



Energa

ORLEN GROUP

**Financial statements prepared in accordance
with the International Financial Reporting
Standards as endorsed by the
European Union,
for the year ended
31 December 2021**

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STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2021	Year ended 31 December 2020
Sales revenue	9.1	64	87
Cost of sales	9.2	(55)	(67)
Gross profit on sales		9	20
Other operating income		18	11
General and administrative expenses	9.2	(99)	(111)
Other operating expenses		(9)	(30)
Dividend income		201	510
Other financial income	9.4	375	241
Impairment losses on shares	24.6	(59)	(176)
Other financial costs	9.5	(250)	(674)
Profit/(loss) before tax		186	(209)
Income tax	10	24	12
Net profit/(loss)		210	(197)
Earnings or loss per share (in PLN)			
Earnings or loss per share (basic and diluted)	19	0.51	(0.48)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2021	Year ended 31 December 2020
Net profit or loss for the period		210	(197)
<i>Items that may subsequently be reclassified to profit or loss</i>			
Cash flow hedges	24.8	226	(54)
Deferred income tax	10	(43)	10
Net other comprehensive income		183	(44)
Total comprehensive income		393	(241)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2021	As at 31 December 2020
ASSETS			
Non-current assets			
Intangible assets	12	9	8
Right-of-use assets	13	28	40
Shares in subsidiaries, associates and joint ventures	11	6,898	6,539
Bonds	24.5.1	1,134	1,716
Other non-current financial receivables	24.5.1	2,964	2,810
Deferred tax assets	10.4	-	44
Derivative financial instruments	24.3	219	68
Other non-current assets	15	112	201
		11,364	11,426
Current assets			
Cash pooling receivables	23.2	778	1,181
Trade receivables and other current financial receivables	16	456	335
Bonds	24.5.1	26	42
Current tax receivables		100	27
Cash and cash equivalents	14	89	89
Derivative financial instruments	24.3, 24.8	52	1
Other current assets	17	77	97
		1,578	1,772
Non-current assets classified as held for sale	30	20	-
TOTAL ASSETS		12,962	13,198

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2021	As at 31 December 2020
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Share capital	18.1	4,522	4,522
Reserve capital	18.4	821	1,018
Supplementary capital	18.5	1,661	1,661
Cash flow hedge reserve	24.8	87	(96)
Retained earnings/(non-covered losses)	18.6	254	(153)
Total equity		7,345	6,952
Non-current liabilities			
Loans and borrowings	24.5.2	1,857	2,674
Bonds issued	24.5.2	1,139	1,154
Non-current provisions		13	16
Deferred tax liability	10.4	3	-
Deferred income and non-current grants	22	34	43
Derivative financial instruments	24.3, 24.8	-	5
Non-current lease liabilities	24.5.2	20	32
Other non-current financial liabilities		-	2
		3,066	3,926
Current liabilities			
Cash pooling liabilities	23.2	512	266
Trade liabilities and other financial liabilities	21.1	19	22
Current lease liabilities	24.5.2	14	13
Derivative financial instruments	24.3, 24.8	-	12
Current credits and loans	24.5.2	1,815	1,660
Bonds issued	24.5.2	-	11
Short-term provisions	30	49	221
Deferred income and grants	22	9	9
Accrued expenses		10	12
Other current liabilities	21.2	123	94
		2,551	2,320
Total liabilities		5,617	6,246
TOTAL EQUITY AND LIABILITIES		12,962	13,198

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings/(non-covered losses)	Total equity
As at 1 January 2021		4,522	1,018	1,661	(96)	(153)	6,952
Cash flow hedges	24.8	-	-	-	183	-	183
Net profit for the period		-	-	-	-	210	210
Total comprehensive income for the period		-	-	-	183	210	393
Distribution of retained earnings		-	(197)	-	-	197	-
As at 31 December 2021		4,522	821	1,661	87	254	7,345
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

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2021	Year ended 31 December 2020
Cash flows from operating activities			
Profit/(loss) before tax		186	(209)
Adjustments for:			
Foreign currency (gains)/losses		(2)	120
Loss on investing activities (incl. impairment losses for shares)		117	365
Amortization and depreciation	9.2	16	15
Net interest and dividends	26	(213)	(520)
Changes in working capital:			
Change in provisions		(174)	236
Change in receivables		(15)	(42)
Change in liabilities, excluding loans, credits and bonds		385	129
Change in prepayments and accruals		(6)	(13)
		294	81
Income tax paid		(332)	(98)
Net cash from operating activities		(38)	(17)
Cash flows from investing activities			
Purchase of intangible assets		(26)	(21)
Proceeds from the redemption of bonds by subsidiaries		582	3
Purchase of shares in subsidiaries, associates and joint ventures		(446)	-
Sale of shares in subsidiaries		21	-
Cash pooling expenditures		-	(276)
Dividends received		201	510
Interest received		165	192
Loan granted		(579)	(680)
Receipts on account of loan repayments		324	454
Capital contributions		(48)	(23)
Capital contributions returned by subsidiaries		17	-
Other		26	23
Net cash from investing activities		237	182
Cash flows from financing activities			
Proceeds from credits	24.5.2	2,700	3,905
Repayment of credits	24.5.2	(3,366)	(4,578)
Interest paid		(170)	(238)
Cash pooling proceeds		649	-
Repayment of lease liabilities		(12)	(12)
Other		-	21
Net cash from/(used in) financing activities		(199)	(902)
Net decrease in cash and cash equivalents		-	(737)
Cash and cash equivalents at the beginning of the period		89	826
Cash and cash equivalents at the end of the period	14	89	89

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 |

As at 31 December 2021, PKN ORLEN S.A. 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 2021. These statements are available on the Company's website.

2. Composition of the Company's Management Board

In 2021 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 7 May 2020 to 16 July 2021:

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

2) in the period from 16 July 2021 to 27 October 2021:

- Ms Iwona Waksmundzka-Olejniczak – Vice-President of the Management Board for Corporate Matters, acting 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 Matters;

3) in the period from 27 October 2021 to 15 November 2021:

- Ms Iwona Waksmundzka-Olejniczak – 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 Matters;

4) from 15 November 2021 until the date of these financial statements:

- Ms Iwona Waksmundzka-Olejniczak – 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 Matters;
- Mr Janusz Szurski – Vice-President of the Management Board for Corporate Matters.

