# ENEA S.A.
# separate financial statements for the financial year ended 31 December 2018

**Poznań, 20 March 2019**

(all amounts expressed in PLN 000s unless stated otherwise)

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(all amounts expressed in PLN 000s unless stated otherwise)

These separate financial statements are prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union, and are approved by the Company's Management Board for publication and submission to the competent organs of the Company for approval in accordance with the Act on Accounting and the Commercial Companies Code.

**Members of the Management Board**

| | | |
|---|---|---|
| **President of the Management Board** | **Mirosław Kowalik** | ………………………………… |
| **Member of the Management Board** | **Piotr Adamczak** | ………………………………… |
| **Member of the Management Board** | **Piotr Olejniczak** | ………………………………… |
| **Member of the Management Board** | **Zbigniew Piętka** | ………………………………… |

ENEA Centrum Sp. z o.o.
Entity responsible for maintaining accounting
books and preparing financial ……………………………………..
ENEA Centrum Sp. z o.o. ul. Górecka 1, 60-201 Poznań
KRS 0000477231, NIP 777-000-28-43, REGON 630770227

**Poznań, 20 March 2019**

(all amounts in PLN 000s unless stated otherwise)

## Separate statement of financial position

| | Note | As at 31.12.2018 | As at 31.12.2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | 25 791 | 25 905 |
| Perpetual usufruct of land | 6 | 1 504 | 1 215 |
| Intangible assets | 7 | 4 501 | 4 666 |
| Investment properties | 8 | 14 305 | 14 855 |
| Investments in subsidiaries, associates and jointly controlled entities | 9 | 12 794 956 | 11 945 473 |
| Deferred income tax assets | 24 | 98 432 | 66 693 |
| Financial assets at fair value | 17 | 46 357 | - |
| Debt financial assets at amortised cost | 10 | 6 578 980 | - |
| Trade and other receivables | 12 | 1 103 | 146 241 |
| Costs related to the conclusion of agreements | | 12 905 | - |
| Available-for-sale financial assets | | - | 39 307 |
| Intra-group bonds | | - | 6 771 221 |
| Financial assets at fair value through profit or loss | | - | 23 836 |
| Derivative instruments | | - | 29 553 |
| | | **19 578 834** | **19 068 965** |
| **Current assets** | | | |
| Inventories | 15 | 333 578 | 217 158 |
| Trade and other receivables | 12 | 970 657 | 1 126 982 |
| Costs related to the conclusion of agreements | | 16 948 | - |
| Assets arising from contracts with customers | 13 | 227 480 | - |
| Current income tax receivables | | 77 098 | 126 336 |
| Debt financial assets at amortised cost | 10 | 593 221 | - |
| Intra-group bonds | | - | 167 054 |
| Cash and cash equivalents | 16 | 1 145 978 | 1 746 426 |
| | | **3 364 960** | **3 383 956** |
| **Total assets** | | **22 943 794** | **22 452 921** |
| **EQUITY** | | | |
| Share capital | | 588 018 | 588 018 |
| Share premium | | 4 627 673 | 4 627 673 |
| Revaluation reserve - measurement of financial instruments | | (17 036) | - |
| Revaluation reserve - measurement of hedging instruments | | (15 986) | 25 967 |
| Reserve capital | | 4 963 564 | 3 150 240 |
| Retained earnings | | 3 149 613 | 4 240 079 |
| **Total equity** | 18 | **13 295 846** | **12 631 977** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Credit, loans and debt securities | 19 | 7 899 495 | 7 643 223 |
| Finance lease liabilities | 23 | 763 | 248 |
| Employee benefit liabilities | 25 | 53 586 | 51 941 |
| Financial liabilities at fair value | | 22 176 | - |
| Provisions for liabilities and other charges | 26 | - | 31 |
| | | **7 976 020** | **7 695 443** |
| **Current liabilities** | | | |
| Credit facilities, loans and debt securities | 19 | 341 475 | 222 958 |
| Trade and other payables | 21 | 646 660 | 797 569 |
| Finance lease liabilities | 23 | 661 | 258 |
| Employee benefit liabilities | 25 | 23 143 | 19 885 |
| Liabilities concerning the equivalent for rights to free purchase of shares | | 281 | 281 |
| Other financial liabilities | 20 | 146 785 | 723 735 |
| Provisions for liabilities and other charges | 26 | 512 923 | 360 815 |
| | | **1 671 928** | **2 125 501** |
| **Total liabilities** | | **9 647 948** | **9 820 944** |
| **Total equity and liabilities** | | **22 943 794** | **22 452 921** |

The separate statement of financial position should by analysed in conjunction with explanatory notes, which constitute an integral part of these separate financial statements.

(all amounts in PLN 000s unless stated otherwise)

## Separate statement of profit and loss and other comprehensive income

| | | For the period of | |
|---|---|---|---|
| | | 12 months ended | 12 months ended |
| | Note | 31.12.2018 | 31.12.2017 |
| Revenue from sales | | 4 953 852 | 5 894 629 |
| Excise duty | | (252 163) | (255 049) |
| **Net revenue from sales** | 27 | **4 701 689** | **5 639 580** |
| Other operating revenue | 30 | 35 016 | 34 819 |
| Amortisation | 28 | (2 234) | (2 635) |
| Employee benefit costs | 29 | (63 285) | (53 544) |
| Use of materials and commodities and value of goods sold | 28 | (2 981) | (2 154) |
| Purchase of electricity and gas for sales purposes | 28 | (4 461 790) | (3 582 160) |
| Transmission and distribution services | 28 | (1 973) | (1 592 446) |
| Other third-party services | 28 | (196 764) | (179 415) |
| Taxes and fees | 28 | (3 165) | (3 272) |
| Gain/(loss) on sale and liquidation of property, plant and equipment | | 109 | 3 971 |
| Costs related to onerous contracts | 39.1 | (78 981) | - |
| Other operating costs | 30 | (70 218) | (140 864) |
| **Operating (loss)/profit** | | **(144 577)** | **121 880** |
| Finance costs | 32 | (265 322) | (195 237) |
| Finance income | 31 | 467 421 | 1 097 427 |
| Dividend income | | 645 293 | 810 534 |
| **Profit before tax** | | **702 815** | **1 834 604** |
| Income tax | 33 | 24 321 | (21 280) |
| **Net profit for the reporting period** | | **727 136** | **1 813 324** |

| | | | |
|---|---|---|---|
| **Other comprehensive income** | | | |
| Subject to reclassification to profit or loss | | | |
| - measurement of hedging instruments | | (51 793) | (9 703) |
| - income tax | | 9 840 | 1 844 |
| Not subject to reclassification to profit or loss | | | |
| - measurement of financial instruments | | (17 036) | - |
| - restatement of defined benefit programme | 25 | (2 457) | (4 452) |
| - income tax | | 467 | 846 |
| **Net other comprehensive income** | | **(60 979)** | **(11 465)** |
| **Total comprehensive income** | | **666 157** | **1 801 859** |

| | | |
|---|---|---|
| Profit attributable to the company's shareholders | 727 136 | 1 813 324 |
| Weighted average number of ordinary shares | 441 442 578 | 441 442 578 |
| **Net profit per share (in PLN per share)** | **1.65** | **4.11** |
| **Diluted profit per share (in PLN per share)** | **1.65** | **4.11** |

The separate statement of profit and loss and other comprehensive income should by analysed in conjunction with explanatory notes, which constitute an integral part of these separate financial statements.

(all amounts in PLN 000s unless stated otherwise)

## Separate statement of changes in equity

| | Share capital (nominal amount) | Reserve for revaluation and merger accounting | Total share capital | Share premium | Revaluation reserve - measurement of financial instruments | Revaluation reserve - measurement of hedging instruments | Reserve capital | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **As at 01.01.2018** | 441 443 | 146 575 | **588 018** | **4 627 673** | **-** | **25 967** | **3 150 240** | **4 240 079** | **12 631 977** |
| Adjustment due to implementation of IFRS 9 | | | | | | | | (2 288) | **(2 288)** |
| **As at 01.01.2018, adjusted** | 441 443 | 146 575 | **588 018** | **4 627 673** | **-** | **25 967** | **3 150 240** | **4 237 791** | **12 629 689** |
| Net profit | | | | | | | | 727 136 | **727 136** |
| Other comprehensive income | | | | | (17 036) | (41 953) | | (1 990) | **(60 979)** |
| **Net comprehensive income recognised in the period** | | | | | **(17 036)** | **(41 953)** | | **725 146** | **666 157** |
| Allocation of net profit - transfer | | | | | | | 1 813 324 | (1 813 324) | - |
| **As at 31.12.2018** | 441 443 | 146 575 | **588 018** | **4 627 673** | **(17 036)** | **(15 986)** | **4 963 564** | **3 149 613** | **13 295 846** |

| | Note | Share capital (nominal amount) | Reserve for revaluation and merger accounting | Total share capital | Share premium | Revaluation reserve - measurement of hedging instruments | Reserve capital | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **As at 01.01.2017** | | 441 443 | 146 575 | **588 018** | **4 627 673** | **33 826** | **2 640 358** | **3 050 604** | **10 940 479** |
| Net profit | | | | | | | | 1 813 324 | **1 813 324** |
| Other comprehensive income | | | | | | (7 859) | | (3 606) | **(11 465)** |
| **Net comprehensive income recognised in the period** | | | | | | **(7 859)** | | **1 809 718** | **1 801 859** |
| Allocation of net profit | | | | | | | 509 882 | (509 882) | **-** |
| Dividend payment | 34 | | | | | | | (110 361) | **(110 361)** |
| **As at 31.12.2017** | | 441 443 | 146 575 | **588 018** | **4 627 673** | **25 967** | **3 150 240** | **4 240 079** | **12 631 977** |

(all amounts in PLN 000s unless stated otherwise)

## Separate statement of cash flows

| | Note | For the period of 12 months ended 31.12.2018 | 12 months ended 31.12.2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit for the reporting period | | 727 136 | 1 813 324 |
| Adjustments: | | | |
| Income tax in profit or loss | 33 | (24 321) | 21 280 |
| Amortisation | 28 | 2 234 | 2 635 |
| Gain on sale and liquidation of property, plant and equipment | | (109) | (3 971) |
| Loss/(gain) on sale of financial assets | | 18 313 | (13 568) |
| Interest income | | (213 324) | (163 315) |
| Dividend income | | (645 293) | (810 534) |
| Interest costs | | 217 545 | 179 288 |
| Other finance income* | | (200 862) | (879 270) |
| Other adjustments | | (363) | 382 |
| | | (846 180) | (1 667 073) |
| Paid income tax | | (36 970) | (336 722) |
| Flows resulting from settlements within tax group | | 42 714 | 263 370 |
| Changes in working capital | | | |
| Inventories | | (116 420) | (132 174) |
| Trade and other receivables | | (79 821) | 113 |
| Trade and other payables | | (730 665) | 579 112 |
| Employee benefit liabilities | | 2 446 | (1 736) |
| Provisions for other liabilities and other charges | | 152 077 | 73 534 |
| | | (772 383) | 518 849 |
| **Net cash flows from operating activities** | | **(885 683)** | **591 748** |
| **Cash flows from investing activities** | | | |
| Purchase of tangible and intangible assets | | (287) | (265) |
| Proceeds from sale of tangible and intangible assets | | 149 | 259 |
| Purchase of financial assets | | (468 280) | (1 844 440) |
| Proceeds from sale of financial assets | | 189 022 | 475 234 |
| Purchase of subsidiaries | | (93 178) | (1 267 026) |
| Purchase of associates and jointly controlled entities | | (325 415) | (346 730) |
| Received dividends | | 645 293 | 810 534 |
| Proceeds related to future purchase of financial assets | | 29 | 932 |
| Received interest | | 195 152 | 162 366 |
| **Net cash flows from investing activities** | | **142 485** | **(2 009 136)** |
| **Cash flows from financing activities** | | | |
| Credit facilities and loans received | | - | 746 000 |
| Bond issuance | | 550 000 | 1 199 000 |
| Repayment of credit and loans | | (96 971) | (67 826) |
| Bond buy-back | | (95 000) | (40 000) |
| Expenditures concerning finance lease payments | | (453) | (266) |
| Expenditures concerning future bond issues | | (37) | (1 023) |
| Dividends paid | 34 | - | (110 361) |
| Interest paid | | (214 789) | (176 532) |
| **Net cash flows from financing activities** | | **142 750** | **1 548 992** |
| **Net (decrease) / increase in cash** | | **(600 448)** | **131 604** |
| Cash at the beginning of reporting period | 16 | 1 746 426 | 1 614 822 |
| **Cash at the end of reporting period** | 16 | **1 145 978** | **1 746 426** |

* This item shows reversal of an impairment loss on equity / impairment of equity

(all amounts in PLN 000s unless stated otherwise)

# Notes to the separate financial statements

## 1. General information

### 1.1. General information on ENEA S.A.

| | |
|---|---|
| **Name:** | ENEA Spółka Akcyjna |
| **Legal form:** | joint stock company (spółka akcyjna) |
| **Country of registered office:** | Poland |
| **Registered office:** | Poznań |
| **Address:** | ul. Górecka 1, 60-201 Poznań |
| **National Court Register - District Court in Poznań** | KRS 0000012483 |
| **Telephone number:** | (+48 61) 884 55 44 |
| **Fax number:** | (+48 61) 884 59 59 |
| **e-mail:** | ENEA@ENEA.pl |
| **Website:** | www.ENEA.pl |
| **REGON number:** | 630139960 |
| **NIP number:** | 777-00-20-640 |

ENEA S.A., back then operating as Energetyka Poznańska S.A., was entered into the National Court Register at the District Court in Poznań on 21 May 2001, under KRS number 0000012483.

As at 31 December 2018, ENEA S.A.'s shareholding structure was as follows: the State Treasury of the Republic of Poland held a 51.5% stake and the remaining shareholders held 48.5%. As at 31 December 2018, the Parent's highest-level controlling entity was the State Treasury.

As at 31 December 2018, ENEA S.A.'s statutory share capital amounted to PLN 441 443 thousand (PLN 588 018 thousand after restatement to EU IFRS, taking into account hyperinflation and other adjustments) and was divided into 441 442 578 shares.

The main business activity of ENEA S.A. ("ENEA," "Company") is trade of electricity.

ENEA S.A. is the parent company for ENEA Group ("Group"), which as at 31 December 2018 consisted of 15 subsidiaries, 8 indirect subsidiaries, 2 associates and 3 jointly controlled entities.

These financial statements are prepared on a going concern basis for the foreseeable future. There are no circumstances such as would indicate a threat to ENEA S.A.'s going concern.

(all amounts in PLN 000s unless stated otherwise)

## 1.2. Management Board and Supervisory Board composition

### Management Board

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| President of the Management Board | Mirosław Kowalik | Mirosław Kowalik |
| Member of the Management Board, responsible for finance | Piotr Olejniczak | Piotr Olejniczak |
| Member of the Management Board, responsible for sales | Piotr Adamczak | Piotr Adamczak |
| Member of the Management Board, responsible for corporate affairs | Zbigniew Piętka | Zbigniew Piętka |

No changes to the composition of ENEA S.A.'s Management Board took place in 2018.

### Supervisory Board

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Chairperson of the Supervisory Board | Stanisław Hebda | Stanisław Hebda |
| Deputy Chairperson of the Supervisory Board | Paweł Jabłoński | Piotr Kossak |
| Secretary of the Supervisory Board | Piotr Mirkowski | Rafał Szymański |
| Member of the Supervisory Board | Sławomir Brzeziński | Rafał Bargiel |
| Member of the Supervisory Board | Wojciech Klimowicz | Piotr Mirkowski |
| Member of the Supervisory Board | Paweł Koroblowski | Sławomir Brzeziński |
| Member of the Supervisory Board | Ireneusz Kulka | Wojciech Klimowicz |
| Member of the Supervisory Board | Tadeusz Mikłosz | Tadeusz Mikłosz |
| Member of the Supervisory Board | Roman Stryjski | Roman Stryjski |
| Member of the Supervisory Board | - | Paweł Skopiński |

On 13 March 2018, the Company received Mr. Paweł Skopiński's resignation, dated 13 March 2018, as member of the Supervisory Board of ENEA S.A.

On 22 March 2018 the Company received a statement from the Minister of Energy, dated 22 March 2018, on exercise by the Minister of Energy of an authorisation to appoint, based on § 24 sec. 1 of the Company's Articles of Association, a member of the Supervisory Board of ENEA S.A. Under the aforementioned authorisation, Mr. Ireneusz Kulka was appointed to the Company's Supervisory Board as of 22 March 2018.

On 16 April 2018 the Management Board of ENEA S.A. received information about a statement by the Minister of Energy dated 13 April 2018 regarding dismissal of a member of the Company's Supervisory Board pursuant to an authorisation under § 24 sec. 1 of the Company's Articles of Association. Under the aforementioned authorisation, Mr. Ireneusz Kulka was dismissed to the Company's Supervisory Board as of 15 April 2018.

Moreover, on 16 April 2018 an Extraordinary General Meeting of ENEA S.A. dismissed Mr. Rafał Bargiel and Mr. Piotr Kossak from the Supervisory Board of ENEA S.A. and appointed Mr. Ireneusz Kulka and Mr. Paweł Jabłoński to the Company's Supervisory Board, with the resolution appointing Mr. Paweł Jabłoński entering into force when it was adopted and effective from the date on which the candidate received a positive opinion from the Council for companies with State Treasury participation and state legal entities, i.e. from 20 April 2018.

On 31 July 2018, the Company received Mr. Rafał Szymański's resignation, dated 31 July 2018, as member of the Supervisory Board of ENEA S.A.

On 24 September 2018, an Extraordinary General Meeting of ENEA S.A. adopted a resolution pursuant to which Mr. Paweł Andrzej Koroblowski was appointed to the Company's Supervisory Board.

### 1.3. Financial information prepared in compliance with the Energy Law

These separate financial statements contain the financial information referred to in art. 44 sec. 2 of the Act of 10 April 1997 - Energy Law (Polish Journal of Laws of 2018 item 755, as amended), which is presented in note 45 ("regulatory financial information").

## 2. Significant estimates and assumptions

Preparing financial statements in accordance with EU IFRS requires the Management Board to adopt certain assumptions and make estimates that have an impact on the adopted accounting rules and the amounts shown in financial statements and notes to financial statements. Assumptions and estimates are based on the Management Board's best knowledge regarding current and future events and activities. Actual results may however differ from forecasts.

