Energa

ORLEN GROUP

Condensed Interim Consolidated Financial Statements prepared in accordance with IAS 34 for the three-month period ended 31 March 2021

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	3-month period ended 31 March 2021 (unaudited)	3-month period ended 31 March 2020 (unaudited) (restated)
Sales revenues	**3,460**	**3,286**
Revenue from the Price Difference Refund Fund	**-**	**3**
Cost of sales	(2,664)	(2,647)
Gross profit on sales	**796**	**642**
Other operating income	67	73
Selling and distribution expenses	(248)	(251)
General and administrative expenses	(62)	(100)
Other operating expenses	(69)	(57)
Financial income	62	16
Financial costs	(74)	(115)
Share in profit/(loss) of the entities measured by the equity method	-	(19)
Profit before tax	**472**	**189**
Income tax	(88)	(78)
Net profit for the period	**384**	**111**
Attributable to:		
Equity holders of the Parent Company	382	113
Non-controlling interest	2	(2)
Earnings per share (in PLN)		
- basic	**0.92**	**0.27**
- diluted	**0.92**	**0.27**

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3-month period ended 31 March 2020 (unaudited)	3-month period ended 31 March 2020 (unaudited)
Net result for the period	**384**	**111**
Items that will never be reclassified to profit or loss	***(47)***	***6***
Actuarial gains and losses on defined benefit plans	(58)	7
Deferred income tax	11	(1)
Items that are or may be reclassified subsequently to profit or loss	**36**	**(81)**
Foreign exchange differences from translation of foreign entities	1	4
Cash flow hedges	43	(105)
Deferred income tax	(8)	20
Net other comprehensive income	**(11)**	**(75)**
Total comprehensive income	**373**	**36**
Attributable to:		
Equity holders of the Parent Company	371	38
Non-controlling interest	2	(2)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 2021 (unaudited)	As at 31 December 2020 (restated)	As at 1 January 2020 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	14,630	14,565	14,262
Intangible assets	1,228	926	814
Right-of-use assets	915	907	847
Goodwill	11	11	11
Investments in associated entities and joint ventures measured using the equity method	125	105	336
Deferred tax assets	241	207	262
Other non-current financial assets	142	77	190
Other non-current assets	156	141	144
	17,448	**16,939**	**16,866**
Current assets			
Inventories	122	140	165
Current tax receivables	8	30	61
Trade receivables	1,928	1,941	1,802
Other current financial assets	92	60	203
Cash and cash equivalents	222	221	1,461
Other current assets	292	337	409
	2,664	**2,729**	**4,101**
TOTAL ASSETS	**20,112**	**19,668**	**20,967**

	As at 31 March 2021 (unaudited)	As at 31 December 2020	As at 1 January 2020
EQUITY AND LIABILITIES			
Equity			
Share capital	4,522	4,522	4,522
Foreign exchange differences from translation of a foreign entity	6	5	-
Reserve capital	1,018	1,018	1,018
Supplementary capital	1,661	1,661	2,035
Cash flow hedge reserve	(61)	(96)	(52)
Retained earnings	2,009	1,669	1,730
Equity attributable to equity holders of the Parent Company	**9,155**	**8,779**	**9,253**
Non-controlling interest	**(34)**	**(36)**	**11**
	9,121	**8,743**	**9,264**
Non-current liabilities			
Loans and borrowings	1,613	1,690	2,047
Liabilities on account of the issue of debt securities	2,545	2,520	2,326
Non-current provisions	941	923	786
Deferred tax liability	814	777	738
Deferred income and non-current grants	216	214	284
Liabilities on account of leases	675	704	637
Other non-current financial liabilities	27	22	82
Contract liabilities	10	11	12
	6,841	**6,861**	**6,912**
Current liabilities			
Trade liabilities	772	792	941
Contract liabilities	159	131	88
Current part of loans and borrowings	1,487	1,742	393
Liabilities on account of the issue of debt securities	31	41	2,219
Current income tax liability	51	-	-
Deferred income and grants	159	187	186
Short-term provisions	1,041	763	583
Other financial liabilities	220	249	235
Other current liabilities	230	159	146
	4,150	**4,064**	**4,791**
Total liabilities	**10,991**	**10,925**	**11,703**
TOTAL EQUITY AND LIABILITIES	**20,112**	**19,668**	**20,967**

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Parent Company								
	Share capital	Foreign exchange differences from translation of a foreign entity	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings	Total	Non-controlling interest	Total equity
As at 1 January 2021	**4,522**	**5**	**1,018**	**1,661**	**(96)**	**1,669**	**8,779**	**(36)**	**8,743**
Adjustment on account of change of the method of measurement of investment property	**-**	**-**	**-**	**-**	**-**	**5**	**5**	**-**	**5**
As at 1 January 2021 (restated)	**4,522**	**5**	**1,018**	**1,661**	**(96)**	**1,674**	**8,784**	**(36)**	**8,748**
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	(47)	**(47)**	-	**(47)**
Foreign exchange differences from translation of foreign entities	-	1	-	-	-	-	**1**	-	**1**
Cash flow hedges	-	-	-	-	35	-	**35**	-	**35**
Total net other comprehensive income	**-**	**1**	**-**	**-**	**35**	**(47)**	**(11)**	-	**(11)**
Net profit for the period	-	-	-	-	-	382	**382**	2	**384**
Total comprehensive income for the period	**-**	**1**	**-**	**-**	**35**	**335**	**371**	**2**	**373**
As at 31 March 2021 (unaudited)	**4,522**	**6**	**1,018**	**1,661**	**(61)**	**2,009**	**9,155**	**(34)**	**9,121**
As at 1 January 2020	**4,522**	**-**	**1,018**	**2,035**	**(52)**	**1,730**	**9,253**	**11**	**9,264**
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	6	**6**	-	**6**
Foreign exchange differences from translation of foreign entities	-	4	-	-	-	-	**4**	-	**4**
Cash flow hedges	-	-	-	-	(85)	-	**(85)**	-	**(85)**
Total net other comprehensive income	-	4	-	-	(85)	6	**(75)**	-	**(75)**
Net profit for the period	-	-	-	-	-	113	**113**	(2)	**111**
Total comprehensive income for the period	**-**	**4**	**-**	**-**	**(85)**	**119**	**38**	**(2)**	**36**
As at 31 March 2020 (unaudited)	**4,522**	**4**	**1,018**	**2,035**	**(137)**	**1,849**	**9,291**	**9**	**9,300**

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	3-month period ended 31 March 2021 (unaudited)	3-month period ended 31 March 2020 (unaudited) (restated)
Cash flows from operating activities		
Profit before tax	**472**	**189**
Adjustments for:		
Share in (profit)/loss of entities measured by the equity method	-	19
Foreign currency (gains)/losses	(7)	134
Amortization and depreciation	264	264
Net interest and dividends	33	81
(Profit)/ loss on investing activities	(19)	3
Changes in working capital:		
Change in receivables*	52	(671)
Change in contract assets	-	(46)
Change in inventories	18	(262)
Change in liabilities, excluding loans and borrowings	65	105
Change in contract liabilities	42	(20)
Change in prepayments and accruals	(76)	(355)
Change in provisions	244	162
	1,088	**(397)**
Income tax	**(7)**	**(59)**
Net cash from operating activities	**1,081**	**(456)**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(655)	(379)
Loans granted	-	(20)
Net cash from investing activities	**(655)**	**(399)**
Cash flows from financing activities		
Proceeds from debt incurred	16	2,500
Grants received	5	7
Repayment of debt incurred	(353)	(97)
Redemption of debt securities	-	(2,198)
Repayment of lease liabilities	(42)	(32)
Interest paid	(51)	(142)
Net cash from financing activities	**(425)**	**38**
Net increase/(decrease) in cash and cash equivalents	**1**	**(817)**
Cash and cash equivalents at the beginning of the period	**221**	**1,461**
Unrealized foreign exchange differences	-	*(4)*
Cash and cash equivalents at the end of the period	**222**	**640**