3. Approval of the financial statements

These financial statements were approved for publication by the Company's Management Board on 30 March 2022.

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. Due to the high level of available external financing of the Energa SA Group, presented in note 24.7, in the amount of PLN 3,879 m, despite the surplus of short-term liabilities over short-term assets in the amount of PLN 953 m, 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 modified 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 2021

The following amendments to the existing standards published by the IASB and endorsed in the EU became effective in 2021:

- Amendments to IFRS 4 Insurance Contracts, 'Extension of the Temporary Exemption from Applying IFRS 9' – the date of expiry of the temporary exemption from applying IFRS 9 was extended from 1 January 2021 by annual periods beginning on 1 January 2023 and afterwards (applicable to annual periods beginning on 1 January 2021 and afterwards)
- Amendments to IFRS 16 Leases – Covid-19-related rent concessions after 30 June 2021 (endorsed in the EU on 30 August 2021 and effective as of 1 April 2021 for the financial year beginning on or after 1 January 2021).
- 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 (effective for annual periods beginning on or after 1 January 2021).

The aforementioned amendments to the existing standards did not have a material effect on the Company's financial statements for 2021.

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 IAS 16, Property, Plant and Equipment – revenues obtained prior to acceptance of an asset for use endorsed in the EU on 28 June 2021 (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 endorsed in the EU on 28 June 2021 (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, endorsed in the EU on 28 June 2021 (applicable to annual periods beginning on or after 1 January 2022);
- IFRS 17, Insurance Contracts, with subsequent amendments to IFRS 17 endorsed in the EU on 19 November 2021 (applicable to annual periods beginning on or after 1 January 2023);
- 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).

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

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

- 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 1 Presentation of Financial Statements and IASB guidelines concerning accounting policies in practice – the requirement to disclose material accounting policy information, (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 accounting estimates (applicable to annual periods beginning on or after 1 January 2023); and
- Amendments to IAS 12 "Income Taxes" - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023);
- 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 IFRS 17 "Insurance Contracts" first use IFRS 17 and IFRS 9 – comparative data (applicable to annual periods beginning on or after 1 January 2023).

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 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 2021, 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 4 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 specifies 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 the 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.

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 impairment losses on non-current assets;
- recognition and reversal of provisions, except for provisions tied to financial operations or recognized in operating expenses;
- giving or receiving of assets, including cash, free of charge, also as a donation; and

- 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;
- impairment losses the value of shares;
- 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 2021	Year ended 31 December 2020
Licensing fees income	32	54
Revenue on sales of IT services	12	12
Rental income	9	9
Revenue from other services	11	12
TOTAL	64	87

9.2. Costs by type

	Year ended 31 December 2021	Year ended 31 December 2020
Amortization/depreciation of property, plant and equipment, intangible assets and right-of-use assets	16	15
Consumption of materials and energy	2	2
External services	40	43
Taxes and fees	2	7
Employee benefit expenses	52	62
Other costs by nature	42	49
TOTAL	154	178
of which:		
Cost of sales	55	67
General and administrative expenses	99	111

9.3. Employee benefit expenses

	Year ended 31 December 2021	Year ended 31 December 2020
Remuneration	43	51
Social security contributions	5	7
Other employee benefit expenses	4	4
TOTAL	52	62

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)

9.4. Other financial income

	Year ended 31 December 2021	Year ended 31 December 2020
Interest income	182	209
Provision released	171	-
Gain on disposal of shares	8	-
Measurement of derivatives	-	11
Foreign exchange differences	2	-
Other	12	21
TOTAL	375	241

9.5. Other financial costs

	Year ended 31 December 2021	Year ended 31 December 2020
Interest expenses	169	218
Provision for settlement of the coal-based investment project in Ostrołęka	-	218
Revaluation of financial assets	-	188
Impairment write-downs for capital contributions	59	12
Foreign exchange differences	-	30
Lease liabilities interest expense	1	1
Other financial costs	21	7
TOTAL	250	674

10. Income tax

10.1. Tax liabilities

The key components of the tax liability for the years ended 31 December 2021 and 31 December 2020 are as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
Statement of profit or loss		
Current income tax	28	17
Deferred income tax	(4)	(5)
Tax benefit recognized in the statement of profit or loss	24	12
Statement of comprehensive income		
Deferred income tax	43	10
Tax benefit recognized in other comprehensive income	43	10

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 2021	Year ended 31 December 2020
Result before tax on continuing operations	186	(209)
Tax at Poland's statutory rate of 19%	(35)	40
Tax impact of permanently non-taxable income and non tax-deductible expenses:	59	(28)
- on dividends received	38	97
- on reversal of provision	32	-
- on impairment losses on financial assets	(13)	(72)
- on provisions recognized	-	(45)
- other	2	(8)
Tax at the effective tax rate	24	12
Tax gain recognized in the statement of profit or loss	24	12

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 2020 and 2021. 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.

10.4. Deferred income tax

Deferred tax is derived from the following items

	As at 31 December 2020	Revision recognized in profit or loss	Revision recognized in other comprehensive income	As at 31 December 2021
Deferred tax assets before set-off				
on the difference between the tax and carrying value of financial assets and liabilities	15	(2)	-	13
on the difference between the tax and carrying value of property, plant and equipment and intangible assets	4	(1)	-	3
on valuation of hedging derivatives	22	-	(22)	-
on unrealized foreign exchange differences	42	(2)	-	40
on provisions	5	-	-	5
other	3	7	-	10
TOTAL	91	2	(22)	71

	As at 31 December 2020	Revision recognized in profit or loss	Revision recognized in other comprehensive income	As at 31 December 2021
Deferred tax liability before set-off				
on the difference between the tax and carrying value of financial assets and liabilities	18	7	-	25
on valuation of hedging derivatives	-	-	21	21
on foreign exchange differences and interest on hedging instruments	29	(1)	-	28
TOTAL	47	6	21	74
Deferred tax liability after set-off	(44)	4	43	3