Key areas where the Management Board's estimates have considerable impact on financial statements:

- **post-employment benefits** – a valuation was adopted for employee benefit provisions based on the balance of liabilities at the end of the reporting period concerning expected future payments of benefits, which was calculated using actuarial methods; discount rates and long-term growth in wages have additional impact on this estimate (note 25),

- **impairment of trade and other receivables** - impairment of receivables is determined based on expected credit losses. Expected credit losses take into account previous counterparty default events as well as potential estimated credit losses (note 12). Potential credit losses are estimated taking into account the type, age, and stage of recovery, with the following stages used: current receivable, overdue receivable prior to court, receivable in court or enforcement proceeding, receivable in bankruptcy or court arrangement. Receivables are written off as costs based on existing internal regulations, taking into account provisions of the Act on corporate income tax,

**- uninvoiced revenue from sales as at the end of financial year** – unsettled energy sales values are estimated on the basis of estimated electricity consumption in the period from the most recent meter reading to the end of financial year (note 12 and note 13),

- **measurement of interests in subsidiaries** – impairment tests are conducted based on a number of assumptions, some of which are beyond ENEA S.A.'s control. The key assumptions mainly concern price trajectories for electricity, energy origin certificates, the capacity market and discount rates. Significant changes in these estimates have an impact on impairment test results and, in consequence, on the Company's financial position and financial results (note 9),

**- purchase of associates and jointly controlled entities** – based on agreements concerning the given investment, the Company judges whether there is joint control or significant influence,

- **provisions** – recognition of provisions requires a precise estimate of expenditures intended to comply with the present obligation as at the end of the reporting period,

(all amounts in PLN 000s unless stated otherwise)

- **provision for terminated agreements concerning property rights** – this estimate is based on potential claims resulting from the terminated agreements, in reference to property right sale transactions submitted by counterparties as at the balance sheet date (notes 26 and 39.6).

## 3. Methods for implementing new standards

IFRS 9 - the Company implemented IFRS 9 retrospectively, with recognition of adjustments as at 1 January 2018. The Company applies IFRS 9 in accordance with its transition regulations - without restating comparative data for previous periods, i.e. 01.01.2017 and 31.12.2017, to reflect IFRS 9 requirements concerning measurement.

IFRS 15 - the Company implemented IFRS 15 retrospectively, with overall first-time adoption effect, and recognised the overall effect of first-time adoption as an adjustment of the balance of initial retained earnings in the reporting period into which the first-adoption date falls.

| | 31.12.2017 | IFRS 9 | IFRS 15 | 01.01.2018 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 25 905 | - | - | 25 905 |
| Perpetual usufruct of land | 1 215 | - | - | 1 215 |
| Intangible assets | 4 666 | - | - | 4 666 |
| Investment properties | 14 855 | - | - | 14 855 |
| Investments in subsidiaries, associates and jointly controlled entities | 11 945 473 | - | - | 11 945 473 |
| Deferred income tax assets | 66 693 | 537 | - | 67 230 |
| Financial assets at fair value | - | 92 696 | - | 92 696 |
| Debt financial assets at amortised cost | - | 6 902 669 | - | 6 902 669 |
| Trade and other receivables | 146 241 | (131 448) | (14 747) | 46 |
| Costs related to the conclusion of agreements | - | - | 14 747 | 14 747 |
| Available-for-sale financial assets | 39 307 | (39 307) | - | - |
| Intra-group bonds | 6 771 221 | (6 771 221) | - | - |
| Financial assets at fair value through profit or loss | 23 836 | (23 836) | - | - |
| Derivative instruments | 29 553 | (29 553) | - | - |
| | **19 068 965** | **537** | **-** | **19 069 502** |
| **Current assets** | | | | |
| Inventories | 217 158 | - | - | 217 158 |
| Trade and other receivables | 1 126 982 | (39 242) | (239 499) | 848 241 |
| Costs related to the conclusion of agreements | - | - | 17 785 | 17 785 |
| Assets arising from contracts with customers | - | - | 221 714 | 221 714 |
| Current income tax receivables | 126 336 | - | - | 126 336 |
| Debt financial assets at amortised cost | - | 203 471 | - | 203 471 |
| Intra-group bonds | 167 054 | (167 054) | - | - |
| Cash and cash equivalents | 1 746 426 | - | - | 1 746 426 |
| | **3 383 956** | **(2 825)** | **-** | **3 381 131** |
| **TOTAL ASSETS** | **22 452 921** | **(2 288)** | **-** | **22 450 633** |

(all amounts in PLN 000s unless stated otherwise)

| | 31.12.2017 | IFRS 9 | IFRS 15 | 01.01.2018 |
|---|---|---|---|---|
| **EQUITY** | | | | |
| Share capital | 588 018 | - | - | 588 018 |
| Share premium | 4 627 673 | - | - | 4 627 673 |
| Revaluation reserve - measurement of hedging instruments | 25 967 | - | - | 25 967 |
| Reserve capital | 3 150 240 | - | - | 3 150 240 |
| Retained earnings | 4 240 079 | (2 288) | - | 4 237 791 |
| **Total equity** | **12 631 977** | **(2 288)** | **-** | **12 629 689** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Credit facilities, loans and debt securities | 7 643 223 | - | - | 7 643 223 |
| Finance lease liabilities | 248 | - | - | 248 |
| Employee benefit liabilities | 51 941 | - | - | 51 941 |
| Provisions for other liabilities and other charges | 31 | - | - | 31 |
| | **7 695 443** | **-** | **-** | **7 695 443** |
| **Current liabilities** | | | | |
| Credit facilities, loans and debt securities | 222 958 | - | - | 222 958 |
| Trade and other payables | 797 569 | - | - | 797 569 |
| Finance lease liabilities | 258 | - | - | 258 |
| Employee benefit liabilities | 19 885 | - | - | 19 885 |
| Liabilities concerning the equivalent for rights to free purchase of shares | 281 | - | - | 281 |
| Other financial liabilities | 723 735 | - | - | 723 735 |
| Provisions for other liabilities and other charges | 360 815 | - | - | 360 815 |
| | **2 125 501** | **-** | **-** | **2 125 501** |
| **Total liabilities** | **9 820 944** | **-** | **-** | **9 820 944** |
| **Total equity and liabilities** | **22 452 921** | **(2 288)** | **-** | **22 450 633** |

The Company has analysed its financial assets and financial liabilities in terms of the new IFRS 9 standard. Changes concern impairment losses on trade receivables, which take into account expected credit losses.

A significant change related to the entry into force as of 1 January 2018 of IFRS 15 consists of presentation in the statement of profit and loss and other comprehensive income of revenue from sale related to the Company's role as intermediary. As a result of offsetting, net revenue from sales for the period from 1 January 2018 to 31 December 2018 are PLN 1 597 700 thousand lower; if the standard were not in force, revenue would have reached PLN 6 299 389 thousand.

Presented below is the impact of IFRS 15 on items in ENEA S.A.'s financial statements for the financial year ended 31 December 2018.

(all amounts in PLN 000s unless stated otherwise)

| | Reported values 31.12.2018 | IFRS 15 | Values without IFRS 15 31.12.2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 25 791 | - | 25 791 |
| Perpetual usufruct of land | 1 504 | - | 1 504 |
| Intangible assets | 4 501 | - | 4 501 |
| Investment properties | 14 305 | - | 14 305 |
| Investments in subsidiaries, associates and jointly controlled entities | 12 794 956 | - | 12 794 956 |
| Deferred income tax assets | 98 432 | - | 98 432 |
| Financial assets at fair value | 46 357 | - | 46 357 |
| Debt financial assets at amortised cost | 6 578 980 | - | 6 578 980 |
| Trade and other receivables | 1 103 | 12 905 | 14 008 |
| Costs related to the conclusion of agreements | 12 905 | (12 905) | - |
| | **19 578 834** | **-** | **19 578 834** |
| **Current assets** | | | |
| Inventories | 333 578 | - | 333 578 |
| Trade and other receivables | 970 657 | 244 428 | 1 215 085 |
| Costs related to the conclusion of agreements | 16 948 | (16 948) | - |
| Assets arising from contracts with customers | 227 480 | (227 480) | - |
| Current income tax receivables | 77 098 | - | 77 098 |
| Debt financial assets at amortised cost | 593 221 | - | 593 221 |
| Cash and cash equivalents | 1 145 978 | - | 1 145 978 |
| | **3 364 960** | **-** | **3 364 960** |
| **TOTAL ASSETS** | **22 943 794** | **-** | **22 943 794** |

| | Reported values 12 months ended 31.12.2018 | IFRS 15 | Values without IFRS 15 12 months ended 31.12.2018 |
|---|---|---|---|
| Revenue from sales | 4 953 852 | 1 597 700 | 6 551 552 |
| Excise duty | (252 163) | - | (252 163) |
| **Net revenue from sales** | **4 701 689** | **1 597 700** | **6 299 389** |
| Other operating revenue | 35 016 | - | 35 016 |
| Amortisation | (2 234) | - | (2 234) |
| Employee benefit costs | (63 285) | - | (63 285) |
| Use of materials and commodities and value of goods sold | (2 981) | - | (2 981) |
| Purchase of electricity and gas for sales purposes | (4 461 790) | (2 244) | (4 464 034) |
| Transmission and distribution services | (1 973) | (1 595 456) | (1 597 429) |
| Other third-party services | (196 764) | - | (196 764) |
| Taxes and fees | (3 165) | - | (3 165) |
| Gain/(loss) on sale and liquidation of property, plant and equipment | 109 | - | 109 |
| Costs related to onerous contracts | (78 981) | - | (78 981) |
| Other operating costs | (70 218) | - | (70 218) |
| **Operating (loss)/profit** | **(144 577)** | **-** | **(144 577)** |
| Finance costs | (265 322) | - | (265 322) |
| Finance income | 467 421 | - | 467 421 |
| Dividend income | 645 293 | - | 645 293 |
| **Profit before tax** | **702 815** | **-** | **702 815** |
| Income tax | 24 321 | - | 24 321 |
| **Net profit for the reporting period** | **727 136** | **-** | **727 136** |

(all amounts in PLN 000s unless stated otherwise)

## 4. Group structure - list of subsidiaries and ENEA S.A.'s stakes in associates and jointly controlled entities

| | Company name and address | | ENEA S.A.'s stake in total number of voting rights in % 31.12.2018 | ENEA S.A.'s stake in total number of voting rights in % 31.12.2017 |
|---|---|---|---|---|
| 1. | **ENEA Operator Sp. z o.o.** Poznań, ul. Strzeszyńska 58 | subsidiary | 100 | 100 |
| 2. | **ENEA Wytwarzanie Sp. z o.o.** Świerże Górne, al. Józefa Zielińskiego 1 | subsidiary | 100 | 100 |
| 3. | **ENEA Elektrownia Połaniec S.A.** Połaniec, ul. Zawada 26 | subsidiary | 100 | 100 |
| 4. | **ENEA Oświetlenie Sp. z o.o.** Szczecin, ul. Ku Słońcu 34 | subsidiary | 100[12] | 100 |
| 5. | **ENEA Trading Sp. z o.o.** Świerże Górne, Kozienice municipality, Kozienice 1 | subsidiary | 100 | 100 |
| 6. | **ENEA Logistyka Sp. z o.o.** Poznań, ul. Strzeszyńska 58 | subsidiary | 100 | 100 |
| 7. | **ENEA Ciepło Serwis Sp. z o.o.** Białystok, ul. Starosielce 2/1 | subsidiary | 100[13] | 100[1] |
| 8. | **ENEA Serwis Sp. z o.o.** Lipno, Gronówko 30 | subsidiary | 100 | 100 |
| 9. | **ENEA Centrum Sp. z o.o.** Poznań, ul. Górecka 1 | subsidiary | 100 | 100 |
| 10. | **ENEA Pomiary Sp. z o.o.** Poznań, ul. Strzeszyńska 58 | subsidiary | 100 | 100 |
| 11. | **ENERGO-TOUR Sp. z o.o. w likwidacji** Poznań, ul. Strzeszyńska 58 | subsidiary | 100[5] | 100[5] |
| 12. | **ENEA Innowacje Sp. z o.o.** [9] Warsaw, ul. Wiśniowa 40 | subsidiary | 100[9] | 100 |
| 13. | **ENEA Ciepło Sp. z o.o.** Białystok, ul. Warszawska 27 | subsidiary | 95,77[14] | 91,14[1] |
| 14. | **Lubelski Węgiel BOGDANKA S.A.** Bogdanka, Puchaczów | subsidiary | 65,99 | 65,99 |
| 15. | **Annacond Enterprises Sp. z o.o. w likwidacji** [7] Warsaw, ul. Jana Pawła II 12 | subsidiary | 61 | 61 |
| 16. | **Elektrownia Ostrołęka Sp. z o.o.** [6] Ostrołęka, ul. Elektryczna 3 | jointly controlled entity | 50[11] | 23,79 |
| 17. | **ElectroMobility Poland S.A.** Warsaw, ul. Mysia 2 | associate | 25[8] | 25 |
| 18. | **Polimex – Mostostal S.A.** [17] Warsaw, al. Jana Pawła II 12 | associate | 16,48 | 16,48 |
| 19. | **Polska Grupa Górnicza S.A.** Katowice, ul. Powstańców 30 | jointly controlled entity | 7,66[10] | 5,81 |
| 20. | **ENEA Bioenergia Sp. z o.o.** Połaniec, ul. Zawada 26 | indirect subsidiary | 100[4] | 100[4] |
| 21. | **ENEA Badania i Rozwój Sp. z o.o.** Świerże Górne, al. Józefa Zielińskiego 1 | indirect subsidiary | 100[1,15] | 100[1] |
| 22. | **Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o.** Oborniki, ul. Wybudowanie 56 | indirect subsidiary | 99,93[1] | 99,93[1] |
| 23. | **Miejska Energetyka Cieplna Piła Sp. z o.o.** Piła, ul. Kaczorska 20 | indirect subsidiary | 71,11[1] | 71,11[1] |
| 24. | **EkoTRANS Bogdanka Sp. z o.o.** Bogdanka, Puchaczów | indirect subsidiary | 65,99[2] | 65,99[2] |
| 25. | **RG Bogdanka Sp. z o.o.** Bogdanka, Puchaczów | indirect subsidiary | 65,99[2] | 65,99[2] |
| 26. | **MR Bogdanka Sp. z o.o.** Bogdanka, Puchaczów | indirect subsidiary | 65,99[2] | 65,99[2] |
| 27. | **Łęczyńska Energetyka Sp. z o.o.** Bogdanka, Puchaczów | indirect subsidiary | 58,53[2] | 58,53[2] |

(all amounts in PLN 000s unless stated otherwise)

| | | | | |
|---|---|---|---|---|
| **28.** | **Centralny System Wymiany Informacji Sp. z o.o. w likwidacji** [16]<br>Poznań, ul. Strzeszyńska 58 | jointly controlled entity | 20[3] | 20[3] |

[1] – indirect subsidiary through stake in ENEA Wytwarzanie Sp. z o.o.
[2] – indirect subsidiary through stake in Lubelski Węgiel BOGDANKA S.A.
[3] – jointly controlled entity through stake in ENEA Operator Sp. z o.o.
[4] – indirect subsidiary through stake in ENEA Elektrownia Połaniec S.A.
[5] – on 30 March 2015 The company's extraordinary general meeting adopted a resolution on the dissolution of the company following a liquidation proceeding; the resolution entered into force on 1 April 2015. An application for the company to be removed from the National Court Register was filed on 5 November 2015. At the date on which these separate financial statements were prepared, procedural activities connected with removing the entity from the National Court Register were in progress.
[6] – on 23 November 2017 an Extraordinary General Meeting of Elektrownia Ostrołęka S.A. adopted a resolution to transform the company into a limited company (sp. z o.o.). The National Court Register on 27 February 2018 registered a change in the legal form of Elektrownia Ostrołęka S.A. into a limited company.
[7] – on 28 February 2018 the Extraordinary General Meeting of Annacond Enterprises Sp. z o.o. adopted a resolution to liquidate the company.
[8] – on 3 January 2018 an Extraordinary General Meeting of ElectroMobility Poland S.A. adopted a resolution on a PLN 20 000 thousand increase in the company's share capital by increasing the nominal value of shares from PLN 1 thousand to PLN 3 thousand. The share capital increase was registered at the National Court Register on 23 April 2018.
On 4 October 2018, an Extraordinary General Meeting of ElectroMobility Poland S.A. adopted a resolution on a PLN 40 000 thousand increase in the company's share capital by increasing the nominal value of shares from PLN 3 thousand to PLN 7 thousand. The share capital increase was registered at the National Court Register on 7 January 2019.
[9] – on 31 January 2018 an Extraordinary General Meeting of ENEA Innovation Sp. z o.o. adopted a resolution to increase the company's share capital by PLN 3 500 thousand, i.e. from PLN 305 thousand to PLN 3 805 thousand, by issuing 35 000 new shares with a nominal value of PLN 100.00 each. The share capital increase was registered at the National Court Register on 23 April 2018.
The company's name was changed in the National Court Register from ENEA Innovation Sp. z o.o. to ENEA Innowacje Sp. z o.o. on 17 April 2018.
[10] – on 31 January 2018 an Extraordinary General Meeting of Polska Grupa Górnicza S.A. adopted a resolution to increase the company's share capital by PLN 300 000 thousand, i.e. from PLN 3 616 718 thousand to PLN 3 916 718 thousand, by issuing 3 000 000 new shares with a nominal value of PLN 100.00 each. ENEA S.A. acquired 900 000 shares with total nominal value of PLN 90 000 thousand, increasing ENEA S.A.'s stake in the company's share capital to 7.66%. The share capital increase was registered at the National Court Register on 6 April 2018.
[11] – on 23 March 2018 ENEA S.A. executed an agreement with ENERGA S.A. to purchase 1 201 036 shares in Elektrownia Ostrołęka Sp. z o.o., thus acquiring a 50% stake in this company's share capital. On 29 March 2018 an Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o. adopted a resolution on a PLN 35 000 thousand share capital increase, from PLN 229 100 thousand to PLN 264 100 thousand, through the issue of 700 000 new shares with voting preference, i.e. with two votes for one share, with nominal value of PLN 50.00 each and total nominal value of PLN 35 000 thousand. On 29 March 2018 ENEA S.A. signed a commitment to acquire 350 000 shares in exchange for a cash contribution of PLN 17 500 thousand. On 30 March 2018 ENEA S.A. provided its cash contribution. The share capital increase was registered at the National Court Register on 30 July 2018.
On 27 July 2018 an Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o. adopted a resolution on a PLN 287 000 thousand share capital increase, from PLN 264 100 thousand to PLN 551 100 thousand, through the issue of 5 740 000 new shares with voting preference, i.e. with two votes for one share, with nominal value of PLN 50.00 each and total nominal value of PLN 287 000 thousand. On 30 July 2018 ENEA S.A. signed a commitment to acquire 2 870 000 shares in exchange for a cash contribution of PLN 143 500 thousand. On 2 August 2018, ENEA S.A. provided its cash contribution. The share capital increase was registered at the National Court Register on 16 October 2018.
[12] – on 9 July 2018 an Extraordinary General Meeting of ENEA Oświetlenie Sp. z o.o. adopted a resolution on a PLN 16 000 thousand share capital increase from PLN 166 127 thousand to PLN 182 127 thousand through the issue of 32 000 new shares with total nominal value of PLN 16 000 thousand and nominal value of PLN 500.00 each.
On 11 July 2018 ENEA S.A. acquired 32 000 shares in the company's increased share capital in exchange for a cash contribution. The share capital increase was registered at the National Court Register on 5 November 2018.
[13] – on 26 October 2018 ENEA S.A. and ENEA Wytwarzanie Sp. z o.o. executed an agreement to sell shares of ENEA Ciepło Serwis Sp. z o.o., pursuant to which on 5 November 2018 ENEA S.A. became the company's sole shareholder.
[14] – on 26 October 2018 ENEA S.A. and ENEA Wytwarzanie Sp. z o.o. executed an agreement to sell shares of ENEA Ciepło Sp. z o.o., pursuant to which on 5 November 2018 ENEA S.A. became the company's majority shareholder.
On 26 October 2018, an Extraordinary General Meeting of ENEA Ciepło Sp. z o.o. adopted a resolution to increase the company's share capital by PLN 78 873 thousand by issuing 1 577 452 shares with a nominal value of PLN 50 each. The share capital increase was registered at the National Court Register on 30 November 2018.
[15] – on 20 December 2018 an Extraordinary General Meeting of ENEA Badania i Rozwój Sp. z o.o. adopted a resolution to increase the company's share capital by PLN 5 850 thousand to PLN 7 855 thousand by issuing 117 000 new shares with a nominal value of PLN 50 each. ENEA S.A. purchased 1 170 shares in the increased capital, worth PLN 59 thousand. The share capital increase was paid in cash, and the rest of the shares were purchased by ENEA Wytwarzanie Sp. z o.o. The aforementioned increase is awaiting entry in the National Court Register.
[16] - on 4 December 2018 an Extraordinary General Meeting of Centralny System Wymiany Informacji Sp. z o.o. adopted a resolution to liquidate the company.
[17] – the investment agreement gives the investors influence over Polimex's financial and operational policies. Moreover, a memorandum executed by the investors calls for joint positions to be worked out by way of a vote on key decisions reserved for Polimex's general meeting and supervisory board, including decisions regarding composition of Polimex's management board. Given the investors' aforementioned authorisations, which amount to significant influence, the stake in Polimex is classified as associate recognised using the equity method.