**This item in 2021 incorporates a change in receivables and contract assets.*

ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY INFORMATION

1. General information

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

Name of the parent company: Energa SA
Legal form: joint stock company
Country: Poland
Seat: Gdańsk
Registered address: ul. Grunwaldzka 472, 80-309 Gdańsk
KRS: 0000271591
[business statistical number] REGON: 220353024
[tax identification number] NIP: 957-095-77-22
The parent company has been established for an indefinite time.

The condensed interim consolidated financial statements of the Group cover the three-month period ended on 31 March 2021 and contains the relevant comparative data.

Core operations of the Group's companies are as follows:

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

As at 31 March 2021, PKN ORLEN S.A. is the parent company and the ultimate controlling party of the Company and the Energa Group.

2. Composition of the Group, and joint ventures and associates

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

As at 31 March 2021, the Group consists of Energa SA and the following subsidiaries:

No	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 March 2021	31 December 2020
Distribution Business Line (Segment)					
1	Energa-Operator SA	Gdańsk	distribution of electricity	100	100
2	Energa Operator Wykonawstwo Elektroenergetyczne Sp. z o.o.	Słupsk	contracting and design	100	100
Sales Business Line (Segment)					
3	Energa-Obrót SA	Gdańsk	trading in electricity	100	100
4	Energa Oświetlenie Sp. z o.o.	Sopot	lighting services	100	100
5	Energa SLOVAKIA s.r.o.	Bratislava	trading in electricity	100	100
6	Enspirion Sp. z o.o.	Gdańsk	organization and management of development of innovative power projects	100	100
Generation Business Line (Segment)					
7	Energa OZE SA	Gdańsk	production of energy	100	100
8	Energa Elektrownie Ostrołęka SA	Ostrołęka	production of energy	89.64	89.64

No	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 March 2021	31 December 2020
9	Energa Kogeneracja Sp. z o.o.	Elbląg	production of energy	100	100
10	Energa Ciepło Ostrołęka Sp. z o.o.	Ostrołęka	distribution of heat	89.64	89.64
11	Energa Serwis Sp. z o.o.	Ostrołęka	repairs and maintenance services	89.64	89.64
12	Energa Ciepło Kaliskie Sp. z o.o.	Kalisz	distribution of heat	91.24	91.24
13	CCGT Grudziądz Sp. z o.o.	Grudziądz	production of energy	100	100
14	CCGT Gdańsk Sp. z o.o.	Gdańsk	production of energy	100	100
15	Energa MFW 1 Sp. z o.o. in organization[1]	Gdańsk	production of energy	100	-
16	Energa MFW 2 Sp. z o.o. in organization[2]	Gdańsk	production of energy	100	-
Other Business Line					
17	Energa Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting, payroll and administrative services	100	100
18	Energa Finance AB (publ)	Stockholm	financing activity	100	100
19	Energa Informatyka i Technologie Sp. z o.o.	Gdańsk	information and communication technologies	100	100
20	Energa Logistyka Sp. z o.o.	Płock	logistics and supply	100	100
21	Energa Invest Sp. z o.o.	Gdańsk	investment project management	100	100
22	Centrum Badawczo-Rozwojowe im. M. Faradaya Sp. z o.o.	Gdańsk	development activity in engineering	100	100
23	Energa Ochrona Sp. z o.o.	Gdańsk	security activities	100	100
24	ECARB Sp. z o.o.	Gdańsk	financing activity	100	100
25	CCGT Ostrołęka Sp. z o.o.[3]	Ostrołęka	production of energy	100	-
26	Energa Green Development Sp. z o.o.[4]	Gdańsk	implementation of investment projects	100	-

[1] Energa MFW 1 Sp. z o.o. (in organization) – 26 March 2021 – establishment of the company by Energa OZE SA, which acquired 100 shares of the total nominal value of PLN 5,000 in exchange for a cash contribution of PLN 250,000 – the surplus of the cash contribution in the amount of PLN 245,000 was transferred to the company's supplementary capital;

[2] Energa MFW 2 Sp. z o.o. (in organization) – 26 March 2021 – establishment of the company by Energa OZE SA, which acquired 100 shares of the total nominal value of PLN 5,000 in exchange for a cash contribution of PLN 250,000 – the surplus of the cash contribution in the amount of PLN 245,000 was transferred to the company's supplementary capital;

[3] CCGT Ostrołęka Sp. z o.o. – 11 January 2021 – establishment of the company by Energa SA, which acquired all 150 shares in its share capital of the total nominal value of PLN 150,000; on 29 January 2021, the company was entered in the National Court Register;

[4] Energa Green Development Sp. z o.o. – 20 January 2021 – establishment of the company by Energa SA, which acquired all 1,200 shares in its share capital of the total nominal value of PLN 600,000; on 9 February 2021, the company was entered in the National Court Register;

Additionally, as at 31 March 2021 the Group holds shares in joint ventures: Polska Grupa Górnicza S.A. ("PGG"), Elektrownia Ostrołęka Sp. z o.o. (formerly Elektrownia Ostrołęka SA) and in associates - Polimex-Mostostal S.A. ("Polimex") and ElectroMobility Poland S.A. (see description in Note 2.2).

2.2. Joint ventures and associates

2.2.1. Polska Grupa Górnicza

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

PGG is engaged in coal mining and its registered office is in Katowice.

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

The Energa Group exercises joint control over PGG on the basis of the investment agreement and the investors' memorandum of understanding from 2017. The investment agreement foresees a number of mechanisms enabling the investors, including the Energa Group, ongoing monitoring of PGG's financial situation and taking of optimisation measures. These rights are exercised by PGG's Supervisory Board, while each shareholder in PGG has the right to appoint one member of the Supervisory Board.

Furthermore, a portion of the investors holding jointly the majority of votes at PGG's Shareholder Meeting, including the Energa Group, signed a memorandum of understanding in 2017 the purpose of which was to assume increased control over PGG. The memorandum of understanding assumes, among other things, that a joint position will be agreed upon when key decisions are made by PGG's General Meeting and its Supervisory Board.

Given the developments in the coal market and PGG's financial performance, the Group identified the need for recognising an impairment loss on the value of its investment. Fair value of the shares was measured and defined as equal to zero. Consequently, the overall value of investment into the joint venture with PGG measured in the consolidated financial statements using the equity method was covered by the aforesaid impairment loss. The investment was covered with an impairment loss of PLN 145m.

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

As at 31 March 2021, the value of investment in the consolidated financial statements amounted to zero.