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

	Year ended 31 December 2021	Year ended 31 December 2020
Deferred tax assets		
Opening balance before set-off:	91	66
Increases:	7	45
recognized in profit or loss	7	36
recognized in other comprehensive income	-	9
Decreases:	(27)	(20)
recognized in profit or loss	(5)	(20)
recognized in other comprehensive income	(22)	-
Set-off	(71)	(47)
Closing balance	-	44
Deferred tax assets	-	44
Deferred tax liabilities		
Opening balance before set-off:	47	27
Increases:	28	27
recognized in profit or loss	7	27
recognized in other comprehensive income	21	-
Decreases:	(1)	(7)
recognized in profit or loss	(1)	(6)
recognized in other comprehensive income	-	(1)
Set-off	(71)	(47)
Closing balance	3	-
Deferred tax liabilities	3	-

The Company does not recognize a deferred tax assets resulted from impairment losses on shares in associated entities in the amount of PLN 162 m as at 31 December 2021, as the Company does not expect tax allowance from disposal of shares in associated entities in the foreseeable future.

NOTES TO STATEMENT OF FINANCIAL POSITION

11. Shares in subsidiaries, associates and joint ventures

Name and legal form	Registered office	Value of shares in the ledgers of Energa SA	Share of Energa SA in share capital, in overall number of votes and in management (%)	Net profit (loss) for 2021 (PLN m)	Equity PLN m
Subsidiaries					
Energa-Operator SA	Gdańsk	4,471	100.00	733	7,877
Energa OZE SA	Gdańsk	989	100.00	153	995
CCGT Ostrołęka Sp. z o.o.	Ostrołęka	415	100.00	(5)	240
Energa-Obrót SA	Gdańsk	331	100.00	203	693
Energa Kogeneracja Sp. z o.o.	Elbląg	234	64.59	(33)	149
Energa Oświetlenie Sp. z o.o.	Sopot	234	100.00	13	241
CCGT Grudziądz Sp. z o.o.	Grudziądz	41	100.00	(1)	54
Energa Informatyka i Technologie Sp. z o.o.	Gdańsk	37	100.00	3	66
Energa Green Development Sp. z o.o.	Gdańsk	24	100.00	(2)	29
CCGT Gdańsk Sp. z o.o.	Gdańsk	22	100.00	(1)	37
Enspirion Sp. z o.o.	Gdańsk	5	100.00	12	19
Energa Logistyka Sp. z o.o.	Płock	-	100.00	(2)	5
Energa Finance AB (publ)	Stockholm	-	100.00	7	83
Other companies	-	<1	-	-	-
Associates					
Polimex-Mostostal SA	Warsaw	82	16.48	69*	867*
ElectroMobility Poland SA**	Warsaw	13	4.32	(1)	52
Joint ventures					

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)

Name and legal form	Registered office	Value of shares in the ledgers of Energa SA	Share of Energa SA in share capital, in overall number of votes and in management (%)	Net profit (loss) for 2021 (PLN m)	Equity PLN m
Elektrownia Ostrołęka Sp. z o.o.	Ostrołęka	-	50.00	297	(482)
Total value of shares		6,898			

* financial data for the third quarter of 2021

**financial data for the first half of 2021

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

Impairment tests for shares

In 2021, shares held by the Company were assessed for any internal or external indications of impairment. 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 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 test date is 31 December 2021;
- the macroeconomic assumptions adopted by the Management Board of Energa SA for PKN Orlen Group, including electricity prices by sources, hard coal and natural gas prices, the capacity market rates for the Polish market, the prices of the certificates of origin and prices of CO₂ emission allowances (path based on a report prepared for the PKN Orlen Group by an independent entity). The forecasts were prepared up to and including 2050. As regards the biomass prices, the forecasts of companies that use that raw material were used;
- the number of free CO₂ emission allowances for 2021-2025 as specified in the list published by the Polish Minister for Environment;
- replacement capital expenditure at the levels allowing for maintenance of the production capacity of the existing non-current assets, including capital expenditures to adjust industrial emission levels to the requirements of Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions and the Commission Implementing Decision (EU) 2021/2326 establishing best available techniques (BAT) conclusions which was published on 30 November 2021;
- 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 and revenue from the FIT/FIP mechanism, in accordance with the Renewable Energy Sources Act of 20 February 2015, as amended (Journal of Laws 2017 No. 0, Item 1148);
- revenue from the capacity market in accordance with the provisions of the Capacity Market Act of 8 December 2017, as amended, with the rates adopted on the basis of the auctions held and won in 2018-2021 and for the years that go beyond the contracted period based on the price paths;
- the length of financial forecasts for the individual companies/CGUs assumed in such a way as to ensure that the cash flow used to calculate residual value was as similar as possible to the cash flows expected in the consecutive years; and
- a growth rate of 2.0 per cent, which does not exceed the average long-term inflation growth rates in Poland, was adopted to extrapolate the cash flow forecast for the purpose of calculation of residual value.

The discount rates set on the basis of the after-tax weighted-average cost of capital (WACC), used for the calculation, fell within the range from 5.60% to 8.88%.

Energa Green Development Sp. z o.o.

The value in use was calculated on the basis of financial projections for the period from January 2022 until December 2026 and the residual value.

Based on the results of the test conducted as at 31 December 2021, it was found that an additional impairment losses of PLN 7.0 m on the company's shares needed to be recognized. The recoverable amount was established at PLN 23.6 m.

Energa Informatyka i Technologie Sp. z o.o.

The value in use was calculated on the basis of financial projections for the period from January 2022 until December 2027 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 as at 31 December 2021, it was found that no impairment losses needed to be recognized on the company's shares. The recoverable amount was established at PLN 148.9 m.

Energa Kogeneracja Sp. z o.o.

The recoverable amount as at 31 December 2021 was calculated on the basis of financial projections for the period:

- from January 2021 until December 2049 and 2050, that is for the expected full operating period of the gas units in Elbląg and Kalisz,
- from January 2021 until December 2031 and the residual value for the heating plant in Żychlin based on projections over the period.