(all amounts in PLN 000s unless stated otherwise)

## 5. Property, plant and equipment

| | Land | Buildings and structures | Technical equipment and machinery | Means of transport | Other tangible assets | Tangible assets under construction | Total |
|---|---|---|---|---|---|---|---|
| **As at 01.01.2018** | | | | | | | |
| Gross value | **677** | **37 586** | **20 229** | **7 685** | **3 962** | **3** | **70 142** |
| Depreciation | **-** | **(14 425)** | **(19 755)** | **(6 321)** | **(3 736)** | **-** | **(44 237)** |
| **Net book value** | **677** | **23 161** | **474** | **1 364** | **226** | **3** | **25 905** |
| **Changes in the 12 months to 31.12.2018** | | | | | | | |
| Transfer | - | **-** | - | - | - | - | **-** |
| Purchase | - | - | - | 1 371 | 292 | - | **1 663** |
| Amortisation | - | (639) | (334) | (729) | (93) | - | **(1 795)** |
| Contribution in kind (initial value) | - | - | - | - | - | - | **-** |
| Liquidations (initial value) | - | - | (349) | (2 798) | (7) | - | **(3 154)** |
| Liquidations (depreciation) | - | - | 348 | 2 759 | 7 | - | **3 114** |
| Other (initial value) | 58 | - | - | - | - | - | **58** |
| **As at 31.12.2018** | | | | | | | |
| Gross value | **735** | **37 586** | **19 880** | **6 258** | **4 247** | **3** | **68 709** |
| Depreciation | **-** | **(15 064)** | **(19 741)** | **(4 291)** | **(3 822)** | **-** | **(42 918)** |
| **Net book value** | **735** | **22 522** | **139** | **1 967** | **425** | **3** | **25 791** |

(all amounts in PLN 000s unless stated otherwise)

| | Land | Buildings and structures | Technical equipment and machinery | Means of transport | Other tangible assets | Tangible assets under construction | Total |
|---|---|---|---|---|---|---|---|
| **As at 01.01.2017** | | | | | | | |
| Gross value | **1 376** | **38 508** | **21 411** | **7 656** | **4 155** | **92** | **73 198** |
| Depreciation | **-** | **(14 464)** | **(20 279)** | **(5 633)** | **(3 759)** | **-** | **(44 135)** |
| **Net book value** | **1 376** | **24 044** | **1 132** | **2 023** | **396** | **92** | **29 063** |
| **Changes in the 12 months to 31.12.2017** | | | | | | | |
| Transfer | - | - | - | 81 | - | (81) | **-** |
| Purchase | - | - | - | - | 10 | - | **10** |
| Amortisation | - | (640) | (642) | (740) | (180) | - | **(2 202)** |
| Contribution in kind (initial value) | (728) | - | - | - | - | - | **(728)** |
| Liquidations (initial value) | - | (970) | (1 182) | (52) | (203) | - | **(2 407)** |
| Liquidations (depreciation) | - | 679 | 1 166 | 52 | 203 | - | **2 100** |
| Other (initial value) | 29 | 48 | - | - | - | (8) | **69** |
| **As at 31.12.2017** | | | | | | | |
| Gross value | **677** | **37 586** | **20 229** | **7 685** | **3 962** | **3** | **70 142** |
| Depreciation | **-** | **(14 425)** | **(19 755)** | **(6 321)** | **(3 736)** | **-** | **(44 237)** |
| **Net book value** | **677** | **23 161** | **474** | **1 364** | **226** | **3** | **25 905** |

(all amounts in PLN 000s unless stated otherwise)

As lessee, ENEA S.A. uses the following property, plant and equipment items under lease contracts:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Gross value** | **2 143** | **772** |
| - Means of transport | 2 143 | 772 |
| **Depreciation** | **(646)** | **(258)** |
| - Means of transport | (646) | (258) |
| **Net book value** | **1 497** | **514** |
| **- Means of transport** | **1 497** | **514** |

There is no collateral established on the Company's property, plant and equipment, aside from tangible assets used under financial lease contracts.

## 6. Perpetual usufruct of land

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Gross value at the beginning of period** | **1 380** | **2 230** |
| Contribution in kind (initial value) | - | (573) |
| Liquidation (initial value) | - | (439) |
| Other (initial value) | 305 | 162 |
| **Gross value at the end of period** | **1 685** | **1 380** |
| **Depreciation value at the beginning of period** | **(165)** | **(260)** |
| Amortisation | (16) | (24) |
| Contribution in kind (depreciation) | - | 114 |
| Liquidation (depreciation) | - | 5 |
| **Depreciation value at the end of period** | **(181)** | **(165)** |
| **Net value at the beginning of period** | **1 215** | **1 970** |
| **Net value at the end of period** | **1 504** | **1 215** |

## 7. Intangible assets

| | Computer software, licences, concessions, patents | |
|---|---|---|
| | **31.12.2018** | **31.12.2017** |
| **Gross value at the beginning of period** | **11 689** | **13 863** |
| Purchase | - | 95 |
| Liquidation | - | (2 269) |
| **Gross value at the end of period** | **11 689** | **11 689** |
| **Depreciation value at the beginning of period** | **(7 023)** | **(9 049)** |
| Amortisation | (165) | (237) |
| Liquidation | - | 2 263 |
| **Depreciation value at the end of period** | **(7 188)** | **(7 023)** |
| **Net value at the beginning of period** | **4 666** | **4 814** |
| **Net value at the end of period** | **4 501** | **4 666** |

No collateral is established on intangible assets.

(all amounts in PLN 000s unless stated otherwise)

## 8. Investment properties

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Gross value at the beginning of period** | **19 322** | **19 322** |
| **Gross value at the end of period** | **19 322** | **19 322** |

| | | |
|---|---|---|
| **Depreciation value at the beginning of period** | **(4 467)** | **(3 917)** |
| Depreciation for the period | (550) | (550) |
| **Depreciation value at the end of period** | **(5 017)** | **(4 467)** |
| **Net value at the beginning of period** | **14 855** | **15 405** |
| **Net value at the end of period** | **14 305** | **14 855** |

The Company classified an office building and other premises as investment properties. An office building constitutes a significant investment property. A lease contract from 2012 expired on 9 January 2017. The Company currently manages the building on its own. The building is 72.95% rented to external tenants.

Rent income generated on this office building in 2018 was PLN 1 124 thousand, while the building's maintenance costs ran up to PLN 876 thousand.

The ENEA S.A. headquarters was the most valuable investment property recognised in the Company's books at PLN 8 467 thousand. The Company estimates that the fair value is close to the value recognised in the books.

## 9. Investments in subsidiaries, associates and jointly controlled entities

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **As at the beginning of period** | **11 945 473** | **9 448 433** |
| Purchase of investments | 648 621 | 1 615 327 |
| Refundable capital contributions | - | 387 |
| Other | - | 2 056 |
| Change in impairment | 200 862 | 879 270 |
| **As at the end of period** | **12 794 956** | **11 945 473** |

**2018**

On 3 January 2018 an Extraordinary General Meeting of ElectroMobility Poland S.A. adopted a resolution on a PLN 20 000 thousand increase in the company's share capital by increasing the nominal value of shares from PLN 1 000.00 to PLN 3 000.00. After the capital increase, ENEA S.A. holds 2 500 shares with nominal value of PLN 3 000.00 and total value of PLN 7 500 thousand.

On 31 January 2018 an Extraordinary General Meeting of Polska Grupa Górnicza S.A. adopted a resolution to increase the company's share capital by PLN 300 000 thousand, i.e. from PLN 3 616 718 thousand to PLN 3 916 718 thousand, by issuing 3 000 000 new shares in a private subscription. ENEA S.A. purchased 900 000 new shares in a private subscription with nominal value of PLN 100 each and total nominal value of PLN 90 000 thousand.

On 31 January 2018 an Extraordinary General Meeting of ENEA Innovation Sp. z o.o. adopted a resolution to increase the company's share capital by PLN 3 500 thousand, i.e. to PLN 3 805 thousand, by issuing 35 000 new shares with a nominal value of PLN 100.00 each.

On 23 March 2018 ENEA S.A. purchased from ENERGA S.A. 1 201 036 shares in Elektrownia Ostrołęka Sp. z o.o.; the purchase price for these shares was PLN 57 694 thousand. Following the purchase, ENEA holds a 50% stake in the company.

On 29 March 2018 the Company purchased 350 000 shares in Elektrownia Ostrołęka Sp. z o.o. with nominal value of PLN 50 each and total nominal value of PLN 17 500 thousand.

On 30 July 2018 ENEA S.A. purchased 2 870 000 shares in Elektrownia Ostrołęka Sp. z o.o. with nominal value of PLN 50 each and total nominal value of PLN 143 500 thousand. ENEA S.A.'s stake in Elektrownia Ostrołęka Sp. z o.o.'s share capital did not change and remains at 50% because the new shares in increased share capital were acquired by ENEA S.A. and Energa S.A. proportionally to their stakes, i.e. on a 50:50 basis.

On 9 July an Extraordinary General Meeting of ENEA Oświetlenie Sp. z o.o. adopted a resolution on a PLN 16 000 thousand share capital increase from PLN 166 127 thousand to PLN 182 127 thousand through the issue of 32 000 new shares with total nominal value of PLN 16 000 thousand and nominal value of PLN 500.00 each. ENEA S.A. acquired 32 000 shares in the company's increased share capital in exchange for a cash contribution.

On 4 October 2018, an Extraordinary General Meeting of ElectroMobility Poland S.A. adopted a resolution on a PLN 40 000 thousand increase in the company's share capital by increasing the nominal value of shares from PLN 3 000.00 to PLN 7 000.00. After the capital increase, ENEA S.A. holds 2 500 shares with nominal value of PLN 7 000.00 and total value of PLN 17 500 thousand.

On 26 October 2018, an Extraordinary General Meeting of ENEA Ciepło Sp. z o.o. adopted a resolution to divide ENEA Wytwarzanie Sp. z o.o. by de-merging and transferring selected assets to ENEA Ciepło Sp. z o.o. and a resolution on approval for a share capital increase and amendment of the articles of association of ENEA Ciepło Sp. z o.o.

On the same day, an Extraordinary General Meeting of ENEA Wytwarzanie Sp. z o.o. also adopted a resolution to divided ENEA Wytwarzanie Sp. z o.o. by de-merging and transferring selected assets to ENEA Ciepło Sp. z o.o. and on approval for amendment of ENEA Ciepło Sp. z o.o.'s articles of association, as well as a resolution on approval for sale by ENEA Wytwarzanie Sp. z o.o. of shares in ENEA Ciepło Sp. z o.o., based in Białystok, and ENEA Ciepło Serwis Sp. z o.o., based in Białystok, to ENEA S.A., based in Poznań. The de-merger took place on 30 November 2018.

The stakes in ENEA Ciepło Sp. z o.o. and ENEA Ciepło Serwis Sp. z o.o. were sold by ENEA Wytwarzanie Sp. z o.o. to ENEA S.A. on 5 November 2018 for a total of PLN 300 718 thousand.

On 20 December 2018 an Extraordinary General Meeting of ENEA Badania i Rozwój Sp. z o.o. adopted a resolution to increase the company's share capital by PLN 5 850 thousand to PLN 7 855 thousand by issuing 117 000 new shares with a nominal value of PLN 50 each.

ENEA S.A. purchased 1 170 shares in the increased capital, worth PLN 59 thousand. The share capital increase was paid in cash, and the rest of the shares were purchased by ENEA Wytwarzanie Sp. z o.o.

In connection with an update dated 29 June 2018 of the Act on renewable energy sources, which introduced regulations that change the property tax treatment for wind assets, effective from 1 January 2018, ENEA S.A. updated impairment tests conducted in previous years for ENEA Wytwarzanie Sp. z o.o. shares. As regards generation of energy from wind sources, a decrease in tax burdens on the usable value of wind farms was introduced. Based on analysis, impairment losses worth a total of PLN 51 365 thousand were reversed.

(all amounts in PLN 000s unless stated otherwise)

**Impairment of investments**

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Impairment of investments at the beginning of period** | **1 280 505** | **2 159 775** |
| Created | 6 608 | - |
| Reversed | (207 470) | (879 270) |
| **Impairment of investments at the end of period** | **1 079 643** | **1 280 505** |

### Impairment tests at ENEA Wytwarzanie Sp. z o.o., ENEA Ciepło Sp. z o.o. and ENEA Elektrownia Połaniec S.A.

As at 31 December 2018, in connection with information and analyses concerning changes in the market prices of $CO_2$ emission allowances, electricity, energy origin certificates and a change in Capacity Market conditions as well as forecasts for macroeconomic indicators, the Group carried out impairment tests for ENEA Wytwarzanie Sp. z o.o. and ENEA Elektrownia Połaniec S.A.

The recoverable amounts result from the sum of the useful values of each CGU within ENEA Wytwarzanie Sp. z o.o., ENEA Ciepło Sp. z o.o. and ENEA Elektrownia Połaniec S.A., less financial liabilities. CGUs' useful values were specified using the discounted cash flows method for periods longer than five years. The projection's timeframe results from a combination of economic lifetime of each CGU and the long-term impact of new and announced legal regulations. For generating units with expected economic lifetime exceeding the projection period, a residual value was specified.

The recoverable value of equity, calculated as above, is as follows:

- at ENEA Wytwarzanie Sp. z o.o. PLN 4 362 063 thousand (book value after reversal of impairment losses: PLN 4 362 063 thousand),
- at ENEA Ciepło Sp. z o.o. PLN 631 089 thousand (book value: PLN 621 891 thousand),
- at ENEA Elektrownia Połaniec S.A. PLN 1 268 087 thousand (book value: PLN 1 268 087 thousand).

Taking into account growth in the recoverable amount for ENEA Wytwarzanie Sp. z o.o. in relation to its book value covered by impairment from previous years, impairment losses recognised in 2015-2016 were reversed by PLN 156 105 thousand.

The key assumptions used in the tests are the result of the best knowledge and experience of the Company and its subsidiaries as regards the generation of electricity from various sources, taking into account the specific nature of each CGU's products and events that had taken place or are expected to take place in the future at ENEA Group.

Presented below are the key assumptions used in impairment tests:

- assets were tested in seven CGUs (CGU Elektrownie Systemowe Kozienice, CGU Białystok, CGU Wind, CGU Hydro, CGU Biogas, CGU Elektrownie Systemowe Połaniec, CGU Zielony Blok),
- the main price paths, based on forecasts prepared by ENEA Trading (a company operating as ENEA Group's competence centre for wholesale trade of electricity, emission allowances and fuels), taking into account the specific nature of products and knowledge about existing contracts:
  - wholesale electricity prices: for years 2019-2041, the assumed prices range between PLN 237 and PLN

310 [constant prices 2018], with considerable growth from 2025,

  - prices of energy origin certificates for renewables and cogeneration: existence of renewables support systems until 2031 (once the support system for high-efficiency cogeneration ends in 2018), and specific renewables plants will use support within a 15-year period; prices will largely be in a sideways trend and will decline towards the end of the system's operation from approx. PLN 160 to PLN 80 [constant prices 2018],
  - $CO_2$ emission allowance prices: general increase in the forecast period from 2020 to approx. 37 EUR/t [constant prices 2018],
  - coal prices: coal prices are expected to fall until 2025, followed by moderate growth in subsequent periods of the forecast, up to 11.5 PLN/GJ [constant prices 2018],
  - biomass prices: biomass prices are expected to grow through to 2030 and decline after 2030 as the existing green certificate support system ends,
  - heat prices: heat prices are expected to grow to approx. 103 PLN/GJ during the forecast period [constant prices 2018],
- quantity of $CO_2$ emission allowances received for free for years 2019-2021 in accordance with derogation application (pursuant to art. 10c sec. 5 of Directive 2003/87/EC of the European Parliament and of the Council),
- revenue related to maintaining generation capacities from 2021 pursuant to the Act on the Capacity Market, based on auctions won in 2018,
- inflation, taking into account the inflation target, at a maximum level of 2.5%,
- nominal discount rate - 6.73% [discount rate before tax is 7.7%],
- growth rate in residual period - 0%.