2.2.2. Polimex-Mostostal

On 18 January 2017, the Management Board of Energa SA along with Enea S.A., PGE S.A. and PGNiG Technologie S.A. ("Investors") and Polimex-Mostostal S.A. signed an investment agreement under which the Investors undertook to make an equity investment in Polimex. Energa SA holds 39m shares of the nominal value of PLN 2 each. Consequently, its stake in Polimex reached approx. 16.5%.

The Polimex share was classified as an associate measured using the equity method. The Group exercises a significant influence on investment by impacting the financial and operational policy and determining the composition of Polimex governing bodies.

Polimex is a civil engineering and construction company based in Warsaw.

Polimex is listed on the Warsaw Stock Exchange.

The Group's holding in Polimex-Mostostal was measured at arm's length on 31 March 2021. The measurement set the total value of shares at PLN 203m in excess of their carrying amount. Consequently, the decision was made to reverse the impairment loss of PLN 21m in the Group's consolidated financial statements. As at 31 March 2021, the value of investment in the consolidated financial statements amounts to PLN 112m.

2.2.3. Ostrołęka Power Plant

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

Under the above agreement, Energa SA and Enea S.A. acquired joint control over the company whose primary objective was the construction and operation of a new coal-fired unit.

On 27 February 2018, transformation of Elektrownia Ostrołęka SA into a limited liability company was registered.

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

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

On 23 December 2019, a loan agreement was signed between Energa SA, Enea S.A. and Elektrownia Ostrołęka Sp. z o.o. The maximum amount of the loan is PLN 340m and is disbursed in tranches at a reasonable request of Elektrownia Ostrołęka Sp. z o.o., in connection with implementation of the Project. The first tranche in the amount of PLN 160m was disbursed on 23 December 2019, the second tranche in the amount of PLN 17m was disbursed on 13 January 2020, whereas the third tranche in the amount of PLN 163m was disbursed on 22 April 2020. Under the loan agreement, Energa SA made a conditional sale of 50% of the receivables it holds under the loan agreement against Elektrownia Ostrołęka Sp. z o.o. to Enea SA. The receivables sold will pass to Enea S.A. subject to fulfilment of the conditions precedent defined in the memorandum of understanding of 30 April 2019 at the later of the following dates: 31 January 2021 or the date of payment of the full amount of the price by Enea S.A. to Energa SA. The receivables under the loan agreement may be converted, after 31 January 2021, by Energa SA and Enea S.A. into the equity of Elektrownia Ostrołęka Sp. z o.o.

On 13 February 2020, under the memorandum of understanding, Energa SA and Enea S.A. decided to suspend the financing of the construction of the new coal-fired unit with a capacity of approx. 1,000 MW at the planned Ostrołęka C power plant in Ostrołęka ("Project"). Financing was suspended specifically in connection with the need for and for the duration of the conduct of analyses of the further course of action under the Project, including its continued funding.

The Management Board of Energa SA accepted the final report from the analyses on 2 June 2020. Its conclusions do not justify continuation of implementation of the Project as is, i.e. as the project of construction of a power plant producing electricity in the process of combustion of hard coal.

On 2 June 2020, a trilateral agreement was signed between Energa SA, Enea S.A. and PKN ORLEN S.A. setting forth the key rules of cooperation in the Gas Project. Additional information has been presented in current report no. 51/2020.

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

Enforcement of the above assumption was rendered possible through the signing with Enea SA on 22 December 2020 of two agreements, namely a) the agreement on cooperation in dividing Elektrownia Ostrołęka Sp. z o.o. whereby Enea SA renounced from its participation in implementation of the Gas Project and the issues associated with the breakup of the Project were regulated, and b) the agreement on cooperation in the accounting for the Ostrołęka C power plant investment project whereby the costs associated with termination of the investment project would be accounted for on a pro rata basis by the parties to the agreement based on the existing rules and within the limits adopted in the agreement signed between the Company and Enea SA on 30 April 2019.

On 26 February 2021, two agreements governing loans granted to Elektrownia Ostrołęka Sp. z o.o. by Energa SA and Enea SA were annexed. As a result, the maturities of the loans granted under the agreement of 17 July 2019 in the amount of PLN 58m and the agreement of 23 December 2019 in the total amount of PLN 340m were extended. The new maturity of the loans was set at 30 June 2021.

From the effective date of the investment agreement until 31 March 2021, the aggregate value of cash contributions made to the company by Energa SA (the aggregate cost of acquisition of the shares by the Company) amounted to PLN 351m.

As at 31 March 2021, the value of investment in the consolidated financial statements amounted to zero.

2.2.4. ElectroMobility Poland

ElectroMobility Poland S.A. was established in October 2016 by four Polish power companies, namely Energa SA, PGE Polska Grupa Energetyczna S.A., Enea SA and Tauron Polska Energia S.A. Each of the companies holds a 25% stake in the share capital of ElectroMobility Poland S.A.. By 31 March 2021, the aggregate value of cash contributions made to the company by Energa SA (the nominal value of acquired shares) amounted to PLN 17.5m.

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

3. Composition of the Parent Company's Management Board

Until these consolidated financial statements were prepared, the composition of the Management Board of Energa SA was as follows:

- Mr Jacek Goliński - President of the Management Board;
- Mr Marek Kasicki - Vice-President of the Management Board for Financial Matters;
- Mr Dominik Wadecki - Vice-President of the Management Board for Operational Matters;
- Ms Adrianna Sikorska - Vice-President of the Management Board for Communication;
- Ms Iwona Waksmundzka-Olejniczak - Vice-President of the Management Board for Corporate Matters.

4. Approval of the financial statements

These condensed interim consolidated financial statements were approved for publication by the Company's Management Board on 12 May 2021.

5. Basis for preparation of the financial statements

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

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

As at the date of these condensed interim financial statements, there is no evidence indicating that the continuation of the Group's business activities as a going concern may be at risk.

5.1. Statement of compliance

These condensed interim consolidated financial statements of Energa SA Group have been prepared in accordance with the International Accounting Standard 34, Interim Financial Reporting, as endorsed by the European Union. They do not include all the information required for a complete set of financial statements compliant with the International Financial Reporting Standards ("IFRS"). However, selected notes are included to explain events and transactions that are relevant to the understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended on 31 December 2020.

5.2. Functional and presentation currency

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

6. Material items subject to professional judgment and estimates

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

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

7. Significant accounting policies

The Group's accounting policies are applied on a continuous basis, except for the changes to EU IFRS.

7.1. Standards and interpretations applied for the first time in 2021

The following amendments to the existing standards published by the IASB and endorsed in the EU came into force in 2021:

- Amendments to IFRS 4, Insurance Contracts, titled Extension of the Temporary Exemption from Applying IFRS 9, approved by the EU on 16 December 2020 (the date of expiry of the temporary exemption from applying IFRS 9 was extended from 1 January 2021 by 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, – reform of the reference interest rate, stage 2, approved by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

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

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

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

- IFRS 17, Insurance Contracts, 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 (applicable to annual periods beginning on or after 1 January 2023);
- Amendments to IAS 16, Property, Plant and Equipment – revenues obtained prior to acceptance of an asset for use (applicable to annual periods beginning on or after 1 January 2022);
- Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets – contracts resulting in charges, the cost of fulfilment of a contract (applicable to annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 3, Business Combinations – changes to references to conceptual assumptions together with amendments to IFRS 3 (applicable to 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 - sale or contribution of assets between an investor and its associate/joint venture and subsequent amendments (the effective date of the amendments has been deferred until completion of 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 exact 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, therefore, no data has been specified for its entry into force);
- Amendments to IAS 1, Presentation of Financial Statements – amendments require disclosure of material accounting rules (policies) instead of significant accounting rules (policies) (applicable to annual periods beginning on or after 1 January 2023);
- Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – definition of an estimate and clarification on how to distinguish a change to the accounting policy from changes to estimates (applicable to annual periods beginning on or after 1 January 2023); and
- Amendments to IFRS 16, Leases – COVID-19-related rent concessions after 30 June 2021.