Based on the results of testing conducted in the second half of 2021, it was found that an impairment loss of PLN 49.7 m on the company's shares and contributions needed to be recognized. The recoverable amount was established at PLN 223.6 m.

Energa-Obrót SA, Energa-Operator SA, Energa Oświetlenie Sp. z o.o., Energa OZE SA, Enspirion Sp. z o.o.

The value in use was calculated on the basis of financial projections for the period from January 2022 until December 2026 and the residual value.

Based on the results of testing conducted as at 31 December 2021, it was found that no impairment losses needed to be recognized on the company's shares.

The recoverable amount was established at: Energa-Obrót SA: PLN 2,776.4 m, Energa-Operator SA: PLN 9,305 m, Energa Oświetlenie Sp. z o.o.: PLN 366.3 m, Energa OZE SA: PLN 6,042.4 m, Enspirion Sp. z o.o.: PLN 495.6 m.

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 impairment tests as at 31 December 2021 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 27 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]		(2,646.0)	(26.8)
	[- 0.5 pp]	3,869.9		30.0

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%]	1,215.2		5.7
	[- 1%]		(1,057.2)	(5.7)
Heat prices	[+ 1%]	13.3		13.3
	[- 1%]		(13.3)	(13.3)
Biomass prices	[+ 1%]		(4.8)	(4.8)
	[- 1%]	4.8		4.8
Prices of green certificates of origin	[+ 1%]	4.5		0.3
	[- 1%]		(4.5)	(0.3)
Gas prices	[+ 1%]		(2.1)	(2.1)
	[- 1%]	2.1		2.1
EUA prices	[+ 1%]		(1.7)	(1.7)
	[- 1%]	1.7		1.7

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 2021	12	23	31	66
Purchase of intangible assets (including assets not in use)	-	-	14	14
Settlement of intangible assets not in use	12	-	(12)	-
Sale, disposal	(10)	-	-	(10)
Liquidation	-	-	(2)	(2)
As at 31 December 2021	14	23	31	68
Accumulated amortization				
As at 1 January 2021	(11)	(22)	-	(33)
Amortization for the period	(1)	-	-	(1)
As at 31 December 2021	(12)	(22)	-	(34)
Impairment loss				
As at 1 January 2021	-	-	(25)	(25)
As at 31 December 2021	-	-	(25)	(25)
Net value as at 1 January 2021	1	1	6	8
Net value as at 31 December 2021	2	1	6	9

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 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

13. Right-of-use assets

	Buildings, premises and civil and marine engineering facilities	Vehicles	TOTAL
Gross value			
As at 1 January 2021	61	2	63
As at 31 December 2021	61	2	63
As at 1 January 2021	(22)	(1)	(23)
Amortization for the period	(12)	-	(12)
As at 31 December 2021	(34)	(1)	(35)
Net value as at 1 January 2021	39	1	40
Net value as at 31 December 2021	27	1	28

	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

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 2021	As at 31 December 2020
Cash at bank	89	89
Total cash and cash equivalents presented in the statement of financial position, of which:	89	89
Unrealized foreign exchange differences and interest	-	-
Total cash and cash equivalents presented in the statement of cash flows	89	89

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 2021	As at 31 December 2020
Capital contributions	51	121
Lease receivables	53	69
Property, plant and equipment	4	4
Other	4	7
TOTAL	112	201

16. Trade receivables and other current financial receivables

	As at 31 December 2021	As at 31 December 2020
Loan receivables	419	286
Lease receivable	26	27
Trade receivables	11	22
TOTAL	456	335

17. Other current assets

	As at 31 December 2021	As at 31 December 2020
Receivables on account of settlements in the Energa Tax Group	43	55
Receivables on account of taxes, customs duties, social security and other benefits	23	24
Advances for deliveries	6	11
Prepayments and accruals	4	7
Other	1	-
TOTAL	77	97

18. Share capital and other components of equity
18.1. Share capital

As at 31 December 2021, 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 2021	As at 31 December 2020
PKN Orlen	90.92%	90.92%
Other shareholders	9.08%	9.08%
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 S.A. owned 376,488,640 shares of the Company constituting 90.92% of its share capital and entitling PKN ORLEN S.A. 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 total 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 S.A. is personally entitled to appoint and dismiss Supervisory Board members so that PKN ORLEN S.A. holds an absolute number of 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. Upon covering the net loss for 2020, the value of the reserve capital was lowered by PLN 197 m.

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 2021, 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. As at 31 December 2021, there are no restrictions on dividend payments, other than those resulting from provisions of law.

19. Earnings/loss per share

There were no diluting instruments in the Company and, therefore, diluted 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 2021	Year ended 31 December 2020
Net profit/(loss) on continuing operations	210	(197)
Net profit/(loss)	210	(197)
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

20. Dividends, profit distribution

By the date of approval of these financial statements for publication, no decision had been made as to the distribution of profit.

On 14 June 2021, the Ordinary General Meeting adopted a resolution on coverage of the loss for 2020, which was covered in full from the Company's reserve capital.

21. Liabilities

21.1. Trade liabilities and other financial liabilities

	As at 31 December 2021	As at 31 December 2020
Liabilities to related parties	7	10
trade liabilities	5	6
other	2	4
Liabilities to other entities	12	12
trade liabilities	11	12
Other	1	-
TOTAL	19	22

21.2. Other current liabilities

	As at 31 December 2021	As at 31 December 2020
Liabilities on account of settlements in the Energa Tax Group	115	60
Capital contribution liabilities	4	29
Liabilities on account of taxes, customs duties, social security, and other benefits	2	2
Other	2	3
TOTAL	123	94

22. Deferred income and grants

	As at 31 December 2021	As at 31 December 2020
Grants received	43	52
TOTAL, of which:	43	52
Non-current	34	43
Current	9	9

As at 31 December 2021, 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 S.A. 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 significant transactions. There were also transactions of financial nature (credits, guarantees, banking fees and commissions) with Bank PKO BP, Bank Pekao S.A. and Bank Gospodarstwa Krajowego (banking fees and commissions).

