the application of the split payment mechanism, the Company holds restricted cash in the amount of PLN 1 m.

15. Other non-current assets

	As at 31 December 2020	As at 31 December 2019
Capital contributions	121	78
Lease receivables	69	71
Property, plant and equipment	4	6
Other	7	5
TOTAL	**201**	**160**

16. Trade receivables and other current financial receivables

	As at 31 December 2020	As at 31 December 2019
Loan receivables	286	280
Lease receivables	27	23
Trade receivables	22	7
TOTAL	**335**	**310**

17. Other current assets

	As at 31 December 2020	As at 31 December 2019
Receivables on account of settlements in the Energa Tax Group	55	3
Receivables on account of taxes, customs duties, social security and other benefits	24	26
Advances for deliveries	11	8
Advances for deliveries	7	5
TOTAL	**97**	**42**

18. Share capital and other components of equity

18.1. Share capital

As at 31 December 2020, Energa SA's share capital is PLN 4,522 m and has not changed in the current year.
The table below presents the ownership structure of the Company:

	As at 31 December 2020	As at 31 December 2019
PKN Orlen	90.92%	-
State Treasury	-	51.52%
Other shareholders	9.08%	48.48%
TOTAL	**100.00%**	**100.00%**

18.2. Par value per share

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

18.3. 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.

18.4. Reserve capital

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

18.5. Supplementary capital

Pursuant to the requirements of the Commercial Company Code, joint stock companies are required to create supplementary capital to cover losses. At least 8% of the company's profit for a given financial year presented in the Company's financial statements is transferred to supplementary capital until the capital reaches at least one third of the Company's share capital. The use of the supplementary capital is decided by the General Meeting, however, the portion of the supplementary capital representing one-third of the share capital may only be used to cover a loss posted in the financial statements and cannot be allocated to other purposes. As at 31 December 2020, supplementary capital amounts to PLN 1,661 m or 36.73% of the share capital.

18.6. Retained earnings and restrictions on dividend payments

Retained earnings include capital established and utilized according to the principles defined by provisions of law and the Company's articles of association as well as results of the current reporting period. No restrictions on dividend payments, other than those resulting from provisions of law, exist as at 31 December 2020.

19. Earnings/loss per share

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

	Year ended 31 December 2020	Year ended 31 December 2019
Net loss on continuing operations	(197)	(374)
Net loss	**(197)**	**(374)**
Number of shares at the end of the reporting period (millions)	**414**	**414**
Number of shares used to calculate loss per share (millions)	**414**	**414**

31 December 2020 (PLN m)

20. Dividends, profit distribution

In 2020, the Company incurred a net loss. While no decision on the method of covering the net loss of 2020 is in place as at date of approval of these financial statements, the Company expects that it will be covered with the supplementary capital.

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

21. Liabilities

21.1. Trade liabilities and other financial liabilities

	As at 31 December 2020	As at 31 December 2019
Liabilities to related parties	10	9
trade liabilities	6	3
other	4	6
Liabilities to other entities	12	10
trade liabilities	12	10
TOTAL	**22**	**19**

21.2. Other current liabilities

	As at 31 December 2020	As at 31 December 2019
Liabilities on account of settlements in the Energa Tax Group	60	32
Capital contribution liabilities	29	-
Liabilities on account of taxes, customs duties, social security, and other benefits	2	2
Other	3	5
TOTAL	**94**	**39**

22. Deferred income and grants

	As at 31 December 2020	As at 31 December 2019
Grants received	52	61
Other	-	2
TOTAL, of which:	**52**	**63**
Non-current	43	52
Current	9	11

As at 31 December 2020, the Company recognizes as grants received the valuation effect of the preferential credits from the European Investment Bank (EIB) settled over the credit repayment period (see the description in Notes 8.10 and 24.7).