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

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

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

9. Accounting changes and changes to data presentation

Starting from 1 January 2021, the Group amended its accounting policy in terms of presentation of the values of established and released impairment losses on trade receivables and contract assets as well as impairment losses on property, plant and equipment, intangible assets and investment property, including the advances paid. Establishment of impairment losses was

recognized in other operating expenses and their release was recognized in other operating income and not in the cost of sales, as was the case previously.

The Group also changed its accounting policy in terms of presentation of energy certificates of origin, CO2 emission allowances and energy efficiency certificates used for own needs, including those purchased, obtained free of charge and awarded by URE in the process of production of electricity. They have been recognized in intangible assets and not in inventories, as was the case previously.

As a result of the aforesaid changes to the accounting policy, the Group converted the following comparative data in the consolidated statement of profit and loss and other comprehensive income for the period from 1 January 2020 to 31 March 2020 and in the consolidated statement of financial position as at 1 January 2020 and as at 31 December 2020:

	As at 31 December 2020 (previously reported)	Change in presentation	As at 31 December 2020 (restated)
ASSETS			
Intangible assets	242	684	926
Inventories	824	(684)	140
TOTAL	**1,066**	**-**	**1,066**

	As at 1 January 2020 (previously reported)	Change in presentation	As at 1 January 2020 (restated)
ASSETS			
Intangible assets	223	591	814
Inventories	756	(591)	165
TOTAL	**979**	**-**	**979**

	3-month period ended 31 March 2020 (previously reported)	Change in presentation	3-month period ended 31 March 2020 (restated)
Sales revenues	**3,286**	**-**	**3,286**
Revenue from the Price Difference Refund Fund	**3**	**-**	**3**
Cost of sales	(2,806)	159	(2,647)
Gross profit on sales	**483**	**159**	**642**
Other operating income	60	13	73
Selling and distribution expenses	(102)	(149)	(251)
General and administrative expenses	(100)	-	(100)
Other operating expenses	(34)	(23)	(57)
Financial income	16	-	16
Financial costs	(115)	-	(115)
Share in profit/(loss) of the entities measured by the equity method	(19)	-	(19)
Profit before tax	**189**	**-**	**189**
Income tax	(78)	-	(78)

Net profit for the period	**111**	**-**	**111**
Attributable to:			
Equity holders of the Parent Company	113	-	113
Non-controlling interest	(2)	-	(2)

Starting from 1 January 2021, the Group also changed the method of measurement of investment property but, due to immateriality of the amounts, no comparative data have been converted in that respect.
The method of measurement of investment property was changed from the model based on the purchase price to the fair value model. The profit derived from the aforesaid change amounted to PLN 5m and was recognized in the consolidated statement of changes in equity in retained earnings.

NOTES ON BUSINESS LINES (OPERATING SEGMENTS)

10. Business lines (Operating segments)

The Group presents segment information in accordance with IFRS 8 Operating Segments for the current and comparative reporting periods. The Group is organized and managed within operating segments, which are divided according to the types of products offered. The Group's reporting is broken down into three segments and other activity referred to as business lines, according to the Group's terminology:

- Distribution – distribution of electricity by Energa-Operator SA (Distribution System Operator), as well as operations directly associated with the distribution operations conducted by other Group companies;
- Generation – production of electricity from conventional and renewable sources, production and distribution of heat and maintenance and repair activity, related directly to the production of energy;
- Sales – trading in electricity (wholesale trading and retail sales) and lighting services; and
- Other – shared services centers in the accounting, HR and payroll, administration and ITC areas as well as financial activity, real estate management, logistics, procurement and security. The activity of the parent company has been classified in the Other Business Line.

The key measures used by the Energa SA Management Board to assess the performance of business lines is net profit and EBITDA, i.e. operating profit /(loss) (calculated as the profit /(loss) before tax adjusted by the share of profit/(loss) of an entity measured using the equity method, financial revenues and financial expenses) plus amortisation and depreciation and impairment losses on non-financial non-current assets.

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

Transactions between business lines are settled on market terms.

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

The tables below show the allocation of revenues and expenses to individual reporting segments for the period from 1 January to 31 March 2021 and financial assets and liabilities as at 31 March 2021, together with relevant comparative information.

Three-month period ended on 31 March 2021 (unaudited) or as at 31 March 2021 (unaudited)	Distribution	Sales	Generation	Other	Consolidation eliminations and adjustments	Total activity
Revenue						
Sales to external customers	1,125	1,846	469	20	-	**3,460**
Sales between business lines	16	11	94	105	(226)	**-**
Total business line revenue	**1,141**	**1,857**	**563**	**125**	**(226)**	**3,460**
EBITDA	**520**	**144**	**104**	**(10)**	**-**	**758**
Amortization and depreciation	213	12	34	7	(2)	**264**
Impairment losses on non-financial non-current assets	-	-	10	-	-	**10**
Operating profit or loss	**307**	**132**	**60**	**(17)**	**2**	**484**
Net financial income/expense	(23)	-	(13)	5	19	**(12)**
Profit or loss before tax	**284**	**132**	**47**	**(12)**	**21**	**472**
Income tax	(55)	(25)	(6)	(2)	-	**(88)**
Net profit or loss	**229**	**107**	**41**	**(14)**	**21**	**384**
Assets and liabilities						
Cash and cash equivalents	5	76	48	93	-	**222**
Total assets	**14,599**	**2,878**	**4,186**	**13,668**	**(15,219)**	**20,112**
Financial liabilities	5,064	33	919	5,197	(4,820)	**6,393**
Other business line information						
Capital expenditure	300	12	29	4	-	**345**

Three-month period ended on 31 March 2020 (unaudited) or as at 31 December 2020	Distribution	Sales	Generation	Other	Consolidation eliminations and adjustments	Total activity
Revenue						
Sales to external customers	1,130	1,911	221	24	-	**3,286**
Sales between business lines	16	9	76	108	(209)	**-**
Revenue from the Price Difference Refund Fund	-	3	-	-	-	**3**
Total business line revenue	**1,146**	**1,923**	**297**	**132**	**(209)**	**3,289**
EBITDA	**493**	**34**	**69**	**(26)**	**(2)**	**568**
Amortization and depreciation	210	13	38	7	(4)	**264**
Impairment losses on non-financial non-current assets	-	-	(3)	-	-	**(3)**
Operating profit or loss	**283**	**21**	**34**	**(33)**	**2**	**307**
Net financial income/expense	(49)	(6)	(14)	(33)	3	**(99)**
Share in profit/(loss) of the entities measured by the equity method	-	-	-	-	(19)	**(19)**
Profit or loss before tax	**234**	**15**	**20**	**(66)**	**(14)**	**189**
Income tax	(46)	(5)	(10)	(17)	-	**(78)**
Net profit or loss	**188**	**10**	**10**	**(83)**	**(14)**	**111**
Assets and liabilities						
Cash and cash equivalents	5	55	37	124	-	**221**
Total assets	**14,415**	**2,729**	**4,025**	**13,885**	**(15,386)**	**19,668**
Financial liabilities	5,152	34	892	5,513	(4,855)	**6,736**
Other business line information						
Capital expenditure	266	6	52	6	1	**331**