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

	Year ended 31 December 2021	Year ended 31 December 2020
Net revenue on the sale of products, goods and materials	63	87
Cost of purchase	27	22
Dividend income	201	510
Other financial income	374	196
Financial costs	44	271

	As at 31 December 2021	As at 31 December 2020
Assets		
Non-current receivables	53	69
Other non-current financial receivables – subsidiaries	2,964	2,810
Cash pooling receivables	778	1,181
Trade receivables	11	22
Other current financial receivables	445	313
Long-term bonds	1,134	1,716
Short-term bonds	26	42
Other current assets	43	56
Equity and liabilities		
Non-current loan liabilities	920	1,431
Other non-current financial liabilities	-	3
Cash pooling liabilities	512	266
Current provision	46	218
Short-term trade liabilities	5	6
Other financial liabilities	2	4
Current credits and loans	1,411*	5
Other current liabilities	119	89

The tables above present transactions with subsidiaries within the PKN ORLEN Group and joint ventures. *Transactions with PKN Orlen and associates are immaterial, except for a loan from PKN Orlen to Energa SA. Detailed information on the loan is presented in note 24.7. 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 2021	Year ended 31 December 2020
Management Board	6	7
Supervisory Board	1	1
TOTAL	7	8

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 12 m in 2021 and PLN 18 m in 2020.

NOTES ON FINANCIAL INSTRUMENTS

24. Financial instruments

24.1. Carrying amount of financial instruments by category and class

As at 31 December 2021	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	-	778	-	-	778
Cash and cash equivalents	-	89	-	-	89
Derivative financial instruments	16	-	255	-	271
Shares in subsidiaries, associates and joint ventures	-	-	-	6,898	6,898
Bonds	-	1,160	-	-	1,160
Lease receivables	-	-	-	79	79
Other financial receivables	-	3,383	-	-	3,383
Trade receivables	-	11	-	-	11
Capital contributions	-	51	-	-	51
TOTAL	16	5,472	255	6,977	12,720
Liabilities					
Loans and borrowings	-	3,672	-	-	3,672
Preferential loans and borrowings	-	802	-	-	802
Loans and borrowings	-	2,870	-	-	2,870
Liabilities on account of the issue of debt securities	-	1,139	-	-	1,139
Liabilities on account of leases	-	-	-	34	34
Trade liabilities	-	19	-	-	19
and other financial liabilities	-	16	-	-	16
Trade liabilities	-	16	-	-	16
Liabilities on purchase of property, plant and equipment and intangible assets	-	3	-	-	3
Cash pooling liabilities	-	512	-	-	512
Capital contribution liabilities	-	4	-	-	4
TOTAL	-	5,346	-	34	5,380

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)

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 and other current financial 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 on account of the issue of debt securities	-	1,165	-	-	1,165
Derivative financial instruments	-	-	17	-	17
Liabilities on account of leases	-	-	-	45	45
Trade liabilities	-	22	-	-	22
and other financial liabilities	-	18	-	-	18
Trade liabilities	-	18	-	-	18
Liabilities on 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

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)

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 2021	Financial assets and liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IFRS 9	TOTAL
Dividends and profit sharing	-	-	201	201
Interest income/(cost)	70	(56)	(1)	13
Foreign exchange differences	10	(7)	(1)	2
Revaluation of investments	(59)	-	(59)	(118)
Gain on disposal of investments	8	-	-	8
Other	(9)	-	-	(9)
Net profit/(loss)	20	(63)	140	97
Other comprehensive income	-	226	-	226
Comprehensive income	20	163	140	323

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 profit/(loss)	(177)	(178)	144	330	119
Other comprehensive income	-	-	(54)	-	(54)
Comprehensive income	(177)	(178)	90	330	65

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)

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 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 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 2021 Level 2	As at 31 December 2020 Level 2
Assets		
Hedging derivatives (CCIRS/IRS)	255	53
Other derivatives	16	16
Liabilities		
Hedging derivatives (CCIRS/IRS)	-	17

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 as subsequently annexed and refer to the purchase, in 22 tranches, a total of approx. 7 million shares of Polimex-Mostostal SA, 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 SA was carried out using the Black-Scholes model. The measurement considered the current price and historic volatility of the company's share prices. The risk-free rate was determined on the basis of the yield of treasury bonds with maturities similar to the option expiration date.

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 2021	1,431	1,466
As at 31 December 2020	1,435	1,506

Hybrid bond issue	Carrying amount	Level 2 fair value
As at 31 December 2021	1,139	1,151
As at 31 December 2020	1,165	1,144

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 2021.

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 2021 and 31 December 2020 are presented in the table below:

Bonds	As at 31 December 2021	As at 31 December 2020
Energa-Operator SA	1,085	1,084
Energa OZE SA	72	668
Energa Kogeneracja Sp. z o.o.	3	6
TOTAL, of which:	1,160	1,758
Non-current	1,134	1,716
Current	26	42

Other financial receivables	As at 31 December 2021	As at 31 December 2020
Energa-Operator SA	2,837	3,096
Energa OZE SA	546	-
TOTAL, of which:	3,383	3,096
Non-current	2,964	2,810
Current	419	286

Trade receivables	As at 31 December 2021	As at 31 December 2020
Not overdue	11	5
Overdue <30 days	-	17
Gross receivables	11	22
Net receivables, of which	11	22
Current	11	22

Capital contributions	As at 1 January 2021	Contributions - increase of	Contributions - decrease	Recognition of impairment loss	As at 31 December 2021
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.	8	5	-	-	13
Energa Ochrona Sp. z o.o.	4	-	(4)	-	-
Energa OZE SA	2	-	-	-	2
CCGT Gdańsk Sp. z o.o.	6	9	-	-	15
Energa Kogeneracja Sp. z o.o.	33	6	-	(25)	14
Centrum Badawczo-Rozwojowe im. M. Faradaya	1	1	-	-	2
ECARB Sp. z o.o.	-	<1	-	-	<1
TOTAL	121	21	(32)	(59)	51

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, 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.