23. Related party disclosures

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

23.1. Transactions involving parties related to the State Treasury

The Company's parent entity is PKN ORLEN SA. Energa SA concludes transactions with other related parties and with the State Treasury associated with its regular, daily business operations. These transactions are concluded on an arms' length basis and their terms and conditions do not deviate from transactions with other entities. They do not constitute material transactions. 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).

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

	As at 31 December 2020	As at 31 December 2019
Net revenue on the sale of products, goods and materials	87	86
Cost of purchase	22	16
Dividend income	510	644
Other financial income	196	166
Financial costs	271	111

31 December 2020 (PLN m)

	As at 31 December 2020	As at 31 December 2019
Assets		
Non-current receivables	69	71
Other non-current financial receivables – subsidiaries	2,810	2,586
Other non-current financial receivables – joint ventures	-	178
Cash pooling receivables	1,181	831
Trade receivables	22	7
Other current financial receivables	313	302
Long-term bonds	1,716	1,719
Short-term bonds	42	41
Other current assets	56	4
Equity and liabilities		
Non-current loan liabilities	1,431	851
Non-current lease liabilities	-	1
Other non-current financial liabilities	3	-
Cash pooling liabilities	266	192
Current provision	218	-
Short-term trade liabilities	6	3
Other financial liabilities	4	6
Current lease liabilities	-	1
Current loans and borrowings	5	2,144
Other current liabilities	89	32

The tables above present transactions with subsidiaries within the PKN ORLEN Group and joint ventures. Transactions with PKN ORLEN and associates are immaterial. With regard to disclosures of dealings with entities related via the State Treasury, the Company applies the exemption under paragraph 25 of IAS 24.

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

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

	Year ended 31 December 2020	Year ended 31 December 2019
Management Board	7	5
Supervisory Board	1	<1
TOTAL	**8**	**5**

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

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

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

The amount of benefits paid or due to the key management was PLN 18 m in 2020 and PLN 13 m in 2019.

31 December 2020 (PLN m)

NOTES ON FINANCIAL INSTRUMENTS

24. Financial instruments

24.1. Carrying amount of financial instruments by category and class

As at 31 December 2020	Financial assets at fair value through profit or loss	Financial assets and liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
Cash pooling receivables	-	1,181	-	-	**1,181**
Cash and cash equivalents	-	89	-	-	**89**
Derivative financial instruments	16	-	53	-	**69**
Shares in subsidiaries, associates and joint ventures	-	-	-	6,539	**6,539**
Bonds	-	1,758	-	-	**1,758**
Lease receivables	-	-	-	96	**96**
Other financial receivables	-	3,096	-	-	**3,096**
Trade receivables	-	22	-	-	**22**
Capital contributions	-	121	-	-	**121**
TOTAL	**16**	**6,267**	**53**	**6,635**	**12,971**
Liabilities					
Loans and borrowings	-	4,334	-	-	**4,334**
Preferential loans and borrowings	-	947	-	-	**947**
Loans and borrowings	-	3,387	-	-	**3,387**
Liabilities for debt securities issued	-	1,165	-	-	**1,165**
Derivative financial instruments	-	-	17	-	**17**
Lease liabilities	-	-	-	45	**45**
Trade liabilities and other financial liabilities	-	22	-	-	**22**
Trade liabilities	-	18	-	-	**18**
Liabilities for the purchase of property, plant and equipment and intangible assets	-	4	-	-	**4**
Cash pooling liabilities	-	266	-	-	**266**
Capital contribution liabilities	-	32	-	-	**32**
TOTAL	**-**	**5,819**	**17**	**45**	**5,881**

31 December 2020 (PLN m)

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

31 December 2020 (PLN m)

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

Year ended 31 December 2020	Financial assets at fair value through profit or loss	Financial assets and liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IFRS 9	TOTAL
Dividends and profit sharing	-	-	-	510	**510**
Interest income/(cost)	-	51	(60)	(1)	**(10)**
Foreign exchange differences	-	(231)	204	(3)	**(30)**
Revaluation of investments	(177)	(12)	-	(176)	**(365)**
Other	-	14	-	-	**14**
Net loss	**(177)**	**(178)**	**144**	**330**	**119**
Other comprehensive income	-	-	(54)	-	**(54)**
Comprehensive income	**(177)**	**(178)**	**90**	**330**	**65**