Three-month period ended on 31 March 2021 (unaudited)	Distribution	Sales	Generation	Other	Consolidation eliminations and adjustments	Total activity
Revenues on sales of products and goods for resale and materials, including:	**7**	**1,788**	**524**	**51**	**(135)**	**2,235**
Electricity	6	1,765	407	-	(99)	**2,079**
Certificates of origin	-	-	19	-	-	**19**
Gas	-	40	-	-	-	**40**
Other products, goods for resale and materials	1	1	98	51	(36)	**115**
Excise tax	-	(18)	-	-	-	**(18)**
Revenues on sales of services, including:	**1,134**	**68**	**39**	**74**	**(90)**	**1,225**
Distribution and transit services	1,100	-	27	-	(12)	**1,115**
Customer connection fees	12	-	-	-	-	**12**
Rental income	9	1	1	-	(3)	**8**
Other services	13	67	11	74	(75)	**90**
TOTAL	**1,141**	**1,856**	**563**	**125**	**(225)**	**3,460**
including:						
Revenue from goods, products and materials transferred or services provided on a continuous basis	1,106	1,787	434	-	(111)	**3,216**
Revenue from goods, products and materials transferred or services provided at a specific time	35	69	129	125	(114)	**244**

Three-month period ended on 31 March 2020 (unaudited)	Distribution	Sales	Generation	Other	Consolidation eliminations and adjustments	Total activity
Revenues on sales of products and goods for resale and materials, including:	**10**	**1,859**	**267**	**42**	**(106)**	**2,072**
Electricity	9	1,836	175	-	(82)	**1,938**
Certificates of origin	-	-	36	-	-	**36**
Gas	-	40	-	-	-	**40**
Other products, goods for resale and materials	1	1	56	42	(24)	**76**
Excise tax	-	(18)	-	-	-	**(18)**
Revenues on sales of services, including:	**1,136**	**61**	**30**	**90**	**(103)**	**1,214**
Distribution and transit services	1,104	-	11	-	(12)	**1,103**
Customer connection fees	11	-	-	-	-	**11**
Rental income	10	1	18	-	(4)	**25**
Other services	11	60	1	90	(87)	**75**
TOTAL	**1,146**	**1,920**	**297**	**132**	**(209)**	**3,286**
including:						
Revenue from goods, products and materials transferred or services provided on a continuous basis	1,113	1,858	186	-	(94)	**3,063**
Revenue from goods, products and materials transferred or services provided at a specific time	33	62	111	132	(115)	**223**

NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

11. Property, plant and equipment, intangible assets and right-of-use assets

Property, plant and equipment

In the current reporting period, the Group:

- incurred capital expenditures on property, plant and equipment in the amount of PLN 320m (vs. PLN 318m in the same period of 2020)

Intangible assets

In the current reporting period, the Group:

- incurred capital expenditure on intangible assets in the amount of PLN 10m (PLN 10m in the corresponding period of 2020);
- incurred capital expenditures on energy certificates of origin, CO2 emission allowances and energy efficiency certificates in the amount of PLN 287m (PLN 196m in the corresponding period of 2020)

Right-of-use assets

In the current reporting period, the Group:

- incurred capital expenditure on right-of-use assets in the amount of PLN 16m (PLN 3m in the corresponding period of 2020)

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

In the first quarter of 2021, within the framework of an assessment of occurrence of internal and external preconditions for impairment of the recoverable amount of held property, plant and equipment and goodwill of the Energa Group, the need was identified for carrying out an impairment test on the assets of Energa Invest Sp. z o.o.

The impairment tests for cash generating units (“CGUs”) were performed as at 31 March 2021 using the income method, based on the discounted value of estimated cash flows from operating activities, taking into account, among others, the following assumptions:

- the value in use was calculated on the basis of financial projections for the period of April 2021 - December 2026 and residual value;
- the length of forecasts has been adopted in such a way to ensure that the cash flow used to calculate residual value was as similar as possible to the cash flows expected in the coming years;
- 2.0% growth rate was used to extrapolate cash flow forecasts for the purpose of calculation of residual value; this is not higher than the average long-term inflation rates in Poland;
- the discount rate set on the basis of the after-tax weighted-average cost of capital (WACC), used for the calculation, was 4.36%;

Based on the results of the test, no need was found to recognize impairment losses on the assets of CGU Energa Invest. The recoverable amount was determined at PLN 70.8 m.

In 1Q2021 an impairment loss was recognised on the generation assets in Zychlin (heat plant). Through the verification of the impairment test of CGU Combined Heat and Power Plant Elblag with a BB20 installation (Elblag CHP CGU) in IVQ2021 the need to create a separate CGU for the heat plant installation in Zychlin was determined. Based on the impairment tests conducted for the date 31 December 2020, a need to recognise an impairment loss was identified for the amount of PLN 14,9m.

Sensitivity analysis

The estimated impact of the change of the discount rate on the measurement of the above-mentioned assets is presented below. The conducted sensitivity analysis indicates that an adverse change in WACC at the level specified below will not require recognition of any additional impairment loss. Nonetheless, it should be borne in mind that in the case of a change to market conditions the risk arises that assets may be overstated or understated.

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

Parameter	Value and direction of change	Impact on measurement of CGUs [PLN m] Increase in value	Impact on measurement of CGUs [PLN m] Decrease in value	Change in impairment loss/reversal amount [PLN m]
Discount rates	[+ 0.5 p.p.]		-17.3	-1.7
	[- 0.5 p.p.]	26.7		2.7
Heat prices	[+ 1%]	5.1		5.1
	[- 1%]		-5.1	-5.1
Coal prices	[+ 1%]		-1.8	-1.8
	[- 1%]	1.8		1.8
EUA prices	[+ 1%]		-0.9	-0.9
	[- 1%]	0.9		0.9

13. Cash and cash equivalents

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

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

	As at 31 March 2021 (unaudited)	As at 31 March 2020 (unaudited)
Cash at bank and in hand	222	646
Short-term deposits up to 3 months	-	1
Total cash and cash equivalents presented in the statement of financial position	**222**	**647**
including unrealized foreign exchange differences and interest	-	(7)
Total cash and cash equivalents presented in the statement of cash flows	**222**	**640**
of which restricted cash	*111*	*82*

Restricted cash presented in the consolidated statement of cash flows constitutes primarily the funds kept in the VAT account (split payment) and the security for settlements with Izbą Rozliczeniową Giełd Towarowych SA [the Commodity Clearing House].