Finance lease receivables related to the licenses were as follows as at 31 December 2021 and 31 December 2020:

	As at 31 December 2021		As at 31 December 2020	
	Minimum lease payments	Current value of payments	Minimum lease payments	Current value of payments
Up to 1 year	27	26	28	27
1 to 5 years	48	47	61	60
Over 5 years	6	6	9	9
TOTAL	81	79	98	96
less financial income	(2)	-	(2)	-
TOTAL	79	79	96	96

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 credits and loans, bonds issued and cash pooling liabilities.

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

	Credits and loans	Liabilities on account of the issue of debt securities	Total financing liabilities
As at 31 December 2020	4,334	1,165	5,499
Disbursement	2,700	-	2,700
Repayment/Redemption	(3,366)	-	(3,366)
Foreign exchange differences	(5)	(4)	(9)
Payment of interest	(68)	(44)	(112)
Other changes	77	22	99
As at 31 December 2021	3,672	1,139	4,811

Credits and loans

Credits and loans contracted as at 31 December 2021 and 31 December 2020 are presented in the table below:

	As at 31 December 2021		As at 31 December 2020	
	PLN	EUR	PLN	EUR
Currency				
Reference rate	WIBOR	Fixed	WIBOR	Fixed
Loan/borrowing amount				
in currency	2,241	311	2,899	311
in PLN	2,241	1,431	2,899	1,435
of which maturing in:				
up to 1 year (short-term)	1,304	511	1,655	5
1 to 2 years	291	92	299	508
2 to 3 years	293	184	297	92
3 to 5 years	184	368	405	369
over 5 years	169	276	243	461

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

Liabilities for bonds issued

Liabilities under bonds issued as at 31 December 2021 and 31 December 2020 are presented in the table below:

	As at 31 December 2021		As at 31 December 2020	
Currency	PLN	EUR	PLN	EUR
Reference rate	WIBOR	Fixed	WIBOR	Fixed
Value of the issue				
in currency	-	248	-	252
in PLN	-	1,139	-	1,165
of which maturing in:				
up to 1 year (short-term)	-	-	-	11
1 to 2 years	-	569	-	-
2 to 3 years	-	-	-	577
3 to 5 years	-	-	-	-
over 5 years	-	570	-	577

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 2021 and 31 December 2020 were as follows:

	As at 31 December 2021		As at 31 December 2020	
	Minimum lease payments	Current value of payments	Minimum lease payments	Current value of payments
Up to 1 year	15	14	14	13
1 to 5 years	20	20	33	32
TOTAL	35	34	47	45
Less financial costs	(1)	-	(2)	-
TOTAL	34	34	45	45

24.6. Impairment losses on financial assets

Impairment losses on financial assets	As at 1 January 2021	Impairment loss recognized	Impairment loss reversal	Sale and transfer of shares to available for sale	As at 31 December 2021
Elektrownia Ostrołęka Sp. z o.o.	(453)	-	-	-	(453)
Energa Kogeneracja Sp. z o.o.	(387)	-	-	-	(387)
Energa Centrum Usług Wspólnych Sp. z o.o.	(29)	-	-	(29)	-
Energa Logistyka Sp. z o.o.	(25)	-	-	-	(25)
Energa Finance AB	(103)	-	-	-	(103)
Energa Invest Sp. z o.o.	-	(48)	-	(48)	-
Energa Green Development Sp. z o.o.	-	(7)	-	-	(7)
ElectroMobility Poland SA	-	(4)	-	-	(4)
Total impairment losses on shares	(997)	(59)	-	77	(979)
Energa Centrum Usług Wspólnych Sp. z o.o.	(59)	-	59	-	-
Energa Kogeneracja Sp. z o.o.	(23)	(25)	-	-	(48)
Energa Invest Sp. z o.o.	-	(34)	-	-	(34)
Total impairment losses on capital contributions	(82)	(59)	59	-	(82)
Total impairment losses	(1,079)	(118)	59	77	(1,061)

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

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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 2021 is presented in the table below:

Financing institution	Type of liability	Purpose of financing	Date of the agreement	Financing limit (for the Energa SA Group)	Available financing amount	Nominal debt of Energa SA as at 31 December 2021	Repayment date
European Investment Bank	Loan	Energa-Operator SA investment programme	16-12-2009	1,050	-	291	15-12-2025
European Investment Bank	Loan	Energa-Operator SA investment programme	10-07-2013	1,000	-	500	15-09-2031
European Bank for Reconstruction and Development	Loan	Energa-Operator SA investment programme	29-04-2010	1,076	-	278	18-12-2024
European Bank for Reconstruction and Development	Loan	Energa-Operator SA investment programme	26-06-2013	800	-	113	18-12-2024
Nordic Investment Bank	Loan	Energa-Operator SA investment programme	30-04-2010	200	-	11	15-06-2022
Energa Finance AB (publ)	Borrowing	Current operations	21-03-2013	506 ¹	-	506 ¹	28-02-2022
Energa Finance AB (publ)	Borrowing	Current operations	28-06-2017	920 ²	-	920 ²	28-02-2027
PKO Bank Polski SA	Credit limit	General corporate purposes	20-09-2012	200	137	5 ³	19-09-2022
Nordic Investment Bank	Loan	FW Myślino construction	23-10-2014	68	-	30	15-09-2026
European Investment Bank	Hybrid bonds	Energa-Operator SA investment programme	04-09-2017	1,150 ⁴	-	1,150 ⁴	12-09-2037
Syndicated loan	Revolving loan	Financing of Energa SA corporate goals, including financing of its everyday activity and financing of its investment program, excluding capital expenditures in coal-fired power generation	17-09-2019	2,000	2,000	-	17-09-2024 ⁵
Bank Gospodarstwa Krajowego	Revolving loan	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	400	100	18-08-2023
SMBC	Revolving loan	Financing of corporate objectives of Energa SA, including financing of everyday activity, financing of the investment programme, and refinancing of financial debt, excluding capital expenditure on coal-fired energy	28-07-2020	552 ⁶	552	-	28-07-2025
PKN Orlen	Revolving loan	Financing corporate purposes	31-05-2021	1,000	100	900	30-05-2022

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)

Financing institution	Type of liability	Purpose of financing	Date of the agreement	Financing limit (for the Energa SA Group)	Available financing amount	Nominal debt of Energa SA as at 31 December 2021	Repayment date
European Investment Bank	Loan	Energa-Operator SA investment programme	16-12-2021	690 ⁷	690	-	16-12-2041
TOTAL				11,712	3,879	4,804	

¹ liability of EUR 110 m converted using the average NBP exchange rate of 31 December 2021

² liability of EUR 200 m converted using the average NBP exchange rate of 31 December 2021

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 2021

⁵ loan granted for a period of 5 years from the date of signing of the agreement, with a possibility of two one-year extensions of its term; the designated date is the end date of the term of the agreement, with the loan treated as short-term

⁶ liability of EUR 120 m converted using the average NBP exchange rate of 31 December 2021

⁷ liability of EUR 150 m converted using the average NBP exchange rate of 31 December 2021

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 2021.