Year ended 31 December 2019	Financial assets at fair value through profit or loss	Financial assets and liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IFRS 9	TOTAL
Dividends and profit sharing	-	-	-	644	**644**
Interest income/(cost)	-	(37)	(85)	(1)	**(123)**
Foreign exchange differences	-	38	(36)	1	**3**
Revaluation of investments	(18)	(36)	-	(794)	**(848)**
Other	-	(3)	-	-	**(3)**
Net loss	**(18)**	**(38)**	**(121)**	**(150)**	**(327)**
Other comprehensive income	-	-	(21)	-	**(21)**
Comprehensive income	**(18)**	**(38)**	**(142)**	**(150)**	**(348)**

31 December 2020 (PLN m)

24.3. Fair value of financial instruments

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

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

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

	As at 31 December 2020 Level 2	As at 31 December 2019 Level 2
Assets		
Loan receivables	-	178
Hedging derivatives (CCIRS)	53	24
Other derivatives	16	5
Liabilities		
Hedging derivatives (CCIRS/IRS)	17	72

The fair value measurement of the receivable in respect of the non-bank loan was based on an analysis of future cash flows discounted using market interest rates prevailing on the balance sheet date, adjusted by a 10% margin reflecting the specific risk attached to the loan-financed project.

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

Other derivatives include options to purchase shares in Polimex-Mostostal SA. The options were purchased from Towarzystwo Finansowe Silesia Sp. z o.o. under the agreement of 18 January 2017 and subsequent annexes thereto and refer to the purchase, in 22 tranches, of a total of about 7 million shares of Polimex-Mostostal SA, 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 SA was carried out using the Black-Scholes model. The measurement took account of the current price and historic volatility of the company’s share prices. The risk-free rate was determined on the basis of the yield of treasury bonds with maturities similar to the option expiration date.

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

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

Loan from Energa Finance AB (publ)	Carrying amount	Level 2 fair value
As at 31 December 2020	1,435	1,506
As at 31 December 2019	2,995	3,040

Hybrid bond issue	Carrying amount	Level 2 fair value
As at 31 December 2020	1,165	1,144
As at 31 December 2019	1,075	1,062

The fair value measurement of liabilities under loans and under a hybrid bond issue was estimated on the basis of an analysis of future cash flows discounted using market interest rates updated for 31 December 2020.

24.5. Description of material items in each category of financial instruments

24.5.1. Financial assets

Financial assets measured at amortized cost

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

Purchased bonds broken down by issuer as at 31 December 2020 and 31 December 2019 are presented in the table below:

31 December 2020 (PLN m)

Bonds	As at 31 December 2020	As at 31 December 2019
Energa-Operator SA	1,084	1,084
Energa OZE SA	668	667
Energa Kogeneracja Sp. z o.o.	6	9
TOTAL, of which:	**1,758**	**1,760**
Non-current	1,716	1,719
Current	42	41

Other financial receivables	As at 31 December 2020	As at 31 December 2019
Energa-Operator SA	3,096	2,866
TOTAL, of which:	**3,096**	**2,866**
Non-current	2,810	2,586
Current	286	280

Trade receivables	As at 31 December 2020	As at 31 December 2019
Not overdue	5	7
Overdue <30 days	17	-
Gross receivables	**22**	**7**
Net receivables, of which	**22**	**7**
Current	22	7

Capital contributions	As at 1 January 2020	Contributions - increase of	Recognition of impairment loss	As at 31 December 2020
Energa Invest Sp. z o.o.	34	-	-	34
Energa Centrum Usług Wspólnych Sp. z o.o.	28	-	-	28
Energa Informatyka i Technologie Sp. z o.o.	5	-	-	5
CCGT Grudziądz Sp. z o.o.	5	3	-	8
Energa Ochrona Sp. z o.o.	4	-	-	4
Energa OZE SA	2	-	-	2
CCGT Gdańsk Sp. z o.o.	<1	6	-	6
Energa Kogeneracja Sp. z o.o.	-	45	(12)	33
Centrum Badawczo-Rozwojowe im. M. Faradaya	<1	1	-	1
TOTAL	**78**	**55**	**(12)**	**121**

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

Hedging derivatives

Hedging derivatives CCIRS are described in detail in Note 24.8.