The sensitivity analysis shows that significant factors having impact on the estimated recoverable values of CGUs include: discount rates, inflation, electricity prices and $CO_2$ emission allowance prices. Future financial results and thus the recoverable amounts of CGUs will also be driven by the prices of energy origin certificates, coal, heat and biomass prices.

(all amounts in PLN 000s unless stated otherwise)

The following table shows the impact of selected factors on the total recoverable value (output value) of equity:

**Impact of changes in discount rate**

| Change in assumptions | -0.5pp | Output value | +0.5pp |
|---|---|---|---|
| **Change in recoverable value** | **755 996** | **6 252 041** | **(660 825)** |

**Impact of changes in inflation***

| Change in assumptions | -0.5pp | Output value | +0.5pp |
|---|---|---|---|
| **Change in recoverable value** | **(546 424)** | **6 252 041** | **592 817** |

* the sensitivity analysis does not take into account the impact of inflation on the discount rate.

**Impact of changes in electricity prices**

| Change in assumptions | -1.0pp | Output value | +1.0pp |
|---|---|---|---|
| **Change in recoverable value** | **(849 995)** | **6 252 041** | **844 255** |

**Impact of change in $CO_2$**

| Change in assumptions | -1.0pp | Output value | +1.0pp |
|---|---|---|---|
| **Change in recoverable value** | **238 314** | **6 252 041** | **(238 601)** |

## 10. Financial assets at amortised cost

| | 31.12.2018 | 31.12.2017* |
|---|---|---|
| **Current debt financial assets at amortised cost** | | |
| Intra-group bonds | 558 201 | - |
| Loans granted | 35 020 | - |
| **Current debt financial assets at amortised cost** | **593 221** | **-** |
| **Non-current debt financial assets at amortised cost** | | |
| Intra-group bonds | 6 423 891 | - |
| Loans granted | 155 089 | - |
| **Non-current debt financial assets at amortised cost** | **6 578 980** | **-** |
| **TOTAL** | **7 172 201** | **-** |

* as at 31 December 2017, financial assets at amortised cost did not exist; data restatement as at 1 January 2018 is presented in note 3.

### Impairment - expected credit losses

| | Nominal value | Impairment | Book value |
|---|---|---|---|
| **31.12.2018** | | | |
| Debt financial assets at amortised cost | 7 172 629 | (428) | 7 172 201 |
| Cash and cash equivalents | 1 145 978 | - | 1 145 978 |
| **Financial assets at amortised cost** | **8 318 607** | **(428)** | **8 318 179** |

## 11. Financial assets - intra-group bonds

ENEA Group has adopted a model for financing investments being implemented by ENEA S.A. through intra-group financing. ENEA S.A. raises cash on the financial market through credit facilities or bond issues and subsequently distributes these within the Group. The following table presents on-going intra-group bond issue programmes as at 31 December 2018 and 31 December 2017:

| Contract execution date | Bond issuers | Final buy-back deadline | Amount granted in PLN 000s | Amount used in PLN 000s | Outstanding bonds as at 31 December 2018 (equity) in PLN 000s | Outstanding bonds as at 31 December 2017, (equity) in PLN 000s |
|---|---|---|---|---|---|---|
| 10 March 2011 | ENEA Wytwarzanie Sp. z o.o. | 31 March 2023 | 26 000 | 26 000 | 26 000 | 26 000 |
| 29 September 2011 | ENEA Wytwarzanie Sp. z o.o. | 29 September 2019 | 14 500 | 14 500 | 6 000 | 6 000 |
| 23 July 2012 | ENEA Ciepło Sp. z o.o.* | 22 July 2019 | 158 500 | 158 500 | 13 450 | 35 650 |
| 8 September 2012 agreement for PLN 4 000 000 thousand decreased through Annex 2 of 21 January 2015 to PLN 3 000 000 thousand | ENEA Wytwarzanie Sp. z o.o. | from 15 June 2020 to 15 December 2020, depending on bond series' issue dates; the rest of the amounts at the latest by 15 June 2022 | 3 000 000 | 2 650 000 | 2 650 000 | 2 650 000 |
| 20 June 2013 amended through Annex 1 of 9 October 2014 and Annex 2 of 7 July 2015 | ENEA Operator Sp. z o.o. | Dependent on bond series' issue dates, however no later than by 17 June 2030 | 1 425 000 | 1 425 000 | 1 264 369 | 1 357 174 |
| 12 August 2014 for PLN 260 000 thousand, increased to PLN 1 000 000 thousand through Annex 1 of 11 February 2015 and decreased to PLN 260 000 thousand through Annex 2 of 30 December 2015. | ENEA Wytwarzanie Sp. z o.o. | Buy-back in tranches - final buy-back deadline 15 December 2016 | 260 000 | 260 000 | - | 249 600 |
| 17 November 2014 | ENEA Wytwarzanie Sp. z o.o. | 31 March 2020 | 740 000 | 350 000 | 350 000 | 350 000 |
| 17 February 2015 for PLN 760 000 thousand, increased through Annex 1 of 3 June 2015 to PLN 1 000 000 thousand. | ENEA Wytwarzanie Sp. z o.o. | 10 February 2020 | 1 000 000 | 1 000 000 | 1 000 000 | 1 000 000 |
| 7 July 2015 amended through Annex 1 of 28 March 2017 | ENEA Operator Sp. z o.o. | Dependent on bond series' issue dates, however no later than by 15 December 2031 | 946 000 | 946 000 | 941 833 | 946 000 |
| 30 October 2015 | ENEA Ciepło Sp. z o.o. | Buy-back in tranches - final buy-back deadline on 31 March 2020 | 18 000 | 18 000 | 5 000 | 9 000 |
| 20 September 2017 | ENEA Operator Sp. z o.o. | 15 December 2019 | 350 000 | 350 000 | 350 000 | 350 000 |
| 20 July 2018 | ENEA Operator Sp. z o.o. | 15 December 2020 | 400 000 | 400 000 | 400 000 | - |
| | | | **Total** | | **7 006 652** | **6 979 424** |
| Transaction costs and effect of measurement using effective interest rate | | | | | (24 560) | (41 149) |
| | | | **Total** | | **6 982 092** | **6 938 275** |

* Bonds transferred over from ENEA Wytwarzanie Sp. z o.o. to ENEA Ciepło Sp. z o.o. as part of the District Heating Reorganisation Project.

(all amounts in PLN 000s unless stated otherwise)

On 15 March 2018 ENEA S.A. and ENEA Operator Sp. z o.o. changed the interest from variable to fixed for bonds series 2 issued under the Programme Agreement of 20 June 2013 in the amount of PLN 170 000 thousand.

On 20 July 2018 ENEA S.A. and ENEA Operator Sp. z o.o. singed a bond issue programme agreement for PLN 400 000 thousand. Under this agreement, ENEA S.A. purchased two bond series for PLN 200 000 thousand each, issued on 26 July 2018 and 17 December 2018, respectively. Interest on securities is based on the WIBOR 3M variable interest rate plus margin, with one-time redemption date in December 2020.

In connection with the District Heating Reorganisation Project carried out in the fourth quarter of 2018, ENEA S.A. and ENEA Wytwarzanie Sp. z o.o. executed a debt offset agreement, which concerned the mutual offset of:

a) debt due for ENEA S.A. - for the early buy-back by ENEA Wytwarzanie Sp. z o.o. of bonds issued pursuant to a Programme Agreement of 12 August 2014,
b) debt due for ENEA Wytwarzanie Sp. z o.o. - for purchasing by ENEA S.A. of stakes in ENEA Ciepło Sp. z o.o. and ENEA Ciepło Serwis Sp. z o.o.

As a result of the District Heating Reorganisation Project, as of 30 November 2018 the outstanding amount of bonds of PLN 228 800 thousand, issued under the Programme Agreement of 12 August 2014, was partially bought back by ENEA Wytwarzanie Sp. z o.o.

As a result of the division of ENEA Wytwarzanie Sp. z o.o. on 30 November 2018, which consisted of transferring parts of ENEA Wytwarzanie Sp. z o.o. assets to ENEA Ciepło Sp. z o.o., purchased by ENEA S.A. (division by carve-out), ENEA Ciepło Sp. z o.o. received assets and liabilities, permits, concessions and benefits related to the activities of Elektrociepłownia Białystok (ECB), which constituted an organised part of enterprise. The assets and liabilities were divided as of 1 May 2018. All assets and liabilities of ENEA Wytwarzanie Sp. z o.o. (including debt and liabilities) unallocated to ENEA Ciepło Sp. z o.o. in the Division Plan for ENEA Wytwarzanie Sp. z o.o. of 26 June 2018 remained at ENEA Wytwarzanie Sp. z o.o. Following the District Heating Reorganisation Project, bonds issued by ECB were transferred to ENEA Ciepło Sp. z o.o., which assumed the bond issuer's rights and obligations.

## 12. Trade and other receivables

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Current trade and other receivables** | | |
| Financial lease receivables | 759 | 24 |
| Trade receivables | 991 194 | 884 297 |
| Other receivables | 37 585 | 37 570 |
| Loans granted | -* | 36 669 |
| Advances | 1 829 | 15 032 |
| Accrued receivables for uninvoiced sales | -** | 218 012 |
| | **1 031 367** | **1 191 604** |
| Minus: impairment of receivables | (60 710) | (64 622) |
| **Net current trade and other receivables** | **970 657** | **1 126 982** |

(all amounts in PLN 000s unless stated otherwise)

| **Non-current trade and other receivables** | | |
|---|---|---|
| Financial lease receivables | 1 103 | 46 |
| Loans granted | -* | 131 448 |
| Other receivables | -** | 14 747 |
| | **1 103** | **146 241** |
| Minus: impairment of receivables | - | - |
| **Net non-current trade and other receivables** | **1 103** | **146 241** |

* presentation change resulting from IFRS 9, described in note 3.
** presentation change resulting from IFRS 15, described in note 3.

Impairment of trade and other receivables:

| | **31.12.2018** | **31.12.2017** |
|---|---|---|
| **Impairment of receivables at the beginning of period** | **64 622** | **56 111** |
| Adjustment due to implementation of IFRS 9 | 2 572 | - |
| **Impairment of receivables at the beginning of period, adjusted** | **67 194** | **56 111** |
| Created | 7 645 | 23 837 |
| Used | (14 129) | (15 326) |
| **Impairment of receivables at the end of period** | **60 710** | **64 622** |

Impairment losses are recognised mainly on trade receivables; impairment losses on other receivables are insubstantial.

## 13. Assets arising from contracts with customers

| | **Assets arising from contracts with customers*** |
|---|---|
| **As at the beginning of period, adjusted** | **221 714** |
| Change in non-invoices receivables | 5 656 |
| Change in impairment | 110 |
| **As at the end of period** | **227 480** |

* as at 31 December 2017, assets arising from contracts with customers did not exist; data restatement as at 1 January 2018 is presented in note 3.

The balance of assets arising from contracts with customers mainly covers uninvoiced electricity sales.

## 14. Analysis of the age structure of assets arising from contracts with customers and trade and other receivables and lease receivables

| | **Nominal value** | **Impairment** | **Book value** |
|---|---|---|---|
| **31.12.2018** | | | |
| **Trade and other receivables and leases** | | | |
| Current | 840 754 | (210) | 840 544 |
| Overdue | | | |
| 0-30 days | 60 135 | (44) | 60 091 |
| 31-90 days | 11 310 | (586) | 10 724 |
| 91-180 days | 4 254 | (1 087) | 3 167 |
| over 180 days | 76 603 | (56 650) | 19 953 |
| **Total trade and other receivables and leases** | **993 056** | **(58 577)** | **934 479** |
| **Assets arising from contracts with customers** | **227 526** | **(46)** | **227 480** |

(all amounts in PLN 000s unless stated otherwise)

| | Nominal value | Impairment | Book value |
|---|---|---|---|
| **31.12.2017** | | | |
| Current | 1 127 284 | (21) | 1 127 263 |
| Overdue | | | |
| 0-30 days | 39 522 | (181) | 39 341 |
| 31-90 days | 14 498 | (659) | 13 839 |
| 91-180 days | 5 750 | (1 477) | 4 273 |
| over 180 days | 83 442 | (59 576) | 23 866 |
| **TOTAL** | **1 270 496** | **(61 914)** | **1 208 582** |

## 15. Inventories

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Origin certificates | 332 360 | 216 494 |
| Goods | 1 218 | 664 |
| **Total inventories** | **333 578** | **217 158** |

Energy origin certificates:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **As at the beginning of period** | **216 494** | **84 984** |
| Purchase | 494 125 | 322 090 |
| Depreciation | (375 496) | (189 121) |
| Sale | (2 639) | (1 459) |
| Other changes | (124) | - |
| **As at the end of period** | **332 360** | **216 494** |

Costs connected with redeeming energy origin certificates are presented in profit or loss in the following item: Purchase of electricity and gas for sales purposes.

## 16. Cash and cash equivalents

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Cash at bank account** | **142 210** | **183 662** |
| including split payment | 7 766 | - |
| **Other cash** | **1 003 768** | **1 562 764** |
| - deposits | 973 678 | 1 553 367 |
| - other | 30 090 | 9 397 |
| **Total cash and cash equivalents** | **1 145 978** | **1 746 426** |
| **Cash recognised in the statement of cash flows** | **1 145 978** | **1 746 426** |

As at 31 December 2018 and 31 December 2017, ENEA S.A. did not have restricted cash.

In accordance with ENEA S.A.'s credit risk assessment rules and the provisions of IFRS 9 as regards impairment tests for cash and cash equivalents as at 31 December 2018; the Company sees potential impact as negligible.

## 17. Financial assets at fair value

As at 31 December 2018, financial assets at fair value included call options for Polimex-Mostostal S.A. shares, among other things. Pursuant to a call option agreement for Polimex-Mostostal S.A. shares of 18 January 2017, ENEA S.A. purchased call options from Towarzystwo Finansowe Silesia Sp. z o.o. This agreement sees the purchase, in three tranches, of 9 125 thousand shares at nominal value of PLN 2 per share within specified deadlines, i.e. 30 July 2020, 30 July 2021 and 30 July 2022. Fair value measurement of the call options was conducted using the Black-Scholes model. The fair value of the options as at 31 December 2018 amounted to PLN 12 116 thousand.

(all amounts in PLN 000s unless stated otherwise)

Also presented in the item 'financial assets at fair value' are interests in unrelated entities and derivative instruments, which include the measurement of interest rate risk hedges; the measurement of these assets is presented in note 22.8.

## 18. Equity

Equity at 31 December 2018

| Share series | Number of shares (in pcs) | Nominal value 1 share (in PLN) | Book value |
|---|---|---|---|
| Series A | 295 987 473 | 1 | 295 988 |
| Series B | 41 638 955 | 1 | 41 639 |
| Series C | 103 816 150 | 1 | 103 816 |
| **Total number of shares** | **441 442 578** | | |
| **Share capital (nominal amount)*** | | | **441 443** |
| Capital from settlement of merger | | | 38 810 |
| Share capital from restatement of hyperinflation | | | 107 765 |
| **Total share capital** | | | **588 018** |
| Share premium | | | 4 627 673 |
| Reserve capital | | | 4 963 564 |
| Revaluation reserve - measurement of financial instruments | | | (17 036) |
| Revaluation reserve - measurement of hedging instruments | | | (15 986) |
| Retained earnings | | | 3 149 613 |
| **Total equity** | | | **13 295 846** |

*Share capital was fully paid-up.

Equity at 31 December 2017

| Share series | Number of shares (in pcs) | Nominal value 1 share (in PLN) | Book value |
|---|---|---|---|
| Series A | 295 987 473 | 1 | 295 988 |
| Series B | 41 638 955 | 1 | 41 639 |
| Series C | 103 816 150 | 1 | 103 816 |
| **Total number of shares** | **441 442 578** | | |
| **Share capital (nominal amount)*** | | | **441 443** |
| Capital from settlement of merger | | | 38 810 |
| Share capital from restatement of hyperinflation | | | 107 765 |
| **Total share capital** | | | **588 018** |
| Share premium | | | 4 627 673 |
| Reserve capital | | | 3 150 240 |
| Revaluation reserve - measurement of hedging instruments | | | 25 967 |
| Retained earnings | | | 4 240 079 |
| **Total equity** | | | **12 631 977** |

*Share capital was fully paid-up.

On 25 June 2018 an Ordinary General Meeting of ENEA S.A. adopted resolution no. 6 concerning the allocation of net profit for the financial year covering the period from 1 January 2017 to 31 December 2017, pursuant to which 100% of the 2017 net profit was transferred to reserve capital, intended to finance investments.

On 26 June 2017 an Ordinary General Meeting of ENEA S.A. adopted resolution no. 6 concerning the allocation of net profit for the financial year covering the period from 1 January 2016 to 31 December 2016, pursuant to which PLN 509 882 thousand was allocated to supplementary capital. The remaining amount of PLN 110 361 thousand was paid out to shareholders as a dividend.

(all amounts in PLN 000s unless stated otherwise)

## 19. Credit facilities, loans and debt securities

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Long-term** | | |
| Bank credit | 2 049 374 | 2 200 432 |
| Outstanding | 5 850 121 | 5 442 791 |
| **Total** | **7 899 495** | **7 643 223** |
| **Short-term** | | |
| Bank credit | 158 319 | 100 546 |
| Outstanding | 183 156 | 122 412 |
| **Total** | **341 475** | **222 958** |
| **Total credit facilities, loans and debt securities** | **8 240 970** | **7 866 181** |

### Credit facilities

ENEA S.A. currently has credit agreements with the EIB for a total amount of PLN 2 371 000 thousand (Agreement A PLN 950 000 thousand, Agreement B PLN 475 000 thousand and Agreement C PLN 946 000 thousand). Funds from the EIB are intended to finance a multi-year investment plan aimed at modernising and expanding ENEA Operator Sp. z o.o.'s power network Funds from Agreements A, B and C are fully used. Agreement C's availability ended in December 2017. Interest on credit facilities may be fixed or variable.