The fair value of the hedging instruments is as follows:

The fair value of the hedging instruments is as follows:					
	Value in millions	Recognition in the statement of financial position	Change in 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	
	PLN			EUR	PLN
As at 31 December 2021					
CCIRS III	112	Assets – Derivative financial instruments	None	200	-
CCIRS IV	138	Assets – Derivative financial instruments	None	250	-
IRS	5	Assets – Derivative financial instruments	None	-	350
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

Due to the application of cash flow hedge accounting, the cash flow hedge reserve (the effective portion of changes in the value of the hedge, less deferred tax) increased in the reporting period by PLN 183 m, and in 2020 it decreased by PLN 44 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 2021	Year ended 31 December 2020
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	219	84
Accrued interest not due transferred from the reserve to financial income/costs	-	(9)
Revaluation of hedging instruments transferred from the reserve to financial income/costs	7	(129)
Income tax on other comprehensive income	(43)	10
At the end of the reporting period	87	(96)

As at 31 December 2021, 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 2021, 61% of financial debt recorded in the statement of financial position (loans and credits and liabilities on account of the issue of debt securities) bore a fixed interest rate or was hedged against interest rate risk with IRS transactions.

In 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.

Interest rate volatility was set based on the average annual volatility of daily historical data for 2021.

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

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

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

Financial assets and liabilities	31 December 2021		Interest rate risk sensitivity analysis as at 31 December 2021			
	Carrying amount	Value at risk	WIBOR		EURIBOR	
	PLN	PLN	WIBOR + 150 bp	WIBOR - 150 bp	EURIBOR + 50 bp	EURIBOR - 50 bp
Assets						
Cash pooling receivables	778	778	12	(12)	-	-
Cash and cash equivalents	89	88	-	-	-	-
Bonds	1,160	75	-	-	-	-
Loans granted	3,383	3,383	51	(51)	-	-
Other derivatives	16	16	-	-	-	-
Liabilities						
Cash pooling liabilities	512	512	(8)	8	-	-
Loans and borrowings	3,672	2,241	(34)	34	-	-
Bonds and debt securities issued	1,139	-	-	-	-	-
Change in loss before tax			21	(21)	-	-
Hedging derivatives	255	255	100	(107)	(41)	42
Change in other comprehensive income			100	(107)	(41)	42

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 + 20 bp	EURIBOR - 20 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

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.

Exchange rate volatility was set based on the average annual volatility of daily historical data for 2021.

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

Financial assets and liabilities	31 December 2021		FX risk sensitivity analysis as at 31 December 2021	
	Carrying amount	Value at risk	EUR/PLN	
	PLN	PLN	EUR/PLN rate + 15%	EUR/PLN rate - 15%
Assets				
Cash and cash equivalents	89	-	-	-
Hedging derivatives	255	2,274	341	(341)
Liabilities				
Loans and borrowings	3,672	1,431	(215)	215
Bonds and debt securities issued	1,139	1,139	(171)	171
Change in loss before tax			(76)	76
Change in other comprehensive income*			31	(31)

* in respect of hedging derivatives

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

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 2021, 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 68 m; and
- Energa Kogeneracja Sp. z o.o. – PLN 3 m.

25.3. Liquidity risk

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

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

In respect to liquidity risk management, the Company aims at maintaining the balance between continuity and flexibility of financing through the use of various sources of financing, such as current account overdrafts, bank loans, bonds, Eurobonds and 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 2021					
Loans and borrowings	802	1,062	1,520	451	3,835
Bonds and debt securities issued	-	44	678	555	1,277
Cash pooling liabilities	512	-	-	-	512
Trade liabilities	16	-	-	-	16
Liabilities on account of leases	3	11	20	-	34
Other financial liabilities	5	1	-	-	6
TOTAL	1,338	1,118	2,218	1,006	5,680

	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
Liabilities on account of leases	3	10	32	-	45
Other financial liabilities	11	22	15	5	53
TOTAL	639	1,459	2,882	1,360	6,340

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 2021	Year ended 31 December 2020
Dividends received	(201)	(510)
Interest received and paid	5	25
Interest accrued	(17)	(35)
TOTAL	(213)	(520)

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 2.01, while the financing agreements called for the level of 4.0.

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

The data below originate from the consolidated financial statements of the Energa Group for the year ended 31 December 2021. The EBITDA reconciliation was presented in the consolidated financial statements for Energa Group.

	As at 31 December 2021	As at 31 December 2020
Interest-bearing credits and loans	2,704	3,432
Bonds and debt securities issued	2,532	2,561
Cash and cash equivalents, excluding restricted cash	(160)	(139)
Net debt	5,076	5,854
EBITDA	2,524	2,038
Net debt / EBITDA	2,01	2,87

28. Contingent assets and liabilities

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

29. Employment structure

The average headcount in the Company was 159 in the year ended 31 December 2021 and 182 in the year ended 31 December 2020. 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

Due to the ongoing reorganisation of the Energa Group, which involves disposal of shares in some of the Group's subsidiaries, as at 30 June 2021, an assessment was made to see whether it was necessary to reclassify the shares to assets held for sale, in accordance with IFRS 5. The analysis confirmed that the reclassification was appropriate for the Company's shares in two subsidiaries: Energa Ochrona Sp. z o.o. and Energa Centrum Usług Wspólnych Sp. z o.o. The shares of Energa Ochrona Sp. z o.o. were sold on 31 July 2021, and the shares of Energa Centrum Usług Wspólnych Sp. z o.o. were sold on 16 December 2021. On 30 September 2021 premises for reclassification of shares held in Energa Invest Sp. z o.o. to assets held for sale were reviewed. For this company, it is assumed that the shares will be sold over the next 12 months. Therefore, as at 31 December 2021, shares held by the Company in Energa Invest Sp. z o.o. have been recognised as assets held for sale.