Financial assets at fair value through profit or loss

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

Financial instruments excluded from the scope of IFRS 9

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

Financial statements as at and for the year ended 31 December 2020 (PLN m)

Finance lease receivables related to the licenses were as follows as at 31 December 2020 and 31 December 2019:

	As at 31 December 2020		As at 31 December 2019	
	Minimum lease payments	Current value of payments	Minimum lease payments	Current value of payments
Up to 1 year	28	27	24	23
1 to 5 years	61	60	64	63
Over 5 years	9	9	8	8
TOTAL	**98**	**96**	**96**	**94**
Less financial income	(2)	-	(2)	-
TOTAL	**96**	**96**	**94**	**94**

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

24.5.2. Financial liabilities

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

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

	Loans and borrowings	Liabilities on account of the issue of debt securities	Total financing liabilities
As at 31 December 2019	**4,857**	**1,075**	**5,932**
Disbursement	3,905	-	3,905
Repayment/Redemption	(4,578)	-	(4,578)
Foreign exchange differences	163	88	251
Payment of interest	(124)	(43)	(167)
Other changes	111	45	156
As at 31 December 2020	**4,334**	**1,165**	**5,499**

Loans and borrowings

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

	As at 31 December 2020		As at 31 December 2019	
Currency	PLN	EUR	PLN	EUR
Reference Rate	WIBOR	Fixed	WIBOR	Fixed
Credit/loan amount				
in a foreign currency	2,899	311	1,862	703
in PLN	2,899	1,435	1,862	2,995
of which maturing in:				
up to 1 year (short-term)	1,655	5	315	2,144
1 to 2 years	299	508	315	-
2 to 3 years	297	92	301	-
3 to 5 years	405	369	582	255
over 5 years	243	461	349	596

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

Financial statements as at and for the year ended 31 December 2020 (PLN m)

Liabilities for bonds issued

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

	As at 31 December 2020		As at 31 December 2019	
Currency	PLN	EUR	PLN	EUR
Reference Rate	WIBOR	Fixed	WIBOR	Fixed
Value of the issue				
in a foreign currency	-	252	-	252
in PLN	-	1,165	-	1,075
of which maturing in:				
up to 1 year (short-term)	-	11	-	10
2 to 3 years	-	577	-	-
3 to 5 years	-	-	-	532
over 5 years	-	577	-	533

Detailed information on bonds issued is provided in Note 24.7.

Financial instruments excluded from the scope of IFRS 9

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

Lease liabilities as at 31 December 2020 and 31 December 2019 were as follows:

	As at 31 December 2020		As at 31 December 2019	
	Minimum lease payments	Current value of payments	Minimum lease payments	Current value of payments
Up to 1 year	14	13	13	11
1 to 5 years	33	32	42	41
TOTAL	**47**	**45**	**55**	**52**
Less financial costs	(2)	-	(3)	-
TOTAL	**45**	**45**	**52**	**52**

24.6. Impairment losses on financial assets

Impairment losses on financial assets	As at 1 January 2020	Impairment loss recognized	Shares sold	As at 31 December 2020
Elektrownia Ostrołęka Sp. z o.o.	(453)	-	-	(453)
Energa Kogeneracja Sp. z o.o.	(314)	(73)	-	(387)
Energa Centrum Usług Wspólnych Sp. z o.o.	(29)	-	-	(29)
Energa Logistyka Sp. z o.o.	(25)	-	-	(25)
Energa Serwis Sp. z o.o.	(2)	-	2	-
Energa Finance AB	-	(103)	-	(103)
Total impairment losses on shares	**(823)**	**(176)**	**2**	**(997)**
Energa Centrum Usług Wspólnych Sp. z o.o.	(59)	-	-	(59)
Energa Kogeneracja Sp. z o.o.	(11)	(12)	-	(23)
Total impairment losses on capital contributions	**(70)**	**(12)**	**-**	**(82)**
Total impairment losses	**(893)**	**(188)**	**2**	**(1,079)**