As of 15 March 2018, pursuant to the provisions of Agreement A with the EIB the parties changed the interest rate from variable to fixed for the second tranche of the credit facility, amounting to PLN 170 000 thousand.

| No. | Lender | Contract date | Total contract amount | Liability at 31 December 2018 | Liability at 31 December 2017 | Contract period |
|---|---|---|---|---|---|---|
| 1. | European Investment Bank | 18 October 2012 and 19 June 2013 (A and B) | 1 425 000 | 1 264 369 | 1 357 174 | 31 December 2030 |
| 2. | European Investment Bank | 29 May 2015 (C) | 946 000 | 941 833 | 946 000 | 30 September 2032 |
| 3. | Bank PKO BP S.A. | 28 January 2014, Annex 1 of 25 January 2017 | 300 000 | - | - | 31 December 2019 |
| 4. | Bank PEKAO S.A. | 28 January 2014, Annex 1 of 25 January 2017 | 150 000 | - | - | 31 December 2019 |
| | **TOTAL** | | **2 821 000** | **2 206 202** | **2 303 174** | |
| | Transaction costs and effect of measurement using effective interest rate | | | 1 491 | (2 196) | |
| | **TOTAL** | | **2 821 000** | **2 207 693** | **2 300 978** | |

(all amounts in PLN 000s unless stated otherwise)

### Bond issue programmes

ENEA S.A. executes bond issue programme agreements in order to issue bonds to finance on-going operations and the investment needs of ENEA S.A. and its subsidiaries.

| No. | Bond issue programme name | Programme start date | Programme amount | Value of issued bonds at 31 December 2018 | Outstanding bonds as at 31 December 2018 (principal) | Outstanding bonds as at 31 December 2017 (principal) | Buy-back deadline |
|---|---|---|---|---|---|---|---|
| 1. | Bond issue programme agreement executed with PKO BP S.A., Bank PEKAO S.A., BZ WBK S.A., Bank Handlowy w Warszawie S.A. | 21 June 2012 | 3 000 000 | 3 000 000 | 3 000 000 | 3 000 000 | One-time buy-back between June 2020 and June 2022 |
| 2. | Bond issue programme agreement with BGK | 15 May 2014 | 1 000 000 | 1 000 000 | 880 000 | 960 000 | Buy-back in tranches, last tranche due in December 2026 |
| 3. | Bond issue programme agreement with ING Bank Śląski S.A., PKO BP S.A., Bank PEKAO S.A. and mBank S.A. | 30 June 2014 | 5 000 000 | 1 500 000 | 1 500 000 | 1 500 000 | One-time buy-back of each series, in February 2020 and September 2021 |
| 4. | Bond issue programme agreement with BGK | 3 December 2015 | 700 000 | 700 000 | 685 000 | 150 000 | Buy-back in tranches, last tranche due in September 2027 |
| | **TOTAL** | | **9 700 000** | **6 200 000** | **6 065 000** | **5 610 000** | |
| | Transaction costs and effect of measurement using effective interest rate | | | | (31 723) | (44 797) | |
| | **TOTAL** | | **9 700 000** | **6 200 000** | **6 033 277** | **5 565 203** | |

On 17 July 2018 ENEA S.A. and BGK executed Annex 1 to the Programme Agreement of 3 November 2015 concerning a Bond Issue Programme of up to PLN 700 000 thousand. Pursuant to the annex, the programme's availability period was changed from 1 March 2018 to 31 December 2018. On 12 December 2018 ENEA S.A. as part of the aforementioned Programme Agreement issued bonds worth PLN 550 000 thousand. In the reporting period ended 31 December 2018 ENEA S.A. did not execute new financing agreements.

### Interest rate swaps

In the 12-month period ending 31 December 2018 ENEA S.A. did not execute interest rate swaps. The total bond and credit exposure hedged with IRS transactions as at 31 December 2018 amounted to PLN 5 315 000 thousand. Moreover, ENEA has fixed-rate credit agreements totalling PLN 245 000 thousand. These transactions have material impact on the predictability of expense flows and finance costs. The Company presents the measurement of these instruments in the item "Financial liabilities at fair value"/"Financial assets at fair value." Derivative instruments are treated as cash flow hedges, which is why they are recognised and accounted for using hedge accounting rules.

(all amounts in PLN 000s unless stated otherwise)

As at 31 December 2018, the measurement of IRS - "Financial liabilities at fair value" - was PLN 22 176 thousand (as at 31 December 2017 "Financial assets at fair value" PLN 29 553 thousand).

### Transactions hedging FX risk

In the 12-month period ending 31 December 2018 the Company executed FX forward transactions for a total volume of EUR 696 thousand. The settlement date for the last transaction was in December 2018, hence measurement at 31 December 2018 was PLN 0 (PLN 0 at 31 December 2017).

### Financing terms - covenants

Financing agreements require the Company and ENEA Group to maintain certain financial ratios. As at 31 December 2018 and the date on which these separate financial statements were prepared and in the course of 2018 the Company did not breach any credit agreement provisions such as would require early re-payment of long-term debt.

## 20. Other financial liabilities

Cash management at ENEA Group is carried out at ENEA S.A. level, making it possible to effectively manage cash surpluses (scale effect) and to limit external financing costs. This applies to companies that participate in ENEA's tax group under the service "Cash management in group of accounts" - cash pooling.
In this service, the balances of participants' bank accounts are zeroed at the end of each day and subsequently any cash surpluses are transferred to the managing entity's (ENEA S.A.) bank account. The next day, cash balances are reversed and returned to the companies' bank accounts.
At 31 December 2018, the balance of liabilities within cash pooling was PLN 146 785 thousand (PLN 723 735 thousand at 31 December 2017).

## 21. Trade and other payables

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Current trade and other payables** | | |
| Trade payables | 524 828 | 615 163 |
| Current tax liabilities (excluding income tax) | 65 042 | 78 447 |
| Liabilities concerning purchase of tangible and intangible assets | 148 | - |
| Other | 56 642 | 103 959 |
| **Total** | **646 660** | **797 569** |

## 22. Financial instruments

### 22.1. Financial risk management rules

The Company's activities are subject to the following categories of risk associated with financial instruments:

- credit risk,
- financial liquidity risk,
- commodity risk,
- currency risk,
- interest rate risk.

This note contains information on the Company's exposure to each of the aforementioned types of risk and describes the objectives and policies with regard to managing risk and capital. The Management Board of ENEA S.A. is responsible for setting out the risk management framework and rules.

Managing financial risk is based on a formalised and integrated risk management process, described in dedicated risk management policies, procedures and methodologies.

Risk management is designed as a continuous process. ENEA S.A. continuously analyses risk in terms of external environmental impact and changes in its structures and activities. Based on this, it takes actions that are intended to limit risk or transfer it outside of the Company.

### 22.2. Credit risk

Credit risk is risk associated with the Company incurring financial losses as a result of a client or counterparty that is a party to a financial instrument failing to meet its contractual obligations.
Credit risk is associated with a potential inability to collect receivables from counterparties. The key factors having impact on credit risk in the Company's case are as follows:

- a large number of clients, which has an impact on the operational complexity of the risk mitigation process (assessment of counterparties' credit-worthiness) and the high cost of controlling the in-flow and recovery of receivables, or
- legal conditions for doing business, which specify rules for shutting down electricity supplies as a result of non-payment or the obligation to connect entities to ENEA Operator's relevant distribution area, as well as the reserve seller or ex-officio seller functions.

The Management Board implements a credit risk management policy, pursuant to which exposure to credit risk is monitored on an on-going basis and activities intended to minimise it are undertaken. The key tool for managing credit risk is analysis of the credit-worthiness of ENEA S.A.'s most important counterparties, pursuant to which contractual terms with the counterparties are appropriately structured (payment terms, potential collateral, etc.).

In line with internal regulations - the issue of receivables being concentrated in relation to the Company's end customers is also subject to monitoring. The size of ENEA S.A.'s sales portfolio means that despite the fact that there are entities within the portfolio with relatively large consumption, the share of a single entity does not exceed 5% of the entire portfolio's volume, therefore the level of concentration is not seen as significant. In light of the above, the Company does not use additional collateral relating solely to concentration. The use of collateral is dependent each time on the counterparty's financial standing.

(all amounts in PLN 000s unless stated otherwise)

Failure to perform an obligation is understood as the occurrence of at least one of the following events or circumstances:

– debtor is more than 90 days late on a significant payment;
– The Company considers is as unlikely that the debtor will pay off its debt entirely (without taking into account amounts received from collateral or similar actions);

Events that indicate a low likelihood of the obligation being performed include: submission of bankruptcy application by the debtor, instigation of arrangement proceedings for the debtor - as well as other events not directly resulting from legal actions, such as lack of cash or negative forecasts regarding the debtor's payment situation. Meeting one of the aforementioned criteria provides grounds for identifying impairment on the given financial asset due to credit risk.

The following table shows a structure of financial assets depicting ENEA S.A.'s exposure to credit risk:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Intra-group bonds | - | 6 938 275 |
| Derivative instruments | - | 29 553 |
| Financial assets at fair value through profit or loss | - | 23 836 |
| Financial assets at fair value | 46 357 | - |
| Debt financial assets at amortised cost | 7 172 201 | - |
| Assets arising from contracts with customers | 227 480 | - |
| Trade receivables | 934 479 | 1 208 582 |
| Cash and cash equivalents | 1 145 978 | 1 746 426 |
| **Total** | **9 526 495** | **9 946 672** |

At ENEA S.A., credit risk relating to receivables is different in various market segments in which the Company operates:

- electricity sales to retail clients - there is a significant number of past-due receivables in this segment. Although these do not constitute a significant threat to the Company's finances, activities aimed at reducing this are undertaken. Activities intended to streamline the debt recovery process are successively being undertaken and consist of new and updated instructions and rules for debt recovery as well as cooperation with specialised entities. Debt collection begins 20-25 days after the payment deadline. Introducing harmonised debt collection rules, including soft debt recovery, makes it possible to shorten the cash recovery time and avoid long-term and often ineffective hard debt recovery, i.e. court enforcement. Cases that exceed a debt recovery limit are referred for court and enforcement proceedings,
- electricity sales to business, key and strategic clients - the amounts of over-due receivables in this segment are lower than in the case of retail clients. Given the above and due to a much smaller number of clients in these segments, debt collection rules are largely based on soft collection. Soft debt collection activities are undertaken no later than six working days after the payment deadline and generally do not last longer than 30 working days after the payment deadline,
- other receivables - the amounts of over-due receivables are negligible in comparison with the previous two segments.

The key role in the debt recovery process is played by the Debt Collection Department personnel. These are people who monitor the debt collection process and try to recover over-due debts through contacts with the clients. ENEA

S.A. also cooperates in this area with specialised external entities, which support the Company in hard debt collection activities.

ENEA S.A. monitors on an on-going basis the level of over-due receivables, recognises impairment losses and in justified cases raises legal claims.

As regards receivables from financial institutions, including cash deposited in bank accounts and deposits, as well as currency risk and interest risk hedging transactions, the security for such transactions is defined in "ENEA Group's liquidity and liquidity risk management policy" as well as in "ENEA Group's currency risk and interest risk management policy." ENEA only cooperates with partners meeting strict credit-worthiness criteria and having an established position on the banking market.

In accordance with the aforementioned policies and the "ENEA Group's credit risk management policy," if a transaction partner has a rating issued by a reputable agency, the Company does not estimate an internal rating for this entity. In selecting banking counterparties, the Company analyses external credit ratings, which override all other criteria for evaluating the security of investments and settlements, and these values must be at investment grade.

List of selected long-term ratings assigned to banks that currently work with ENEA S.A.:

| Bank | Agency | Rating |
|---|---|---|
| PKO BP | Moody's | A2 |
| Pekao | Fitch | BBB+ |
| mBank | S&P | BBB+ |
| Santander Polska | Fitch | BBB+ |
| BGK | Fitch | A- |

As regards financial investments, in order to limit concentration risk, diversification rules for invested cash are applied.
In accordance with the aforementioned "ENEA Group's liquidity and liquidity risk management policy," it is assumed that the maximum permissible level of fund allocation to one transaction partner is 35% of ENEA S.A.'s total funds allocated as investments with maturities over 3 months. Moreover, allocating excess cash of companies within the cash pooling structure is generally carried out by the parent company, which serves as Pool Leader in the cash pooling mechanism. Companies require ENEA S.A.'s approval to investment free cash on their own.

As regards managing current excess cash and as regards currency risk and interest risk hedging instruments, ENEA S.A. works with six financial institutions on a day-to-day basis.

ENEA S.A. diversifies credit risk concerning cash. As at 31 December 2018, cash was allocated at three banks as follows: bank A 42.8%, bank B 30.3%, bank C 21.8%.

ENEA S.A.'s Risk Management Department carries out evaluations of significant long-term receivables and debt securities (including intra-group bonds and loans) as well as financial guarantees and liabilities concerning loans, and conducts monitoring of significant credit risk and determines impairment for expected credit losses. In pursuing this objective, the Department's personnel performs individual assessments of each counterparties or specific instruments, using external credit ratings and, in the absence thereof, using a system of internal credit ratings based on Altman's model for emerging markets and elements of qualitative-forecasting assessment.

The Company identifies deterioration in credit risk if:

– counterparty is more than 30 days late on a significant payment;
– at the balance sheet date, a move down by at least two levels was identified in the case of non-investment-grade (as compared to the initial recognition of the given instrument), or
– at the balance sheet date, a move down by one level was identified in the case of junk grade (as compared to initial recognition of the given instrument) or a move from non-investment grade to junk grade.

Items assigned to investment grade for which no arrears on significant payments occurred for longer than 30 days are treated as items with low credit risk (the counterparty has high short-term ability to meet its obligations as regards contractual cash flows, and adverse changes in economic and business conditions in the long term might - but do not have to - impair its ability to satisfy these obligations).

The above-mentioned aspects of non-current receivables are regulated by the Company's "Methodology for determining expected credit losses for non-current debt assets and similar items." In accordance with this document, at the balance sheet date, within the items subject to these rules, ENEA S.A. identified credit risk only in respect to ENEA Centrum, amounting to PLN 428 thousand.

The following table shows changes in the balance sheet value of financial assets and liabilities:

(all amounts in PLN 000s unless stated otherwise)

| | As at 01.01.2018 | Losses/gains recognised in financial result due to balance sheet measurement or modification | Interest costs/income | Impairment - expected credit losses | Gain on disposal or derecognition | Other comprehensive income | Change | As at 31.12.2018 |
|---|---|---|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss: | | | | | | | | |
| - financial assets mandatorily measured at fair value through profit or loss | 23 836 | (11 720) | - | - | - | - | - | 12 116 |
| financial assets voluntarily measured at fair value through profit or loss, | 12 405 | (4 030) | - | - | - | - | 10 000 | 18 375 |
| Equity instruments at fair value through other comprehensive income | 26 902 | - | - | - | - | (17 036) | 6 000 | 15 866 |
| Derivative instruments used in hedge accounting | 29 553 | - | (7 289) | - | - | (22 264) | - | - |
| Financial assets at amortised cost: | | | | | | | | |
| - debt financial assets at amortised cost | 7 106 140 | 29 781 | 1 302 | (176) | 697 | - | 34 457 | 7 172 201 |
| - trade receivables | 818 595 | - | - | - | - | - | 115 884 | 934 479 |
| - assets arising from contracts with customers | 221 714 | - | - | 110 | - | - | 5 656 | 227 480 |
| - cash and cash equivalents | 1 746 426 | - | 1 659 | - | - | - | (602 107) | 1 145 978 |
| Financial liabilities at fair value through profit or loss: | | | | | | | | |
| - financial liabilities mandatorily measured at fair value through profit or loss | - | 361 | - | - | - | - | (2 358) | (1 997) |
| Derivative instruments used in hedge accounting | - | (297) | - | - | - | (19 688) | (194) | (20 179) |
| Financial liabilities at amortised cost: | | | | | | | | |
| - credit facilities, loans and debt securities | (7 866 181) | (17 894) | (2 756) | - | - | - | (354 139) | (8 240 970) |
| - trade payables | (615 163) | - | - | - | - | - | 90 187 | (524 976) |
| Other financial liabilities | (723 735) | - | - | - | - | - | 576 950 | (146 785) |
| Finance lease liabilities | (506) | - | - | - | - | - | (918) | (1 424) |
| **Total** | **779 986** | **(3 799)** | **(7 084)** | **(66)** | **697** | **(58 988)** | **(120 582)** | **590 164** |

(all amounts in PLN 000s unless stated otherwise)

The following table shows asset categories for which expected credit losses are calculated, by rating:

| | 31.12.2018 |
|---|---|
| | **12-month ECL** |
| **Cash and cash equivalents** | **1 145 978** |
| from AAA to BBB- (investment grade) | 1 145 978 |
| **Unquoted bonds** | **6 982 092** |
| from AAA to BBB- (investment grade) | 2 977 851 |
| from BB+ to B- (non-investment grade) | 4 004 241 |
| **Loans granted** | **190 537** |
| from AAA to BBB- (investment grade) | 12 176 |
| from BB+ to B- (non-investment grade) | 178 361 |
| **Total gross value** | **8 318 607** |
| Loans granted | (428) |
| **Total impairment for expected credit losses** | **(428)** |
| Cash and cash equivalents | 1 145 978 |
| Unquoted bonds | 6 982 092 |
| Loans granted | 190 109 |
| **Total balance sheet value** | **8 318 179** |

## 22.3. Financial liquidity risk

Financial liquidity risk is perceived as the risk of ENEA S.A. having no ability to meet its payment obligations upon maturity.

The aim of the Company's activities in managing liquidity and liquidity risk is to reduce the likelihood of losing the ability to meet its obligations. Implementing activities within the liquidity and liquidity risk management policy includes ensuring the ability to effectively respond to liquidity crises, i.e. periods of substantial demand for cash.

The adopted business policy ensures the availability of cash at a level allowing meeting obligations in the course of activities on an on-going basis. These activities at the same time allow for uninterrupted continuation of activities in liquidity crises for a period that is necessary to launch emergency financing plans, aiming to supplement any funding shortages.