14. Earnings per share

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

	3-month period ended 31 March 2021 (unaudited)	3-month period ended 31 March 2020 (unaudited)
Net profit or loss attributable to equity holders of the parent company	382	113
Net profit or loss attributable to common equity holders of the Parent Company	**382**	**113**
Number of shares at the end of the reporting period (millions)	414	414
Number of shares used to calculate earnings per share (millions)	414	414
Earnings or loss per share (basic and diluted) (in PLN)	**0.92**	**0.27**

15. Dividends

By the date of approval of these financial statements for publication, no decision was made on the coverage of the net loss for the 2020 financial year.

16. Provisions

16.1. Provisions for employee benefits

The Group recognises provisions for post-employment benefits and jubilee bonuses in amounts calculated using actuarial methods. The amount of provisions recognized in these financial statements derives from the projection of provisions as at 31 March 2021, carried out by an independent actuary. The projection was based on the main assumptions used to measure provisions as at 31 December 2020, except the updated discount rate and the expected growth rate of the energy equivalent. The discount rate used to project the provisions as at 31 March 2021 was assumed at 1.5% (as at 31 December 2020: 1.2%).

	Long-term		Short-term		Total	
	31 March 2021 (unaudited)	31 December 2020	31 March 2021 (unaudited)	31 December 2020	31 March 2021 (unaudited)	31 December 2020
Pension and similar benefits	169	174	13	12	182	186
Energy tariff	291	226	11	10	302	236
Company Social Benefit Fund	28	58	2	1	30	59
Jubilee bonuses	257	262	25	25	282	287
	745	**720**	**51**	**48**	**796**	**768**

16.2. Other provisions

	Long-term		Short-term		Total	
	31 March 2021 (unaudited)	31 December 2020	31 March 2021 (unaudited)	31 December 2020	31 March 2021 (unaudited)	31 December 2020
Legal claims	74	72	134	125	208	197
Land reclamation and liquidation costs	107	113	-	-	107	113
Liabilities for gas emissions	-	-	306	197	306	197
Obligation relating to property rights	-	-	284	124	284	124
Provision for settlement of the coal-based investment project in Ostrołęka	-	-	218	218	218	218
Other provisions	15	18	48	51	63	69
	196	**203**	**990**	**715**	**1,186**	**918**

NOTES ON FINANCIAL INSTRUMENTS

17. Financial Instruments

17.1. Carrying amount of financial instruments by category and class

As at 31 March 2021 (unaudited)	Measured at fair value through profit or loss for period	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
Trade receivables, of which:	-	-	1,928	-	**1,928**
adjusted estimate of sales revenues	-	-	*397*	-	***397***
Cash and cash equivalents	-	-	222	-	**222**
Other financial assets	26	114	94	-	**234**
Derivative financial instruments	26	114	-	-	**140**
Other	-	-	94	-	**94**
TOTAL	**26**	**114**	**2,244**	**-**	**2,384**
Liabilities					
Loans and borrowings	-	-	3,100	-	**3,100**
Preferential loans and borrowings	-	-	1,098	-	**1,098**
Loans and borrowings	-	-	2,002	-	**2,002**

Current account overdraft	-	-	-	-	**-**
Liabilities on account of the issue of debt securities	-	-	2,576	-	**2,576**
Trade liabilities	-	-	772	-	**772**
Contract liabilities	-	-	169	-	**169**
Other financial liabilities	-	27	178	717	**922**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	115	-	**115**
Derivative financial instruments	-	27	-	-	**27**
Dividend liabilities	-	-	2	-	**2**
Liabilities on account of leases	-	-	-	717	**717**
Other	-	-	61	-	**61**
TOTAL	**-**	**27**	**6,795**	**717**	**7,539**

As at 31 December 2020	Measured at fair value through profit or loss for period	Hedging derivatives	Measured at amortized cost	Financial instruments excluded from the scope of IFRS 9	TOTAL
Assets					
Trade receivables, of which:	-	-	1,941	-	**1,941**
adjusted estimate of sales revenues	-	-	*353*	-	***353***
Cash and cash equivalents	-	-	221	-	**221**
Other financial assets	16	53	68	-	**137**
Derivative financial instruments	16	53	-	-	**69**
Other	-	-	68	-	**68**
TOTAL	**16**	**53**	**2,230**	**-**	**2,299**
Liabilities					
Loans and borrowings	-	-	3,432	-	**3,432**
Preferential loans and borrowings	-	-	1,241	-	**1,241**
Loans and borrowings	-	-	2,186	-	**2,186**
Current account overdraft	-	-	5	-	**5**
Liabilities on account of the issue of debt securities	-	-	2,561	-	**2,561**
Trade liabilities	-	-	792	-	**792**
Contract liabilities	-	-	142	-	**142**
Other financial liabilities	-	17	215	743	**975**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	155	-	**155**
Derivative financial instruments	-	17	-	-	**17**
Dividend liabilities	-	-	2	-	**2**
Liabilities on account of leases	-	-	-	743	**743**
Other	-	-	58	-	**58**
TOTAL	**-**	**17**	**7,142**	**743**	**7,902**

17.2. Fair value of financial instruments

Financial instruments measured at fair value on an ongoing basis

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

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

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

	31 March 2021 (unaudited)	31 December 2020
	Level 2	Level 2
Assets		
Hedging derivatives (CCIRS III)	48	21
Hedging derivatives (CCIRS IV)	66	32
Other derivatives	26	16
Liabilities		
Hedging derivatives (CCIRS III)	9	4
Hedging derivatives (CCIRS IV)	9	1
Hedging derivatives (IRS)	9	12

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

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

Financial instruments not measured at fair value on an ongoing basis

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

Liabilities arising from the issue of Eurobonds and hybrid bonds	Carrying amount	Fair value	
		Level 1	Level 2
As at 31 March 2021 (unaudited)	**2,576**	**1,486**	**1,167**
Eurobonds	1,388	1,486	-
hybrid bonds	1,188	-	1,167
As at 31 December 2020	**2,561**	**1,476**	**1,444**
Eurobonds	1,396	1,476	-
hybrid bonds	1,165	-	1,144

Fair value measurement of liabilities arising from the bonds issued in euro was estimated: in the case of Eurobonds on the basis of quotations from the Bloomberg system from 31 March 2021, which are determined based on transactions on the Luxembourg stock exchange and over-the-counter trading, while in the case of hybrid bonds based on the analysis of future cash flows discounted using the interest rates in effect as at 31 March 2021.

17.3. Financial liabilities

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

Loans and borrowings

	As at 31 March 2021 (unaudited)	As at 31 December 2020
Currency	PLN	
Reference rate	WIBOR, rediscount rate	
Value of the loan/borrowing	**3,100**	**3,432**
of which maturing in:		
up to 1 year (short-term)	1,487	1,742
1 to 3 years	779	769
3 to 5 years	467	533
over 5 years	367	388

As at 31 March 2021 and 31 December 2020, the amount of credit limits available to the Group was PLN 5,483.8m (56.3% used) and PLN 5,575.1m (61.4% used), respectively.

Detailed information on contracted loans and borrowings is presented in Note 17.4.