Financial statements as at and for the year ended 31 December 2020 (PLN m)

24.7. 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 (for the Energa SA Group)	Available financing amount (for the Energa SA Group)	Nominal debt of Energa SA as at 31 December 2020	Repayment date
European Investment Bank	Credit	Energa-Operator SA investment programme	16-12-2009	1,050	-	377	15-12-2025
European Investment Bank	Credit	Energa-Operator SA investment programme	10-07-2013	1,000	-	567	15-09-2031
European Bank for Reconstruction and Development	Credit	Energa-Operator SA investment programme	29-04-2010	1,076	-	370	18-12-2024
European Bank for Reconstruction and Development	Credit	Energa-Operator SA investment programme	26-06-2013	800	-	151	18-12-2024
Nordic Investment Bank	Credit	Energa-Operator SA investment programme	30-04-2010	200	-	32	15-06-2022
Energa Finance AB (publ)	Loan	Current operations	21-03-2013	508[1]	-	508[1]	28-02-2022
Energa Finance AB (publ)	Loan	Current operations	28-06-2017	923[2]	-	923[2]	28-02-2027
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	5[3]	19-09-2022
Nordic Investment Bank	Credit	Construction of Myślino Wind Farm	23-10-2014	68	-	36	15-09-2026
European Investment Bank	Hybrid bonds	Energa-Operator SA investment programme	04-09-2017	1,154[4]	-	1,154[4]	12-09-2037
Syndicated credit	Revolving credit	Financing of Energa SA corporate goals, including financing of its everyday activity and financing of its investment program, excluding capital expenditures in coal-fired power generation	17-09-2019	2,000	1,150	850	17-09-2024[5]
Bank Gospodarstwa Krajowego	Revolving credit	Financing of corporate objectives of Energa SA, including financing of everyday activity and the investment programme, and refinancing of financial debt	03-07-2020	500	-	500	03-07-2022
SMBC	Revolving credit	Financing of corporate objectives of Energa SA, including financing of everyday activity, financing of the investment programme, and refinancing of	28-07-2020	554	554	-	28-07-2025

Financing institution	Type of liability	Purpose of financing	Agreement date	Financing limit (for the Energa SA Group)	Available financing amount (for the Energa SA Group)	Nominal debt of Energa SA as at 31 December 2020	Repayment date
		financial debt, excluding capital expenditure on coal-fired energy					
TOTAL				**10,333**	**2,135**	**5,478**	

[1] liability of EUR 110 m converted using the average NBP exchange rate of 31 December 2020

[2] liability of EUR 200 m converted using the average NBP exchange rate of 31 December 2020

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

[4] liability of EUR 250 m converted using the average NBP exchange rate of 31 December 2020

[5] credit granted for a period of 5 years from the date of signing the agreement, with an option to extend it twice for 1-year periods.

24.8. Cash flow hedge accounting

All held hedging instruments serve to hedge cash flows and relate to the financial instruments allocated to the same risk category. The presented hedging instruments relate to the liabilities arising under loans between Energa Finance AB and Energa SA, hybrid bonds from the European Investment Bank and credits from the European Investment Bank and the European Bank for Reconstruction and Development. A detailed description of hedge accounting was provided in the consolidated financial statements for the year ended 31 December 2020.