In managing liquidity, the Company focuses on a detailed analysis of cash flows, receivables and payables turnover and the monitoring of bank account balances. In order to ensure an appropriate level of security in unforeseeable situations, ENEA S.A. also performs scenario analyses and develops solutions ensuring that liquidity risk is maintained at an acceptable level. The Company allocates excess funds to current assets in the form of fixed-term deposits. In order to ensure the stability of financing sources, the Company diversified its external financing sources. With a view toward limiting concentration risk, investments of excess cash are diversified. Investment performance is monitored on an on-going basis.

ENEA S.A. oversees activities between Group companies as regards liquidity and liquidity risk management. In order to ensure financing for on-going operations and to optimise the liquidity management process, companies that are part of the ENEA tax group use a cash pooling mechanism. The Group is also ramping up its intra-group bond issue programmes, thanks to which the effectiveness of using cash within the Group is increasing.

(all amounts in PLN 000s unless stated otherwise)

Continuous risk management in the aforementioned areas and the Company's market and financial position show that financial liquidity risk is at a minimal level.

The Company manages liquidity risk also by maintaining open and unused credit lines, which amounted to PLN 450 000 thousand as at 31 December 2018.

The following table shows the maturities of the Company's financial liabilities:

| **31.12.2018** | **Trade payables** | **Other financial liabilities** | **Finance lease liabilities** | **Bank credit and bonds** | **Derivative instruments** | **Total** |
|---|---|---|---|---|---|---|
| Book value | 524 976 | 146 785 | 1 424 | 8 240 970 | 22 176 | **8 936 331** |
| Non-discounted contractual cash flows | **(524 976)** | **(146 960)** | **(1 637)** | **(9 141 486)** | **(29 637)** | **(9 844 696)** |
| up to 6 months | (524 976) | (146 960) | (405) | (255 878) | (5 673) | **(933 892)** |
| 6-12 months | - | - | (377) | (268 804) | (5 586) | **(274 767)** |
| 1-2 years | - | - | (521) | (2 375 014) | (8 938) | **(2 384 473)** |
| 2-5 years | - | - | (334) | (4 014 422) | (9 440) | **(4 024 196)** |
| Over 5 years | - | - | - | (2 227 368) | - | **(2 227 368)** |

| **31.12.2017** | **Trade payables** | **Other financial liabilities** | **Finance lease liabilities** | **Bank credit and bonds** | **Total** |
|---|---|---|---|---|---|
| Book value | 615 163 | 723 735 | 506 | 7 866 181 | **9 205 585** |
| Non-discounted contractual cash flows | **(615 163)** | **(723 735)** | **(524)** | **(8 920 450)** | **(10 259 872)** |
| up to 6 months | (615 163) | (723 735) | (136) | (196 249) | **(1 535 283)** |
| 6-12 months | - | - | (136) | (203 608) | **(203 744)** |
| 1-2 years | - | - | (252) | (452 474) | **(452 726)** |
| 2-5 years | - | - | - | (5 752 690) | **(5 752 690)** |
| Over 5 years | - | - | - | (2 315 429) | **(2 315 429)** |

(all amounts in PLN 000s unless stated otherwise)

### 22.4. Commodity risk

Commodity risk is related to changes in the Company's revenue/cash flows occurring especially as a result of changes in commodity prices as well as changes in demand for the products/services offered by ENEA S.A. The objective of commodity risk management is to maintain exposure to this risk at an acceptable level, set by limits, while optimising the return on trading activities.

A specific aspect of the Company's commodity risk is the fact that by acting as an energy enterprise operating as ex-officio seller the Company is required to submit electricity price tariffs for approval for the tariff group G. The Company purchases energy at market prices, while its tariff is calculated on the basis of costs deemed by the President of the Energy Regulatory Office (URE) as justified and taking into account margins (in trade) planned for the next tariff period. In connection with the above, the Company in the tariff period has a limited ability to transfer adverse changes in costs onto the end recipients of electricity. The Company may file an application to the URE President to amend the tariff only in the event of a major increase in costs for reasons outside of its control.

Commodity risk management as regards prices consists of continuous monitoring of the size of open trading position (both in terms of hedging the retail sales volume as well as in proprietary trading) and measuring - using tools based on the value at risk concept - the level of risk resulting from possible changes in electricity price in relation to such an open position. The way to reduce risk in this case is to close a position that generates a potential loss that is higher than acceptable. The management model in this case is based on a VaR limit system, which specifies the maximum allowed size of open position that carries the commodity (price) risk.

Managing commodity risk in volumetric terms consists of using the scenario method and optimising trading planning and controlling processes that allow to most accurately estimate the expected volumes of electricity and associated commodities that are the subject of trade.

Moreover, regardless of the above, ENEA S.A. uses management rules specified in the Company's strategic regulations (wholesale trade mode), setting out methods for optimising ENEA's trading position, with the main aim to minimise the risk of taking action that is against market trends, while taking into account the effectiveness aspect of such actions (outperforming the market).

### 22.5. Currency risk

Currency risk is associated with potential changes in the Company's cash flows as a result of volatility in currencies in which these amounts are denominated.
During the reporting period, ENEA S.A. was not exposed to currency risk due to no exposure to foreign currencies.

(all amounts in PLN 000s unless stated otherwise)

### 22.6. Interest rate risk

Interest rate risk is related to credit agreements and bond issue programme agreements executed by ENEA S.A. Financing is arranged on the basis of variable interest, calculated in correlation with market rates (interbank).

Interest rate hedging is performed on the basis of "ENEA Group's currency risk and interest rate risk management policy." Given the specific nature of interest rate exposure, it is only possibly, for hedging purposes, to specify exposure to interest rate risk on the basis of the liability part in planned cash flows, without taking into account the value of financial investments (which due to their nature feature far lower stability than financial liabilities) - although this concerns non-current financial liabilities rather than current.

In accordance with the interest rate hedging strategy, adopted pursuant to "ENEA Group's currency risk and interest risk management policy," the Company reduces interest rate risk by executing interest rate swaps (IRS). In order to obtain the most effective hedging, interest periods, interest exchange dates, dates for setting the variable reference rate WIBOR, basis for calculating interest - are the same as conditions for the hedged transaction. This results in an economic link between the specific payments of external financing and the hedging derivatives. With a close link between the hedged item and the hedging instrument, the main source of ineffectiveness of such links is improper performance of contracts by counterparties or earlier settlement of the hedged item.

Just as in the case of currency risk, all hedging activities are performed on the basis of a dedicated hedging strategy, adopted by the Risk Committee and Management Board of ENEA S.A.

As at the reporting date, 31 December 2018, The Company has credit and bond liabilities of PLN 8 240 970 thousand. As at 31 December 2018, variable-rate financial liabilities largely concern bank credit and bonds, which are 64.5% hedged with IRSs.

The following table shows the Company's sensitivity to interest rate risk by presenting financial assets and liabilities by variable-rate and fixed-rate:

| | **31.12.2018** | **31.12.2017** |
|---|---|---|
| **Fixed-rate instruments** | | |
| Financial assets* | 5 842 168 | 5 475 234 |
| Financial liabilities | (919 144) | (703 431) |
| Impact of IRS hedge | (5 315 000) | (5 442 520) |
| **Total** | **(391 976)** | **(670 717)** |
| **Variable-rate instruments** | | |
| Financial assets | 3 637 970 | 4 249 932 |
| Financial liabilities | (7 995 011) | (7 778 419) |
| Impact of IRS hedge | 5 315 000 | 5 442 520 |
| **Total** | **957 959** | **1 914 033** |

* Fixed-rate financial assets include trade receivables that are based on a fixed rate of penalty interest in case of overdue payment.

(all amounts in PLN 000s unless stated otherwise)

The Company's fixed-rate financial assets include cash invested in bank deposits.

The following table shows the effective interest rate of the assets and liabilities for which interest is calculated using variable interest rates:

| | as at 31 December 2018 | | as at 31 December 2017 | |
|---|---|---|---|---|
| | **Effective interest rate** | **Book value** | **Effective interest rate** | **Book value** |
| Debt financial assets at amortised cost | 3,04 | 3 637 970 | - | - |
| Intra-group bonds | - | - | 2,92 | 4 249 932 |
| Credit, loans and debt securities | 2,98 | (7 995 011) | 2,92 | (2 335 899) |
| **Total** | **-** | **(4 357 041)** | **-** | **1 914 033** |

Effective interest rates in the above table constitute the weighted average interest rates.

The following table presents the impact of interest rate changes on the Company's financial result in reference to variable-rate instruments.

| | **Book value 31.12.2018** | **Impact of interest rate risk on result (12-month period)** | | **Book value 31.12.2017** | **Impact of interest rate risk on result (12-month period)** | |
|---|---|---|---|---|---|---|
| | | **+1pp** | **-1pp** | | **+1pp** | **-1pp** |
| **Financial assets** | | | | | | |
| Debt financial assets at amortised cost | 3 637 970 | 36 379 | (36 379) | - | - | - |
| Intra-group bonds | - | - | - | 4 249 932 | 42 499 | (42 499) |
| Impact on result before tax | | **36 379** | **(36 379)** | | **42 499** | **(42 499)** |
| 19% tax | | (6 912) | 6 912 | | (8 075) | 8 075 |
| Impact on result after tax | | **29 467** | **(29 467)** | | **34 424** | **(34 424)** |

| | **Book value 31.12.2018** | **Impact of interest rate risk on result (12-month period)** | | **Book value 31.12.2017** | **Impact of interest rate risk on result (12-month period)** | |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | **+1pp** | **-1pp** | | **+1pp** | **-1pp** |
| Bank credit, loans and debt securities | (7 995 011) | (79 950) | 79 950 | (2 335 899) | (23 359) | 23 359 |
| Derivative instruments | (22 176) | - | - | - | - | - |
| Impact on result before tax | | **(79 950)** | **79 950** | | **(23 359)** | **23 359** |
| 19% tax | | 15 191 | (15 191) | | 4 438 | (4 438) |
| Impact on result after tax | | **(64 759)** | **64 759** | | **(18 921)** | **18 921** |
| **Total** | | **(35 292)** | **35 292** | | **15 503** | **(15 503)** |

(all amounts in PLN 000s unless stated otherwise)

## 22.7. Management of financing sources

The Company's main assumption as regards managing its financing sources is to develop an optimal equity and liabilities structure in order to reduce the cost to finance its operations, secure an investment grade credit rating and financing sources for the operating and investing activities of the Company and its subsidiaries. Activities undertaken in this area intend to ensure the Company's financial security and satisfactory value for its shareholders. In optimising the equity and liabilities structure by using financial leverage, it is important to maintain a capital base at a level sufficient to develop the trust of investors, lenders and the market. ENEA S.A. monitors the effectiveness and stability of its capital using the debt ratio and return on capital ratios. The Company aims to increase capital effectiveness while retaining it at a safe level.

## 22.8. Fair value

The following table contains a comparison of fair values and balance sheet values:

| | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| | **Book value** | **Fair value** | **Book value** | **Fair value** |
| Available-for-sale non-current financial assets | - | - | 39 307 | 39 307 |
| Non-current intra-group bonds | - | - | 6 771 221 | 6 835 859 |
| Non-current financial assets at fair value through profit or loss | - | - | 23 836 | 23 836 |
| Derivative instruments | - | - | 29 553 | 29 553 |
| Non-current financial assets at fair value | 46 357 | 46 357 | - | - |
| Non-current debt financial assets at amortised cost | 6 578 980 | 6 652 874 | - | - |
| Current intra-group bonds | - | - | 167 054 | 167 054 |
| Current debt financial assets at amortised cost | 593 221 | 593 221 | - | - |
| Trade receivables | 934 479 | (*) | 1 208 582 | (*) |
| Assets arising from contracts with customers | 227 480 | (*) | - | - |
| Cash and cash equivalents | 1 145 978 | (*) | 1 746 426 | 1 746 426 |
| Non-current credit facilities, loans and debt securities | 7 899 495 | 7 970 880 | 7 643 223 | 7 721 895 |
| Current credit facilities, loans and debt securities | 341 475 | 341 475 | 222 958 | 222 958 |
| Financial liabilities at fair value | 22 176 | 22 176 | - | - |
| Finance lease liabilities | 1 424 | (*) | 506 | 506 |
| Other financial liabilities | 146 785 | (*) | 723 735 | 723 735 |
| Trade payables | 524 976 | (*) | 615 163 | (*) |

(*) - Book value is close to fair value measured in accordance with level 2 in the following hierarchy.

Financial assets at fair value include:

- interests in unrelated entities, the stake in which is below 20%. This item includes shares in PGE EJ1 Sp. z o.o. amounting to PLN 15 866 thousand, for which no price quoted on an active market is available and whose fair value was determined on the basis of ENEA S.A.'s stake in the net assets of PGE EJ1 Sp. z o.o. Having analysed IFRS 9, the Company decided to qualify these interests as financial assets through other comprehensive income.

  The result of this measurement as at 31 December 2018 was recognised in other comprehensive income and presented in the statement of financial position under the item: Revaluation reserve - measurement of financial instruments. No transactions executed in 2018 were recognised in profit or loss.

If interests in unrelated entities are listed on the Warsaw Stock Exchange, then their fair value is based on quoted prices,

- Polimex-Mostostal S.A. call options,
- derivative instruments that include the measurement of interest rate swaps. The fair value of derivative instruments is established by calculating the net present value based on two yield curves, i.e. a curve to determine discount factors and a curve used to estimate future variable reference rates,

Non-current debt financial assets at amortised cost cover purchased debt securities - bonds and loans maturing in over one year. Fair value is calculated for financial instruments that are based on a fixed rate of interest, based on current WIBOR.

Current debt financial assets at amortised cost cover purchased debt securities - bonds and loans maturing in less than one year.

The fair value of bank credit, loans and debt securities is calculated for financial instruments that are based on a fixed rate of interest, based on current WIBOR.

The following table contains an analysis of financial instruments at fair value, grouped into a three-level hierarchy, where:

Level 1 - fair value is based on (unadjusted) market prices quoted for identical assets or liabilities on active markets

Level 2 - fair value is determined on the basis of values observed on the market, which are not a direct market quote (e.g. they are established by direct or indirect reference to similar instruments on a market),

Level 3 - fair value is determined using various measurement techniques that are not, however, based on observable market data. The Company recognises its stake in PGE EJ1 in level 3 (note 42).

No transfers between the levels were made in 2018.

(all amounts in PLN 000s unless stated otherwise)

| | 31.12.2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets at fair value** | | | | |
| Equity instruments at fair value through other comprehensive income | - | - | 15 866 | 15 866 |
| Interests at fair value through profit or loss | 18 375 | - | - | 18 375 |
| Call options | - | 12 116 | - | 12 116 |
| **Debt financial assets at amortised cost** | - | 7 246 095 | - | 7 246 095 |
| | **18 375** | **7 258 211** | **15 866** | **7 292 452** |
| **Financial liabilities at fair value** | | | | |
| Derivative instruments used in hedge accounting (e.g. interest rate swaps) and for other purposes | - | 22 176 | - | 22 176 |
| **Bank credit, loans and debt securities** | - | 8 312 355 | - | 8 312 355 |
| | **-** | **8 334 531** | **-** | **8 334 531** |

| | 31.12.2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Derivative instruments** | | | | |
| Interest rate swaps | - | 29 553 | - | 29 553 |
| **Financial assets at fair value through profit or loss** | | | | |
| Call options | - | 23 836 | - | 23 836 |
| **Total** | **-** | **53 389** | **-** | **53 389** |

## 22.9. Cash flow hedging

The following table presents the impact of cash flow hedges' measurement on other comprehensive income:

| | 31.12.2018 |
|---|---|
| **Accumulated other comprehensive income related to the effective part of cash flow hedges as at 1 January 2018, recognised in revaluation reserve** | **25 967** |
| - related to interest rate hedges | 25 967 |
| Measurement of hedging instruments as at balance sheet date, in part considered as effective hedge | (41 953) |
| - related to interest rate hedges | (41 953) |
| **Accumulated other comprehensive income related to the effective part of cash flow hedges as at 31 December 2018, recognised in revaluation reserve** | **(15 986)** |
| - related to interest rate hedges | (15 986) |

ENEA S.A. executed IRS transactions to hedge cash flows against interest rate risk. Their nominal value was PLN 4 844 040 thousand. In 2018, the nominal value went down by PLN 123 480 thousand, for some of the transactions the nominal value is declining systematically, while for other settlement takes place once the derivative expires. The reference rate is 1.961%. Maturities are different depending on the derivative, from 16 December 2019 to 15 June 2022. Their balance sheet value as at 31 December 2018 was PLN 20 179 thousand, with PLN 15 986 thousand recognised in other comprehensive income and the ineffective part of the hedge recognised in 2018 results amounting to PLN 265 thousand. The hedged items are outstanding bonds and a loan from the EIB.