Withdrawal of the Company from the stock exchange

As a result of resolution of the Extraordinary General Meeting of the Company adopted on 29 October 2020, an application was filed with the Polish Financial Supervision Authority to withdraw the Company's shares from trading on the regulated market operated by Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange).

On 19 January 2021 the Company learned that on 15 January 2021 the Polish Financial Supervision Authority decided to stay the procedure. The proceedings before the Polish Financial Supervision Authority were stayed due to proceedings pending before the Regional Court in Gdańsk concerning a demand to repeal resolution of the Extraordinary General Meeting of the Company.

Formation of new companies

On 11 January 2021, CCGT Ostrołęka Sp. z o.o. was established and subsequently entered in the National Court Register on 29 January 2021. Energa SA acquired all shares in the company's share capital. As at 31 December 2021, the value of the shares was PLN 415 m.

On 20 January 2021, Energa Green Development Sp. z o.o. was established and subsequently entered in the National Court Register on 9 February 2021. Energa SA acquired all shares in the company's share capital. As at 31 December 2021, the value of the shares was PLN 31 m.

Extension of loan repayment deadline

On 26 February 2021, two agreements governing loans granted to Elektrownia Ostrołęka Sp. z o.o. by Energa SA and Enea S.A. were annexed. As a result, the maturities of the loans granted under the agreement of 17 July 2019 in the amount of PLN 58 m and the agreement of 23 December 2019 in the total amount of PLN 340 m were extended. The new deadline for repayment of the loans was set at 30 June 2021. The loans' maturities were annexed twice thereafter. Consequently, on 29 October 2021, the maturities of both loans were extended until 29 April 2022.

Extension of loan repayment deadline

On 28 February 2022, an agreement was signed to change the repayment date of the loan granted by Energa Finance AB (publ). The final repayment date for the loans granted on 21 March 2013 and 25 March 2013 was set on 28 February 2023. The principal amount covered by the signed agreement is EUR 110 m.

Provision for settlement of the coal-based project in Ostrołęka

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

The value of the provision for the General Contractor's claims amounted to PLN 218 m in Q4 2020. The amount of the provision is an estimate based, inter alia, on the amounts of claims filed by the GC in the area of settlement of work in progress and suspension costs.

As on 25 June 2021, Elektrownia Ostrołęka Sp. z o.o. ("Ostrołęka Power Plant"), CCGT Ostrołęka Sp. z o.o., the Coal Project Contractor (GE Power Sp. z o.o. and GE Steam Power Systems S.A.S.) and the Gas Project Contractor (General Electric Global Services, GmbH together with GE Power Sp. z o.o.) signed the "Document amending the contract of 12 July 2018 for the construction of the Ostrołęka "C" Power Plant with a capacity of 1,000 MW", this marked the entry into force of the "Settlement Agreement". On 9 July 2021, the provision raised in 2020 was partially released and reduced to PLN 107m. The cost of settlement

of the coal-based project will be covered by Energa and Enea pro-rata to their respective shares in the share capital of the SPV, i.e. 50% each, which follows from the Memorandum of Understanding on cooperation in settlement of Ostrołęka C Power Plant construction project signed on 22 December 2020. Following the conclusion on 22 December 2021 of an annex to the agreement concerning the settlement of the Coal Project as part of the contract concerning the construction of the Ostrołęka C Power Plant, the project settlement period was extended until 25 March 2022. At the time of publishing the financial statements, Elektrownia Ostrołęka is making the last arrangements and finalizing the settlements with the General Contractor. Following the Annex signed by the parties and the progressing settlements with the General Contractor, the estimated outstanding amount to be paid off by Energa SA for the full settlement of the Coal Project was adjusted to PLN 46 m.

31. Significant subsequent events

The situation in Ukraine and its impact on the Energa Group's performance

On 24 February 2022, the attack of Russian forces began the war in Ukraine. Russia's aggression led to a number of decisive actions taken by Western countries which prepared a package of economic sanctions with a view to undermine the foundations of Russian economy and forcing Russia to end the aggression.

The situation in Ukraine will undoubtedly have a significant impact on Poland's and international economy.

The Company keeps monitoring the situation in Ukraine on an ongoing basis in terms of its effects on the Company's business operations, however, the situation is highly volatile, and therefore forecasting of economic effects of the war is subject to a high risk of making erroneous assumptions. Given the high dynamism of changes in the geopolitical and economic conditions as well as the insufficiency of data, the financial implications for the Company cannot be reliably estimated at this time.

Of key relevance to a full assessment of the implications of the current situation for the future financial results of the Group will be further military actions, the scope of sanctions imposed on Russia and Belarus and the response from central banks and other financial institutions to the crisis.

Bearing in mind the above, the Group has identified the following potential market risks:

- the risk of PLN decline versus major currencies, including in particular PLN/EUR. The Company hedges currency risk to liabilities held in foreign currencies and takes measures aimed at hedging currency risk with respect to planned investment projects;
- ensuring ICT safety of generation and distribution infrastructure which is required to achieve the Company's business goals, given the greater risk of attacks against this infrastructure, which will result in higher costs of protection of related facilities, the need to use more advanced tools, equipment and security systems;
- a continued increase in inflation and interest rates. Moreover, negative effects of these factors on financial markets may lead to limited accessibility of external financing or less favourable financing conditions.

On the contrary, the Company has not identified any direct impact of the Ukraine war on financial results in 2022.

Management Board Members

Iwona Waksmundzka-Olejniczak
President of the Management Board

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

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

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

Janusz Szurski
Vice-President of the Management Board for Corporate Matters

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Entity responsible for keeping
accounting ledgers and for preparing financial statements
Energa Centrum Usług Wspólnych Sp. z o.o.
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Gdańsk, 30 March 2022