The fair value of the hedging instruments is as follows:

	Value (PLN m)	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	(4)	Liabilities – Derivative financial instruments	None	200	-
	21	Assets – Derivative financial instruments			
CCIRS IV	(1)	Liabilities – Derivative financial instruments	None	250	-
	32	Assets – Derivative financial instruments			
IRS	(12)	Liabilities – Derivative financial instruments	None	-	350
As at 31 December 2019					
CCIRS I	22	Assets – Derivative financial instruments	None	400	-
CCIRS II	2	Assets – Derivative financial instruments	None	25	-
CCIRS III	(35)	Liabilities – Derivative financial instruments	None	200	-
CCIRS IV	(34)	Liabilities – Derivative financial instruments	None	250	-
IRS	(3)	Liabilities – Derivative financial instruments	None	-	600

For the application 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 2019 they decreased by PLN 18 m.

31 December 2020 (PLN m)

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

	Year ended 31 December 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.

24.9. Security for the repayment of liabilities

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

25. Financial risk management principles and objectives

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

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

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

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

25.1. Market risk

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

- interest rate risk;
- foreign exchange risk.

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

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

Interest rate risk

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

The Company identifies exposure to the risk of WIBOR interest rate changes, which involves primarily long-term financial debt and purchased bonds. The Company's financial policy envisages that the risk of changing interest rates is mitigated by keeping a portion of debt at fixed rates and carrying out IRS transactions. As at 31 December 2020, 54% of financial debt recorded in the statement of financial position (loans and borrowings and liabilities on account of the issue of debt securities) bore a fixed interest rate or was hedged against interest rate risk with IRS transactions.

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

Volatility of interest rates was calculated based on the average yearly value of volatility derived from historical data of daily quotations in 2020 year.

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

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

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

31 December 2020 (PLN m)

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 pooling receivables	1,181	1,181	6	(6)	-	-
Cash and cash equivalents	89	88	-	-	-	-
Bonds	1,758	74	-	-	-	-
Loans granted	3,096	3,096	15	(15)	-	-
Other derivatives	16	16	-	-	-	-
Liabilities						
Cash pooling liabilities	266	266	(1)	1	-	-
Loans and borrowings	4,334	2,899	(14)	14	-	-
Bonds and debt securities issued	1,165	-	-	-	-	-
Change in loss before tax			**6**	**(6)**	**-**	**-**
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 pooling receivables	831	831	4	(4)	-	-
Cash and cash equivalents	822	820	4	(4)	-	-
Bonds	1,760	80	-	-	-	-
Loans granted	3,044	2,866	14	(14)	-	-
Other derivatives	5	5	-	-	-	-
Liabilities						
Cash pooling liabilities	192	192	(1)	1	-	-
Loans and borrowings	4,857	1,862	(9)	9	-	-
Bonds and debt securities issued	1,075	-	-	-	-	-
Change in loss before tax			**12**	**(12)**	**-**	**-**
Hedging derivatives (assets)	24	24	2	(2)	(1)	1
Hedging derivatives (liabilities)	72	72	63	(65)	(25)	26
Change in other comprehensive income			**65**	**(67)**	**(26)**	**27**

Foreign exchange risk

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

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

Volatility of exchange rates was calculated based on the average yearly value of volatility derived from historical data of daily quotations in 2020 year.

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

31 December 2020 (PLN m)

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%*	*EUR/PLN rate - 15%*
Assets				
Cash and cash equivalents	89	11	2	(2)
Hedging derivatives (assets)	53	2,375	356	(356)
Liabilities				
Loans and borrowings	4,334	1,435	(215)	215
Bonds and debt securities issued	1,165	1,165	(175)	175
Change in loss before tax			**(77)**	**77**
Change in other comprehensive income*			**45**	**(45)**

* in respect of hedging derivatives

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

* in respect of hedging derivatives

25.2. Credit risk

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

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

In accordance with the adopted Financial Policy of the Energa Group, Energa SA is responsible for arranging debt financing on financial market for all Group companies and for distributing such funds to operating companies using the mechanism of internal bond issues. Energa SA acts here in the capacity of an investor purchasing long-term securities issued by Energa Group companies. This structure generates credit risk for Energa SA associated with the service of bonds issued by the company. As at 31 December 2020, the par value of the bonds purchased by Energa SA and issued by Energa Group companies was as follows:

- Energa-Operator SA – PLN 1,066 m;
- Energa OZE SA – PLN 647 m; and
- Energa Kogeneracja Sp. z o.o. – PLN 6 m.