(all amounts in PLN 000s unless stated otherwise)

## 23. Finance lease liabilities

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Under one year | 661 | 258 |
| From one to five years | 763 | 248 |
| **Total** | **1 424** | **506** |

Passenger vehicles are the subject of financial leases.

| | Finance lease liabilities | Interest | Total |
|---|---|---|---|
| Under one year | 661 | 121 | 782 |
| From one to five years | 763 | 92 | 855 |
| **As at 31.12.2018** | **1 424** | **213** | **1 637** |

| | Finance lease liabilities | Interest | Total |
|---|---|---|---|
| Under one year | 258 | 14 | 272 |
| From one to five years | 248 | 4 | 252 |
| **As at 31.12.2017** | **506** | **18** | **524** |

(all amounts in PLN 000s unless stated otherwise)

## 24. Deferred income tax

Changes in deferred income tax are as follows:

Deferred income tax assets:

| | Impairment of receivables | Employee benefit liabilities | Provision for the cost of energy origin certificates | Taxable costs after end of settlement period | Measurement of interests | Provision for disputed claims | Provision for onerous contracts | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| **As at 01.01.2017 using the 19% rate** | **1 498** | **9 430** | **51 532** | **109 104** | **6 303** | **-** | **-** | **22 735** | **200 602** |
| Decrease/(increase) of financial result due to change in temporary differences | 1 697 | (415) | (1 861) | 12 970 | 6 | 16 290 | - | (5 317) | **23 370** |
| Change recognised in other comprehensive income | - | 846 | - | - | - | - | - | 1 844 | **2 690** |
| **As at 31.12.2017 using the 19% rate** | **3 195** | **9 861** | **49 671** | **122 074** | **6 309** | **16 290** | **-** | **19 262** | **226 662** |
| Adjustment due to implementation of IFRS 9 | 537 | - | - | - | - | - | - | - | **537** |
| **As at 01.01.2018, adjusted** | **3 732** | **9 861** | **49 671** | **122 074** | **6 309** | **16 290** | **-** | **19 262** | **227 199** |
| (Increase)/decrease of financial result due to change in temporary differences | (1 269) | 458 | 8 141 | (18 936) | - | 3 566 | 15 007 | (5 671) | **1 296** |
| Change recognised in other comprehensive income | - | 467 | - | - | - | - | - | 9 840 | **10 307** |
| **As at 31.12.2018 using the 19% rate** | **2 463** | **10 786** | **57 812** | **103 138** | **6 309** | **19 856** | **15 007** | **23 431** | **238 802** |

Deferred income tax provision:

| | Taxable income after end of settlement period | Uninvoiced sales | Fair value measurement of tangible assets | Other | Total |
|---|---|---|---|---|---|
| **As at 01.01.2017 using the 19% rate** | **125 387** | **28 689** | **(472)** | **(1 564)** | **152 040** |
| Increase/(decrease) of financial result due to change in temporary differences | 12 339 | (3 947) | (72) | (391) | **7 929** |
| **As at 31.12.2017 using the 19% rate** | **137 726** | **24 742** | **(544)** | **(1 955)** | **159 969** |
| Increase/(decrease) of financial result due to change in temporary differences | (16 920) | 451 | (7) | (3 123) | (19 599) |
| **As at 31.12.2018 using the 19% rate** | **120 806** | **25 193** | **(551)** | **(5 078)** | **140 370** |

(all amounts in PLN 000s unless stated otherwise)

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Deferred income tax assets | 238 802 | 226 662 |
| Offset of deferred income tax assets and provision | (140 370) | (159 969) |
| **Deferred income tax assets after offset** | **98 432** | **66 693** |
| Deferred income tax provision | 140 370 | 159 969 |
| Offset of deferred income tax assets and provision | (140 370) | (159 969) |
| **Deferred income tax provision after offset** | **-** | **-** |

The following table presents deferred income tax assets and provision to be realised within 12 months and after 12 months.

| | 31.12.2018 |
|---|---|
| **Deferred income tax assets:** | **238 802** |
| - up to 12 months | 231 252 |
| - over 12 months | 7 550 |
| **Deferred income tax provision:** | **140 370** |
| - up to 12 months | 140 370 |

## 25. Employee benefit liabilities

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Defined benefit plans | | |
| Retirement severance payments | | |
| - long-term part | 1 408 | 1 196 |
| - short-term part | 200 | 270 |
| | 1 608 | 1 466 |
| Right to discounted electricity after retirement | | |
| - long-term part | 40 364 | 39 597 |
| - short-term part | 3 438 | 3 603 |
| | 43 802 | 43 200 |
| Contribution to Company Social Benefits Fund for retired employees | | |
| - long-term part | 5 929 | 6 183 |
| - short-term part | 354 | 377 |
| | 6 283 | 6 560 |
| Death allowance | | |
| - long-term part | 306 | - |
| - short-term part | 22 | - |
| | 328 | - |
| **Total: Defined benefit plans** | | |
| **- long-term part** | **48 007** | **46 976** |
| **- short-term part** | **4 014** | **4 250** |
| | **52 021** | **51 226** |
| Longevity bonus | | |
| - long-term part | 5 579 | 4 965 |
| - short-term part | 803 | 319 |
| | 6 382 | 5 284 |
| Remuneration and other liabilities | | |
| - short-term part | 18 326 | 15 316 |
| **Total employee benefit liabilities** | | |
| **- long-term part** | **53 586** | **51 941** |
| **- short-term part** | **23 143** | **19 885** |
| | **76 729** | **71 826** |

Pursuant to an agreement between staff and the Company's representatives, the employees of ENEA S.A. are entitled to certain benefits other than remuneration for work, i.e.:

- longevity bonus payments,
- pension benefit payments,
- right to discounted electricity after retirement,
- contribution to Company Social Benefit Fund,

The above benefits are financed entirely by the Company.

If an employee dies in the course of work or while on disability pension following employment, the family is entitled to a death allowance from the employer.

The present value of future liabilities concerning these items is set on the basis of actuarial valuation. For calculation purposes, basic data was used for each ENEA S.A. employee individually, as at 31 December 2018 (taking into account gender), from the following areas:

- age
- employment at the Company
- overall employment
- remuneration, constituting the basis for the size of longevity bonus and retirement severance payment.

The following assumptions were also used in the analysis:

- the employee's likelihood of departure was calculated using historic data on the Company's staff turnover and statistical data regarding employee departures in the industry,
- the minimum wage in Poland in effect from 1 January 2019, amounting to PLN 2 250.00,
- based on announcements from by the head of Statistics Poland, average monthly remuneration in Poland, less contributions for retirement, disability and health insurance, amounting to PLN 3 278.14 (average for H2 2013, which constitutes basis for calculating the Company Social Benefit Fund contribution in 2019),
- based on assumptions defined at corporate level, growth in the base for calculating the Company Social Benefit Fund was assumed to equal growth in average monthly remuneration in Poland: 30.9% in 2020, 5.4% in 2021, 5.4% in 2022, 5.4% in 2023, 5.6% in 2024-2028, 5.5% in 2029 and 5.2% in the remaining forecast years. In the case of change in base for 2020, growth of 5.8% in average monthly remuneration in Poland in 2019 was used. The remaining growth in base in 2020 results from a complete un-freeze of the base for calculating the Company Social Benefit Fund from 2020, as assumed in the risk valuation.
- mortality and life expectancy rates were taken from Life Expectancy Tables 2017, published by Statistics Poland. It was assumed that the Company's personnel corresponds to average mortality for Poland,
- no provision for disability severance payments was calculated separately; in exchange, people who went on disability were not included in calculating the likelihood of employee departure,
- normal retirement mode was assumed, in accordance with detailed rules in the Act on Retirements, except those employees who according to information provided by the Company meet the conditions for exercising the right to early retirement,
- long-term annual growth in remuneration at 2.5%,
- discount rate for discounting future benefit payments at 3.22% (3.26% at 31 December 2017),
- the value of electricity subsidies in 2019 was assumed to be PLN 1 412.76 (PLN 1 407.37 at 31 December 2017),

(all amounts in PLN 000s unless stated otherwise)

– the value of cash subsidies paid out as rebates in purchasing electricity was set at 0.6% in 2019, 2.4% in 2020, 6.4% in 2021, 6.5% in 2022, 6.6% in 2023, 6.7% in 2024, 6.8% in 2025, 6.9% in 2026 and 2.5% in later years.

The projected unit credit method was used to determine the size of the employee benefit provision. This method was also used in sensitivity analyses for defined benefit plans.

**Defined benefit plans**

| | Retirement and disability severance payments | Death allowance | Right to discounted electricity after retirement | Contributions to Company Social Benefit Fund for retired employees | Total |
|---|---|---|---|---|---|
| **As at 01.01.2018** | **1 466** | **-** | **43 200** | **6 560** | **51 226** |
| **Changes in the 12 months to 31.12.2018** | | | | | |
| **Costs recognised in current-period profit/loss, including:** | **243** | **51** | **1 456** | **265** | **2 015** |
| - cost of present employment | 204 | 42 | 165 | 64 | 475 |
| - cost of interest | 39 | 9 | 1 291 | 201 | 1 540 |
| **costs recognised in other comprehensive income, including:** | **(4)** | **(17)** | **2 643** | **(165)** | **2 457** |
| - net actuarial losses/(gains) arising from ex-post adjustment of assumptions | 13 | 2 | 3 165 | (20) | 3 160 |
| - net actuarial gains arising from adjustment of demographic assumptions | (65) | (18) | (348) | (71) | (502) |
| - net actuarial losses/(gains) arising from change in financial assumptions | 48 | (1) | (174) | (74) | (201) |
| **Reduction of liabilities concerning benefits paid** | **(97)** | **-** | **(3 497)** | **(377)** | **(3 971)** |
| Other changes | - | 294 | - | - | 294 |
| **Total changes** | **142** | **328** | **602** | **(277)** | **795** |
| **As at 31.12.2018** | **1 608** | **328** | **43 802** | **6 283** | **52 021** |

(all amounts in PLN 000s unless stated otherwise)

| | Retirement and disability severance payments | Right to discounted electricity after retirement | Contributions to Company Social Benefit Fund for retired employees | Total |
|---|---|---|---|---|
| **As at 01.01.2017** | **1 185** | **41 397** | **6 535** | **49 117** |
| **Changes in the 12 months to 31.12.2017** | | | | |
| **Costs recognised in current-period profit/loss, including:** | **167** | **1 312** | **247** | **1 726** |
| - cost of present employment | 135 | 103 | 49 | 287 |
| - cost of interest | 32 | 1 209 | 198 | 1 439 |
| **costs recognised in other comprehensive income, including:** | **190** | **4 091** | **170** | **4 451** |
| - net actuarial losses arising from ex-post adjustment of assumptions | 208 | 2 768 | 166 | 3 142 |
| - net actuarial losses arising from adjustment of demographic assumptions | 3 | 888 | 159 | 1 050 |
| - net actuarial (gains)/losses arising from change in financial assumptions | (21) | 435 | (155) | 259 |
| **Reduction of liabilities concerning benefits paid** | **(76)** | **(3 600)** | **(392)** | **(4 068)** |
| **Total changes** | **281** | **1 803** | **25** | **2 109** |
| **As at 31.12.2017** | **1 466** | **43 200** | **6 560** | **51 226** |

**Sensitivity analysis for defined benefit programmes**

| | Impact of changes in actuarial assumptions on level of defined benefit programme liabilities | |
|---|---|---|
| | **+1pp** | **-1pp** |
| **Defined benefit plan** | | |
| Discount rate | (4 689) | 5 614 |
| Expected remuneration growth rate | 968 | (810) |
| Average growth in the value of cash equivalent for subsidised electricity purchases | 4 192 | (3 598) |

**Maturity of defined benefit programme liabilities**

| **Weighted average period of defined benefit programme liabilities (in years)** | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Retirement and disability severance payments | 20.0 | 20.9 |
| Death allowance | 13.4 | - |
| Right to subsidised electricity after retirement | 9.9 | 9.8 |
| Contribution to Company Social Benefits Fund for retired employees | 11.4 | 11.3 |

(all amounts in PLN 000s unless stated otherwise)

**Other long-term employee benefits - longevity awards**

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Value at the beginning of period** | **5 284** | **4 413** |
| **Changes in the 12 months to the end of the reporting period** | | |
| **Costs recognised in current-period profit/loss, including:** | **1 454** | **1 300** |
| - cost of present employment | 889 | 646 |
| - cost of future employment | - | - |
| - net actuarial losses arising from ex-post adjustment of assumptions | 567 | 585 |
| - net actuarial (gains)/losses arising from adjustment of demographic assumptions | (203) | 6 |
| - net actuarial losses/(gains) arising from change in financial assumptions | 39 | (68) |
| - cost of interest | 162 | 131 |
| **Reduction of liabilities concerning benefits paid** | **(356)** | **(429)** |
| **Total changes** | **1 098** | **871** |
| **Value at the end of period** | **6 382** | **5 284** |

## 26. Provision for liabilities and other charges

Total provision for liabilities and other charges, categorised as short- or long-term

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Long-term | - | 31 |
| Short-term | 512 923 | 360 815 |
| **Total** | **512 923** | **360 846** |

| | Provision for non-contractual use of land | Provision for other claims | Provision for energy origin certificates | Provision for onerous contracts | Total |
|---|---|---|---|---|---|
| **As at 31.12.2017** | **2 934** | **96 485** | **261 427** | **-** | **360 846** |
| Increase in existing provisions | 394 | 33 888 | 295 493 | 78 981 | **408 756** |
| Use of provisions | (64) | (1 084) | (252 646) | - | **(253 794)** |
| Reversal of unused provisions | (470) | (2 415) | - | - | **(2 885)** |
| **As at 31.12.2018** | **2 794** | **126 874** | **304 274** | **78 981** | **512 923** |

Provisions for liabilities are measured at justified, reliably estimated values. Specific provisions are established for losses related to court cases against the Company. The amount of the provision constitutes the most accurate estimate of funds necessary to satisfy the claim. The cost to create provisions is recognised in other operating costs. A description of significant claims and the associated conditional liabilities is presented in note 39.

Provisions for non-contractual use of land concern claims by owners of properties for which the Company had no legal title. These claims in most cases involve a demand for payment of compensation for non-contractual use of land, establishing rent or in individual cases demands associated with a change of a facility's location (return of land to original condition). As at 31 December 2018 the Company created a provision for claims in court.

(all amounts in PLN 000s unless stated otherwise)

Provisions for non-contractual use of land, provisions for other claims, provisions for origin certificates and a provision for onerous contracts are recognised entirely as current liabilities.

In 2018, the Company created a PLN 18 610 thousand provision for potential claims related to the termination by ENEA S.A. of agreements to purchase energy origin certificates for renewables, and the value of this provision as at 31 December 2018 was PLN 104 345 thousand.

The provision for the costs to redeem origin certificates will be used in the first half of 2019, while it is not possible to estimate the deadline for outflow of economic benefits on account of the rest of the provisions.

## 27. Net revenue from sales

| | 01.01.2018<br>31.12.2018 | 01.01.2017<br>31.12.2017 |
|---|---|---|
| Revenue from the sale of electricity* | 4 601 143 | 5 514 891 |
| Revenue from the sale of gas* | 94 751 | 118 240 |
| Revenue from the sale of other services | 4 345 | 4 698 |
| Revenue from origin certificates | 1 450 | 1 751 |
| **Total** | **4 701 689** | **5 639 580** |

* in 2017, this item included revenue from transferred services.

| | 01.01.2018<br>31.12.2018 | 01.01.2017<br>31.12.2017 |
|---|---|---|
| Revenue from continuous services* | 4 695 894 | 5 633 131 |
| Revenue from services provided at specified time | 5 795 | 6 449 |
| **Total** | **4 701 689** | **5 639 580** |

* in 2017, this item included revenue from transferred services.

The Company recognises revenue when an obligation to provide a consideration by the provision of a promised good or service to the customer is performed (or is being performed). Revenue is recognised on the basis of prices specified in sale agreements, less estimated rebates and other deductions.

The key groups of contracts include electricity sale contracts (including framework contracts) for retail, business, key and strategic customers. Under these contracts, service is provided in a continuous manner and the level of revenue depends on usage.

The standard payment deadline for invoices for the sale of electricity is 14 days from VAT invoice date. In the case of business, key and strategic customers, payment deadlines may be negotiated.

## 28. Costs by nature

| | 01.01.2018<br>31.12.2018 | 01.01.2017<br>31.12.2017 |
|---|---|---|
| Amortisation | **(2 234)** | **(2 635)** |
| Employee benefit costs | **(63 285)** | **(53 544)** |
| - remuneration | (47 569) | (41 810) |
| - social insurance and other benefits | (15 716) | (11 734) |
| Use of materials and commodities and value of goods sold | **(2 981)** | **(2 154)** |
| - use of materials and energy | (2 981) | (2 154) |
| Third-party services | **(198 737)** | **(1 771 861)** |
| - transmission and distribution services* | (1 973) | (1 592 446)* |
| - other third-party services | (196 764) | (179 415) |
| Taxes and fees | **(3 165)** | **(3 272)** |
| Value of purchased electricity and gas | **(4 461 790)** | **(3 582 160)*** |
| **Total cost of products, goods and materials sold, marketing and sales and general administrative expenses** | **(4 732 192)** | **(5 415 626)** |

* in 2017, this item included the cost of transferred services.

(all amounts in PLN 000s unless stated otherwise)

## 29. Employee benefit costs

| | 01.01.2018<br>31.12.2018 | 01.01.2017<br>31.12.2017 |
|---|---|---|
| Wage costs | **(47 569)** | **(41 810)** |
| - present wages | (46 526) | (41 648) |
| - longevity bonuses | (936) | (740) |
| - retirement and disability severance payments | (107) | (59) |
| - Other | - | 637 |
| Social insurance costs | **(15 716)** | **(11 734)** |
| - social security contributions (ZUS) | (7 454) | (6 632) |
| - contributions to Company Social Benefit Fund (ZFŚS) | (1 442) | (1 370) |
| - other social benefits | (6 820) | (3 732) |
| | **(63 285)** | **(53 544)** |

**Employment guarantees**

Pursuant to an agreement between the Company and trade unions, certain employment guarantees had been issued to the Company's employees prior to 29 June 2007, which expired on 31 December 2018.

The Company is in talks with the employees in order to come up with a new social agreement.

## 30. Other operating revenue and costs

**Other operating revenue**

| | 01.01.2018<br>31.12.2018 | 01.01.2017<br>31.12.2017 |
|---|---|---|
| Release of provision for compensation claims | 31 | 6 726 |
| Release of other provisions | 7 262 | 4 880 |
| Compensation, penalties, fines | 4 020 | 1 967 |
| Reimbursement of costs of unused bond issues | - | 12 260 |
| Reversal of unused impairment losses | 6 164 | - |
| Other operating revenue | 17 539 | 8 986 |
| **Total** | **35 016** | **34 819** |

**Other operating costs**

| | 01.01.2018<br>31.12.2018 | 01.01.2017<br>31.12.2017 |
|---|---|---|
| Recognition of provision for compensation claims | - | (440) |
| Recognition of provision for other claims | (37 541) | (94 493) |
| Impairment of receivables | - | (8 731) |
| Write-off of impaired receivables | (14 129) | (15 326) |
| Costs of court proceedings | (7 379) | (5 155) |
| Trade union costs | (56) | (75) |
| Other operating costs | (11 113) | (16 644) |
| **Total** | **(70 218)** | **(140 864)** |

## 31. Finance income

| | 01.01.2018<br>31.12.2018 | 01.01.2017<br>31.12.2017 |
|---|---|---|
| Interest income | 244 357 | 190 175 |
| - bank accounts and deposits | 22 491 | 16 041 |
| - bonds | 192 472 | 163 169 |
| - other loans and receivables | 29 394 | 10 965 |
| Changes in fair value of financial instruments | 15 265 | 27 754 |
| Reversal of impairment loss on interests in subsidiaries | 207 470 | 879 270 |
| Other finance income | 329 | 228 |
| **Total** | **467 421** | **1 097 427** |

(all amounts in PLN 000s unless stated otherwise)

## 32. Finance costs

| | 01.01.2018 31.12.2018 | 01.01.2017 31.12.2017 |
|---|---|---|
| Interest costs | (223 432) | (179 449) |
| - on bank credit | (52 326) | (41 849) |
| - on bonds | (158 042) | (134 155) |
| - on leases | (40) | (22) |
| - other interest | (13 024) | (3 423) |
| Cost of discount concerning employee benefit | (1 702) | (1 570) |
| Changes in fair value of financial instruments | (33 580) | (14 187) |
| Other finance costs | (6 608) | (31) |
| **Total** | **(265 322)** | **(195 237)** |

## 33. Income tax

| | 01.01.2018 31.12.2018 | 01.01.2017 31.12.2017 |
|---|---|---|
| Current tax | 3 426 | (36 721) |
| Deferred tax | 20 895 | 15 441 |
| **Total** | **24 321** | **(21 280)** |

Income tax on the Company's gross profit before tax differs from the theoretical amount that would be received by using the applicable nominal tax rate as follows:

| | 01.01.2018 31.12.2018 | 01.01.2017 31.12.2017 |
|---|---|---|
| Profit/(loss) before tax | 702 815 | 1 834 604 |
| Tax calculated using the 19% rate | (133 535) | (348 575) |
| Non-deductible costs (permanent differences) at 19% | 35 250 | 173 294 |
| Dividends received at 19% | 122 606 | 154 001 |
| **Increase/(decrease) of financial result due to income tax** | **24 321** | **(21 280)** |

## 34. Dividend

A decision on a dividend payment for the present financial year will be made by shareholders at the 2019 Ordinary General Meeting. The Management Board of ENEA S.A. is analysing its ability to pay a dividend for 2018 and as of the date on which these separate financial statements were prepared no decision was made as to the 2018 profit allocation. The Management Board of ENEA S.A. will provide its recommendation on the 2018 profit allocation at the turn of the first and second quarter of 2019.