Liabilities under bonds issued

	As at 31 March 2021 (unaudited)	As at 31 December 2020
Currency	EUR	
Reference rate	fixed	
Value of the issue		
in currency	553	555
in PLN	2,576	2,561
of which maturing in:		
up to 1 year (short-term)	31	41
2 to 3 years	583	577
over 5 years	1,962	1,943

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

	As at 31 March 2021 (unaudited)			As at 31 December 2020		
	Weighted average credit loss	Value gross	Impairment loss	Weighted average credit loss	Value gross	Impairment loss
Highest client rating	0.0%	533	-	0.0%	515	-
Medium client rating	0.0%	214	-	0.0%	234	-
Lowest client rating	2.0%	23	-	1.5%	37	(1)

	As at 31 March 2021 (unaudited)			As at 31 December 2020		
	Weighted average credit loss	Value gross	Impairment loss	Weighted average credit loss	Value gross	Impairment loss
Clients with no rating in sales business line	1.7%	757	(13)	1.7%	734	(13)
Disputed receivables	83.2%	317	(265)	83.1%	313	(260)
Other receivables	11.7%	410	(48)	10.3%	425	(44)

17.4. Available external financing

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

The external financing available as at 31 March 2021 is presented in the table below:

Financing institution	Type of liability	Purpose of financing	Date of the agreement	Financing limit	Available financing amount	Nominal debt as at 31 March 2021	Repayment date
European Investment Bank	Loan	Energa-Operator SA CapEx Program	16-12-2009	1,050	-	356	15-12-2025
European Investment Bank	Loan	Energa-Operator SA CapEx Program	10-07-2013	1,000	-	725	15-09-2031
European Bank for Reconstruction and Development	Loan	Energa-Operator SA CapEx Program	29-04-2010	1,076	-	347	18-12-2024
European Bank for Reconstruction and Development	Loan	Energa-Operator SA CapEx Program	26-06-2013	800	-	357	18-12-2024
Nordic Investment Bank	Loan	Energa-Operator SA CapEx Program	30-04-2010	200	-	27	15-06-2022
Bondholders	Eurobonds	General corporate purposes	07-03-2017	1,398[1]	-	1,398[1]	07-03-2027
PKO Bank Polski SA	Credit limit	General corporate purposes	12-10-2011	300	300	0	07-06-2021
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	136	64[2]	19-09-2022
Nordic Investment Bank	Loan	FW Myślino construction	23-10-2014	68	-	35	15-09-2026
WFOŚiWG	Loan	Energa OZE SA CapEx program	23-12-2014	-	-	<1	30-06-2021
WFOŚiWG	Loan	Elektrownia CCGT Gdańsk Sp. z o.o. CapEx program	27-06-2014	7	-	7	30-06-2024
NFOSiGW	Loan	Energa Elektrownie Ostrołęka SA CapEx Program	30-08-2018	134	-	134	20-12-2028
European Investment Bank	Hybrid bonds	Energa-Operator SA CapEx Program	04-09-2017	1,165[3]	-	1,165[3]	12-09-2037
Syndicated loan	Revolving loan	financing of Energa SA corporate objectives, including financing of everyday operations and financing of Energa SA CapEx program, excluding capital expenditure on coal-based energy production	17-09-2019	2,000	1,400	600	17-09-20244
Bank Gospodarstwa Krajowego	Revolving loan	financing of Energa SA corporate objectives, including financing of everyday operations and financing of Energa	03-07-2020	500	-	500	03-07-2022

Financing institution	Type of liability	Purpose of financing	Date of the agreement	Financing limit	Available financing amount	Nominal debt as at 31 March 2021	Repayment date
		SA CapEx program, and refinancing of financial debt					
SMBC	Revolving loan	financing of Energa SA corporate objectives, including financing of everyday operations and financing of Energa SA CapEx program and refinancing of financial debt, excluding capital expenditure on coal-based energy production	28-07-2020	559	559	0	28-07-2025
TOTAL				10,457	2,396	5,715	

[1] liability under Eurobonds in the total amount of EUR 300m converted using the average NBP exchange rate of 31 March 2021

[2] value of guarantee limits awarded to Energa SA Group companies based on the concluded execution agreements (utilization of the global limit)

[3] hybrid bonds liability of EUR 250m converted using the average NBP exchange rate of 31 March 2021

[4] loan granted for a period of 5 years from the date of signing of the agreement, with a possibility of extensions by year of its term, The designated date is the end date of the term of the agreement, with the loan treated as short-term.

17.5. Cash flow hedge accounting

FX risk hedging

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

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

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

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

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

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

Interest rate risk hedging

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

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

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

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

As hedged positions under hedging relationships, the Group designated the risk related to the WIBOR 3M interest rate arising from interest payments on the financial liabilities stated above in the period no longer than 4 years from the date of the hedging transactions.

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

All held hedging instruments serve to hedge cash flows and relate to the financial instruments allocated to the same risk category. The presented hedging instruments relate to the liabilities arising under loans between Energa Finance AB and Energa SA, hybrid bonds and loans from the European Investment Bank.

Fair value of the hedges amounted to:

	Value (PLN m)	Recognition in the statement of financial position	Change in fair value of hedging instrument adopted as the basis for recognition of ineffectiveness of hedging in given period	Nominal amounts of hedging instrument in millions of	
				EUR	PLN
As at 31 March 2021 (unaudited)					
CCIRS III	48	Assets – Other financial assets	None	200	-
CCIRS IV	66	Assets – Other financial assets	None	250	-
CCIRS III	(9)	Liabilities – Other financial liabilities	None	200	-
CCIRS IV	(9)	Liabilities – Other financial liabilities	None	250	-
IRS	(9)	Liabilities – Other financial liabilities	None	-	350
As at 31 December 2020					
CCIRS III	21	Assets – Other financial assets	None	200	-
CCIRS IV	32	Assets – Other financial assets	None	250	-
CCIRS III	(4)	Liabilities – Other financial liabilities	None	200	-
CCIRS IV	(1)	Liabilities – Other financial liabilities	None	250	-
IRS	(12)	Liabilities – Other financial liabilities	None	-	350

The Group continued hedge accounting under IAS 39.

Under cash flow hedge accounting, the cash flow hedge reserve (the effective portion of changes in the value of the hedge, less deferred tax) increased by PLN 35m in the reporting period and decreased by PLN 85m in the corresponding period of the previous year.

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

Change in cash flow hedge reserve during the reporting period	3-month period ended 31 March 2021 (unaudited)	3-month period ended 31 March 2020 (unaudited)
At the beginning of the reporting period	**(96)**	**(52)**
Amount recognized in the cash flow hedge reserve in the period, equal to the change in the fair value of hedging instruments	51	(8)
Accrued interest transferred from the reserve to financial income/costs	12	4
Revaluation of hedging instruments transferred from the reserve to financial income/costs	(20)	(101)
Income tax on other comprehensive income	(8)	20
At the end of the reporting period	**(61)**	**(137)**

As at 31 March 2021, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

17.6. Security for the repayment of liabilities

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

OTHER NOTES

18. Investment commitments

As at the end of the current reporting period, the Group's commitments to incur expenditures for the purchase of property, plant and equipment and intangible non-current assets, which have not yet been recognized in the statement of financial position, were approximately PLN 5,230 m, of which:

- The value of the development plan of Energa-Operator SA to satisfy the current and future demand for electricity in the years 2020–2025 (agreed upon with the President of the Energy Regulatory Office) decreased by real expenditures incurred during realization of the plan in 2020 and 2021 year – approx. PLN 5,071 m;
- projects carried out at the Ostrołęka B Power Plant B (among others upgrades of electrostatic precipitator, upgrades of automation systems in the boiler area, upgrades of LFC junction, modernization of the cooling water pump system - approx. PLN 9.77 m;
- delivery of catalytic inserts approx. PLN 1,11 m and other replacement capex projects at the Ostrołęka Power Plant – approx. PLN 0.25 m;
- CCGT Grudziądz and CCGT Gdańsk – construction of gas and steam power plants - approx. PLN 44.9 m;
- construction of a photovoltaic pharm PV Gryf - porject carried out by Energa OZE SA - approx. PLN 35.7m;
- construction of a photovoltaic pharms PV Czernikowo, PV Samolubie 1, PV Samolubie 2 oraz PV Przykona, construction of a photovoltaic pharms PV Gryf – projects conducted by Energa OZE SA - approx. PLN 8.9 m;
- construction of three water gas boilers, each with a capacity of 38 MWt, at the Elbląg CHP – PLN 44.2 m;
- steam turbine set optimization in terms of the available steam flow, taking into account BB20p block load variability in Energa Kogeneracja Sp. z o.o. – approx. PLN 3 m;
- upgrade of the 110 kV switchyard in Energa Kogeneracja Sp. z o.o – approx. PLN 2.5 m;
- other work in Energa Kogeneracja Sp. z o.o – approx. PLN 3.8 m;
- rebuilding of the administration and workshop facility at Energa Oświetlenie Sp. z o.o. – approx. PLN 5.2 m.

19. Information on related entities

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

19.1. Transactions involving parties related to the State Treasury

As at 31 March 2021, the Group's dominant entity was PKN Orlen SA. The revenue generated by the Group on transactions with the dominant entity amounted to PLN 9m in the first quarter of 2021 while the costs of transactions with this entity reached PLN 17 m. Additionaly the Group generated a PLN 40m revenues (including interest in the amount of PLN 24m) from concuding the mutual consent agreement with PKN Orlen SA concerning settlement of claims resulting from the fee for services provided to this entity as an auto-producer.

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

Transactions with parties related to the State Treasury involved mainly to the purchase and sale of electricity and property rights, sale of electricity distribution services (including transit), settlements with the transmission system operator in the balancing market, for transmission services, system services and intervention work services and the purchase of fuel (mainly coal). These transactions are concluded on an arms' length basis and their terms and conditions do not deviate from transactions with other entities. They do not constitute significant transactions.

Additionally, financial transactions (loans, guarantees, banking fees and commissions) were also concluded with Bank PKO BP, Bank Pekao SA and Bank Gospodarstwa Krajowego (banking fees and commissions).

As regards disclosures relating to transactions with parties related to the State Treasury, the Group applies the exemption defined in paragraph 25 of IAS 24.

19.2. Transactions with joint ventures and associates

Sales of Energa SA Group companies to associates and joint ventures in the period ended on 31 March 2021 and in the corresponding period of the previous year was irrelevant. In the first quarter of 2021, purchases from associates and joint ventures amounted to PLN 45m (in the corresponding period of the previous year, purchases from associates and joint ventures amounted to PLN 34m). As at 31 March 2021 and as at 31 December 2020, the balance of receivables was at a negligible level. The amount of liabilities as at 31 March 2021 was PLN 8m compared to PLN 56m as at 31 December 2020. All above transactions pertaining to the year 2021 were concluded primarily with Polska Grupa Górnicza SA and involved mostly coal purchases.

19.3. Transactions with Parent Company's Management Board members

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

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

	3-month period ended 31 March 2021 (unaudited)	3-month period ended 31 March 2020 (unaudited)
Management Board of the parent company	1	2
Supervisory Board of the parent company	<1	<1
Management Boards of subsidiaries	7	8
Supervisory Boards of subsidiaries	<1	<1
Other key management	14	6
TOTAL	**22**	**16**

20. Contingent assets and liabilities

20.1. Contingent liabilities

As at 31 March 2021, the Group recognizes contingent liabilities of PLN 313m (PLN 309m as at 31 December 2020), including mainly the contingent liabilities relating to disputes involving Energa SA Group companies, where a victory by the company is probable or no cash outflow can be reliably estimated and no provision has been recognized for these cases.

The largest contingent liability item are disputes relating to power infrastructure of Energa-Operator SA located on private land. If there is uncertainty as to whether a claim amount or legal title to land is justified, the Group recognizes contingent liabilities. As at 31 March 2021, the estimated value of those claims recognized as contingent liabilities is PLN 252m, compared with PLN 248m on 31 December 2020. Considering the available legal opinions, the estimates define the risk of a situation in which liability arises to be below 50%.

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

20.2. Contingent assets

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

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

Global coronavirus pandemic

The Group identifies the following market risks in connection with SARS-CoV-2 coronavirus pandemic causing COVID-19 disease, which have had and may still have impact on the Group's financial performance:

- decline in demand for electricity, specifically from end customers from A, B and C tariff groups;
- need to sell out excess electricity at a loss in connection with the decline in electricity consumption by end customers;
- deterioration in customers' payment discipline as a result of deterioration of their financial situation;
- lower work efficiency potentially due to sick leaves, compulsory quarantine and implemented work reorganization aimed at preventing the spread of the virus, also through use of remote working.

The Group did not indentify negative impact of COVID-19 disease on its financial results in the first quarter of 2021. However coronavirus pandemic causes a changes in the structure of sales volume of the Group to the final customers leading to decrease of the sales volume to business customers (effect of economic restrictions) and increase of the sales volume to individual customers (effect of lockdown and working and leasring remotely).

Nonetheless, it should be noted that the dynamic of events associated with the coronavirus epidemic exposes forecasting of its economic implications to high risk of adoption of erroneous assumptions. Given the developments in the economy and lack of sufficient data, the pandemic's financial implications for the Group cannot be reliably estimated.

In the area of financial activities, based on the analyses of possible scenarios of further development of the pandemic, the Group does not identify the risk of default on its obligations or terms and conditions of its financing agreements. The Group has also taken steps to secure financial liquidity in connection with changes in its market environment.

In the face of those challenges, the Group monitors closely and on an ongoing basis the developments in many areas of its business and takes measures to mitigate the negative impact of the coronavirus pandemic on its financial situation. Various scenarios are being analyzed continuously and adequate remediation measures are being developed as well as measures mitigating the effects of materialization of risks.

The Group has the resources to effectively counteract potential unfavorable phenomena, both in the short, medium and long term. Risks associated with a possible drop in revenues and deterioration in timely collection of receivables coupled with the need for meeting the Group's own credit commitments will be mitigated through adequate limitation of expenses and capital expenditure.

Consequently, it should be stated that there are no indications suggesting that the Group will not be able to continue as a going concern.

22. Subsequent events

After the final day of the reporting period, no material events occurred within the Group.

Signatures of Members of the Management Board of Energa SA:

Jacek Goliński ……
President of the Management Board

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

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

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

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

Person responsible for the preparation of the statements:

Magdalena Kamińska ……
Director of the Finance Department

Bartłomiej Bieńkowski ……
Manager of the Financial Reporting and Taxes Unit

Gdańsk, 12 May 2021