25.3. Liquidity risk

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

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

Financial statements as at and for the year ended 31 December 2020 (PLN m)

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

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

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

	Below 3 months	From 3 to 12 months	From 1 year up to 5 years	Over 5 years	TOTAL
31 December 2020					
Loans and borrowings	341	1,383	2,116	725	**4,565**
Bonds and debt securities issued	-	44	719	630	**1,393**
Cash pooling liabilities	266	-	-	-	**266**
Trade liabilities	18	-	-	-	**18**
Lease liabilities	3	10	32	-	**45**
Other financial liabilities	11	22	15	5	**53**
TOTAL	**639**	**1,459**	**2,882**	**1,360**	**6,340**

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

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

NOTE TO THE STATEMENT OF CASH FLOWS

26. Statement of cash flows

Net interest and dividends

	Year ended 31 December 2020	Year ended 31 December 2019
Dividends received	(510)	(644)
Interest received and paid	25	6
Interest accrued	(35)	129
TOTAL	**(520)**	**(509)**

OTHER NOTES

27. Capital management

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

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

The level of the above ratio is also regularly monitored by institutions financing the Company and by rating agencies; therefore, it has a significant influence on the evaluation of the Company's credit rating and consequently the availability and cost of debt financing. As at 31 December 2020, the Company complies with all external capital requirement.
The data below originate from the consolidated financial statements of the Energa Group for the year ended 31 December 2020. The EBITDA reconciliation was presented in the consolidated financial statements for Energa Group.

Financial statements as at and for the year ended 31 December 2020 (PLN m)

	As at 31 December 2020	As at 31 December 2019
Interest-bearing loans and borrowings	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**

28. Contingent assets and liabilities

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

29. Employment structure

The average employment in the Company was 182 in the year ended 31 December 2020 and 178 in the year ended 31 December 2019. The methodology of presentation of the employment levels changed in 2020, with full employment, encompassing both active and inactive employees, presented starting from the current reporting period.

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

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

- 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;
- Deterioration of consumers' payment behaviour resulting from their worsened financial situation.

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

In the face of the above threats, the Company 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 Company has the ability to effectively counteract any adverse phenomena that might occur in the short, medium and long term. The Company 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 Company's continuing in business as a going concern may be at risk.

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.

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

Guarantee limits

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

Ostrołęka C Power Plant

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

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

As at 30 June 2020, the Company recognized a provision in the amount of PLN 269 m for its capital expenditure commitments to Elektrownia Ostrołęka Sp. z o.o. ("SPV"), following the proposed settlement of the Ostrołęka C Power Plant construction project, submitted on 23 June 2020 by the General Contractor ("GC"). As at 31 December 2020, the amount of the provision was updated to PLN 218 m.

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 Company 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.

Financing agreements

On 3 July 2020, the Company executed 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 executed a 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 capital expenditure on coal-fired power generation.

31. Significant subsequent events

New companies

On 11 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.

Extension of loan repayment deadline

On 26 February 2021, the annexes were executed to two agreements governing the loans granted to Elektrownia Ostrołęka Sp. zo.o. by Energa SA and ENEA SA. 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.

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Management Board Members

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

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

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

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

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

Energa Centrum Usług Wspólnych Sp. z o.o.
Entity responsible for keeping
accounting ledgers and for preparing financial statements
Energa Centrum Usług Wspólnych Sp. z o.o.
al. Grunwaldzka 472, 80-309 Gdańsk
KRS 0000049425, NIP 879-229-21-45, REGON 871566320 ……………………………………………

Gdańsk, 13 April 2021