On 25 June 2018 an Ordinary General Meeting of ENEA S.A. adopted resolution no. 6 concerning the allocation of net profit for the financial year covering the period from 1 January 2017 to 31 December 2017, pursuant to which 100% of the 2017 net profit was transferred to reserve capital, intended to finance investments.

On 26 June 2017 an Ordinary General Meeting of ENEA S.A. adopted resolution no. 6 concerning the allocation of net profit for the financial year covering the period from 1 January 2016 to 31 December 2016, pursuant to which PLN 110 361 thousand would be paid to shareholders as a dividend. Dividend per share was PLN 0.25.

(all amounts in PLN 000s unless stated otherwise)

## 35. Explanatory notes to the statement of cash flows

The following table shows a reconciliation of changes in working capital in the statement of cash flows and changes in the statement of financial position:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Change in trade and other receivables on balance sheet** | **44 130** | **(8 633)** |
| - Tax group | 46 920 | (21 004) |
| - Expenditures concerning future bond issues | 37 | 1 023 |
| - Loans granted | - | 42 940 |
| - Loans - repayment | - | (10 956) |
| - IFRS amendment | (170 689) | - |
| - Other | (219) | (3 257) |
| **Change in trade and other receivables in cash flow statement** | **(79 821)** | **113** |
| | | |
| **Change in trade and other payables on balance sheet** | **(727 859)** | **687 425** |
| - Tax group | - | (100 265) |
| - Acquisition income/costs | (2 874) | (11 827) |
| - Proceeds related to future purchase of financial assets | (29) | (932) |
| - Other | 97 | 4 711 |
| **Change in trade and other payables in cash flow statement** | **(730 665)** | **579 112** |
| | | |
| **Change in employee benefit liabilities on balance sheet** | **4 903** | **2 716** |
| - actuarial gains/losses recognised in other comprehensive income | (2 457) | (4 452) |
| **Change in employee benefit liabilities in cash flow statement** | **2 446** | **(1 736)** |

The following tables show a reconciliation of debt in the statement of financial position and in the statement of cash flows:

**Reconciliation of bank credit**

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **As at the beginning of period** | **2 300 978** | **1 623 421** |
| Credit and loans received | - | 746 000 |
| Repayment of credit and loans | (96 971) | (67 826) |
| Measurement and transaction costs | 3 686 | (617) |
| **As at the end of period** | **2 207 693** | **2 300 978** |

**Reconciliation of bonds**

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **As at the beginning of period** | **5 565 203** | **4 431 107** |
| Bond buy-back | (95 000) | (40 000) |
| Bond issuance | 550 000 | 1 199 000 |
| Measurement and transaction costs | 13 074 | (24 904) |
| **As at the end of period** | **6 033 277** | **5 565 203** |

(all amounts in PLN 000s unless stated otherwise)

## 36. Related-party transactions

The Company executes transactions with the following related parties:

### 1. ENEA Group companies

| | 01.01.2018 - 31.12.2018 | 01.01.2017 - 31.12.2017 |
|---|---|---|
| **Purchase value, including:** | **6 077 811** | **4 748 794** |
| investment purchases | - | 427 |
| purchase of materials | 561 | 565 |
| purchase of services | 1 707 491 | 1 685 024 |
| other (including electricity and gas) | 4 369 759 | 3 062 778 |
| **Sale value, including:** | **424 237** | **325 049** |
| sale of electricity | 384 294 | 288 702 |
| sale of services | 2 649 | 2 107 |
| Other | 37 294 | 34 240 |
| **Interest income, including:** | **214 449** | **173 752** |
| on bonds | 207 921 | 173 587 |
| on loans | 5 483 | 165 |
| other | 1 045 | - |
| **Dividend income** | **645 293** | **810 534** |

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Receivables | 287 457 | 60 721 |
| Liabilities | 642 657 | 1 253 001 |
| Financial assets - bonds | 6 982 092 | 6 938 275 |
| Loans granted | 182 562 | 168 117 |
| Other financial liabilities | 146 785 | 723 735 |

These transactions with Group companies are executed on market terms, which do not differ from the terms applied in transactions with other entities.

### 2. Transactions between the Company and members of the Company's corporate bodies are divided into two categories:

- resulting from being appointed as Supervisory Board members,
- resulting from other civil-law contracts.

The following table lists the amounts of transactions in the aforementioned categories:

| Item | Management Board | | Supervisory Board | |
|---|---|---|---|---|
| | 01.01.2018 31.12.2018 | 01.01.2017 31.12.2017 | 01.01.2018 31.12.2018 | 01.01.2017 31.12.2017 |
| Remuneration under management contracts and consulting contracts | 3 310* | 4 928** | - | - |
| Remuneration under appointment to management or supervisory bodies | - | - | 790 | 826 |
| **TOTAL** | **3 310** | **4 928** | **790** | **826** |

* this remuneration includes a non-compete clause and bonuses for 2017 for former Management Board members, amounting to PLN 610 thousand
** this remuneration covers bonuses for 2016 of PLN 1 749 thousand

(all amounts in PLN 000s unless stated otherwise)

As at 31 December 2018, liabilities related to management contracts and consultancy contracts towards Management Board members amount to PLN 158 thousand (PLN 159 thousand as at 31 December 2017). As at 31 December 2018, a provision for Management Board bonuses amounted to PLN 2 652 thousand (PLN 1 755 thousand as at 31 December 2017); the amount of this provision is not included in the above table.

The following table contains transactions concerning loans from the Company Social Benefit Fund:

| **Organ** | As at 01.01.2018 | Granted from 01.01.2018 | Repayments until 31.12.2018 | As at 31.12.2018 |
|---|---|---|---|---|
| Supervisory Board | 11 | - | (6) | **5** |
| **TOTAL** | **11** | **-** | **(6)** | **5** |

| **Organ** | As at 01.01.2017 | Granted from 01.01.2017 | Repayments until 31.12.2017 | As at 31.12.2017 |
|---|---|---|---|---|
| Supervisory Board | 16 | - | (5) | **11** |
| **TOTAL** | **16** | **-** | **(5)** | **11** |

No significant transactions took place in 2018 between members of the Management Board or Supervisory Board of ENEA S.A. and their close relatives such as would have an impact on the financial statements of ENEA S.A., except for transactions concerning sales by Group companies of electricity, heat, connections, distribution services for household purposes and remuneration resulting from employment contracts or management contracts.

Other transactions resulting from civil-law contracts executed between ENEA S.A. and members of the Company's corporate authorities mainly concern the use of Company cars by members of ENEA S.A.'s Management Board for private purposes.

### 3. Transactions with the State Treasury's subsidiaries

ENEA S.A. also executes commercial transactions with state and local administration units and entities owned by Poland's State Treasury.

The subject of these transactions mainly is as follows:

- purchase of electricity and property rights resulting from origin certificates for energy from renewable sources and energy produced in cogeneration with heat, from State Treasury subsidiaries and
- sale of electricity, distribution services and other associated fees that the Company provides for both state and local administration authorities (sale to end customers) and to the State Treasury's subsidiaries (wholesale and retail sale - to final customers).

These transactions are executed on market terms, and these terms do not differ from the terms applied in transactions with other entities. The Company does not maintain records that would make it possible to aggregate the value of all transactions with all state institutions and State Treasury subsidiaries, which is why the turnover and transaction balances with related parties presented in these condensed separate interim financial statements do not contain transactions with State Treasury subsidiaries.

Among State Treasury subsidiaries ENEA S.A.'s largest counterparty-customer by far is KGHM Polska Miedź S.A., with net sales in 2018 reaching PLN 167 262 thousand (PLN 121 912 thousand net sales in 2017). The largest counterparty-supplier is: PGE Polska Grupa Energetyczna S.A., with net purchases in 2018 reaching PLN 14 150 thousand (PLN 108 431 thousand in 2017).

(all amounts in PLN 000s unless stated otherwise)

**4. Transactions with jointly controlled entities and associates**

ENEA S.A.'s sales to jointly controlled entities amounted to PLN 109 668 thousand and to associates PLN 162 thousand. There were no purchases from jointly controlled entities and associates. ENEA S.A.'s receivables from jointly controlled entities as at 31 December 2018 amounted to PLN 44 122 thousand and from associates PLN 7 thousand. As at 31 December 2018, the Company did not have liabilities toward jointly controlled entities and associates.

## 37. Concession agreements for provision of public services

ENEA S.A.'s business activities mainly involve the sale of electricity and natural gas.

In accordance with the Energy Law, the URE President is responsible for issuing concessions, regulating the activities of energy enterprises and approving tariffs, who by way of an administrative decision approves energy prices and rates as well as rules in the tariff. On 5 October 2007, ENEA S.A. received a decision to extend its concession for trade of electricity until 31 December 2025. On 12 September 2013, ENEA S.A. received a concession from the URE President for trade of gas fuels, valid until 31 December 2030.

Subject to approval by the URE President are tariffs for electricity that cover activities which are not considered by the URE President as conducted under competitive conditions (in reference to which the URE President has not issued a decision exempting from the obligation to submit tariffs for approval).
Tariffs for natural gas for household customers are also subject to approval by the URE President. In accordance with a schedule for exemptions from the obligation to submit to the URE President gas tariffs for approval, as specified in the Energy Law, from 1 January 2017 such exemption also includes tariff sales at a virtual point, CNG and LNG sales and sales via tenders, auctions and public procurement. Prices for other end customers aside from households were freed in October 2017. Gas prices for households will be freed from 1 January 2024.

In 2018 ENEA S.A. applied the following URE President-approved tariffs:

- "Tariff for electricity for customers from tariff group G," in effect from 1 January 2018
- "Tariff for high-methane natural gas," in effect from 1 March 2017, and "Tariff for high-methane natural gas," in effect from 1 June 2018.

## 38. Future liabilities concerning right to perpetual usufruct of land, tenancy agreements and operating leases

Future liabilities concerning the right to perpetual usufruct of land (according to 2018 fees) apply to a period in which land-use agreements remain in force, which is between 40 and 99 years. These agreements are recognised as operating leases, where ENEA S.A. is the lessee.

| | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Under one year | 5 314 | 5 850 |
| From one to five years | 13 349 | 17 511 |
| Over five years | 58 034 | 59 039 |
| **Total** | **76 697** | **82 400** |

## 39. Conditional liabilities and on-going proceedings in courts, arbitration bodies or public administration bodies

### 39.1. Impact of the Act on amendment of the act on excise duty and certain other acts

The Act on amendment of the act on excise duty and certain other acts ("Act") was adopted on 28 December 2018 and enters into force on 1 January 2019.

This regulation introduced the following:

- a reduction in the excise duty rate for electricity sold to final customers from 20 PLN/MWh to 5 PLN/MWh,
- 2019 prices and fee rates for electricity for final customers to be applied by sellers at the level of prices used in 2018,
- the opportunity for sellers to seek an amount to cover the difference in revenue from trade of electricity for final customers from the Settlement Manager specified in the Act ("Price difference amount").

The Act was updated effective from 6 March 2019 ("Updated Act").

According to the Act and its justification, the lawmakers aim to balance the interests of electricity customers and energy companies, which should mean that, as a rule, revenue lost as a result of the price decrease should be returned to electricity sellers.

The Act delegates in several key areas to regulations which as of the date on which these financial statements were prepared was not published yet.

**Determining the amount of provision for onerous contracts as at 31 December 2018**

Due to the Act, the Company has analysed whether it is required to create provisions for onerous contracts under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. According to reporting regulations, if a given contract or group of contracts generate a loss, then the Company should recognise an appropriate provision in the period in which the loss becomes unavoidable unless it is unable to reliably determine the amount of this provision.
Taking into account the lack of implementing regulations, preventing the final effects of entry into force of the Act and amendment in prices for customers in 2019 other than tariff customers from being reliably determined, the Company has estimate the Act's financial effects in as far as this is possible and reliable. The following assumptions were used in estimating the amount of the necessary provision:

1) The existing legal framework as at 31 December 2018.
2) In reference to determining the cost to perform an obligation in the meaning of IAS 37, only direct costs were taken into account (costs to purchase energy, property rights, along with the current excise duty rate), while indirect costs (own costs and profit) were omitted. The issue of which costs should be taken into account in estimating a provision for onerous contracts was deliberated on by the IFRIC in 2017. The IFRIC noted that the issue is not conclusively regulated, and the solution adopted is subject to the reporting entity's judgement.
3) Market values were used to determine the costs to purchase energy, without taking into account the fact that energy production costs within the Company might be different than market costs. Electricity sales volumes were adopted based on estimated values for 2019 for the G segment, in values close to those from

2018. In 2018, households (most of them using the tariff G) constituted 22% of the Company's total sales volume, while business customers accounted for the remaining 78% of total sales volume.

The following was determined on the basis of the above assumptions:

(a) In determining the prices in effect in 2018 for G tariff clients in a tariff approved by the URE President, the Company estimated an excess of the minimum unavoidable costs to fulfil the obligation over the benefits from performing the contract, amounting to PLN 79 million. The loss results from adopting model costs for electricity purchases in 2019 (costs of electricity and property rights and excise duty rates resulting from the Act) and the simultaneous use of sales prices from 2018. The sales volume resulted from the sales volume for G tariff customers planned for 2019. The Company recognised a provision on the books for 2018 for the aforementioned amount.

(b) Adhering to the literal provisions of the Act and using prices from the price list (not taking into account commercial rebates and discounts) in effect on 30 June 2018 for other clients (i.e. business clients and clients using tariffs other than tariff G), estimated benefits from contract performance were determined and compared to the minimum unavoidable costs to perform these contracts. This analysis did not show an excess of such costs over benefits and thus no provision was recognised. The Updated Act, issued after 31 December 2018, clarifies that for these customers the price that should be used is the sales price in effect in their contracts on 30 June 2018, which will cause a reduction in revenue from the sale of electricity, resulting in an excess of costs over revenue from existing contracts.

(c) Given the uncertainty over how the amount of price difference is to be determined, no assets concerning compensation were recognised as at 31 December 2018

**Impact on subsequent reporting periods**

As a result of this Act entering into force, the Company uses from 1 January 2019 in settlements with final customers electricity prices and fees from 2018, as specified in a tariff approved by the URE President for customers from tariff groups G. The provision estimated and recognised as at 31 December 2018 constitutes the best estimate of minimal losses but it does not take into account the right to compensation, which should have a positive impact on the sales result in this tariff group.

For other customers (mainly business customers), the Company in 2019 applies prices resulting from contracts due to a lack of an approved regulation of the Minister of Energy. The Company expects to adapt to the Act and the Updated Act within the deadlines specified in these regulations. The Company estimates that for this client group a unit reduction in revenue will be determined by the difference between unit prices of electricity, which is reflected in the difference of average prices for BASE 2018 and BASE 2019 on the electricity wholesale market and changes in market prices and percentage levels as regards the obligation to procure origin certificates for redemption (hereinafter "Obligations"). Revenue from the sale of electricity in 2018 to business customers reached PLN 3 568 million, with sales volume in this segment reaching 15 974 GWh, resulting in an average unit sales price of 223.36 PLN/MWh.

The cost of electricity in the most liquid product, i.e. BASE Y, quoted on the power exchange Towarowa Giełda Energii S.A. for 2019 (BASE Y-19) during the product's quoting period, is 237.11 PLN/MWh. The price for the 2018 contract, i.e. BASE Y-18, was 167 PLN/MWh.

The difference in the market valuation of the Obligations, which aside from the cost to purchase electricity are the total of sales price to final customers, are very close year over year despite a significant change in their structure. In effect, the overall cost for 2018 was 189.21 PLN/MWh, and for 2019 it is estimated at 258.49 PLN/MWh.

The Company sees no reasons to significantly differentiate its own costs and margins for the same customer structure between 2018 and 2019.

Based on the above-mentioned available information, indicative values for input parameters, as referred to in the Updated Act, might be assumed. However, there is considerable uncertainty over whether these will be at the same or similar level in the implementing regulations.

Under the Act and the Updated Act, the Company is entitled to receive compensation resulting from a restriction in prices, taking into account both direct and indirect costs and margins; this applies to both amounts recognised in the provision for loss in 2018 as well as potential losses that may arise in 2019. However, given the lack of implementing regulations, as at the date on which these financial statements are prepared the Company is unable to determine the amount of compensation or state to what degree this will offset the potential losses.

The Company discloses known and determinable amounts that constitute merely a component of the result on energy sales in order to show the potential difference between costs and revenue from sales. A difference calculated on the basis of these amounts may significantly differ from actual amounts, which will be recognised once the implementing regulations are issued.

The Company is analysing these provisions on an on-going basis and once the implementing regulations are published along with assumptions allowing uncertainty to be removed and reliable estimates to be carried out, it will identify the analysis results in terms of inside information in the meaning of MAR.

### 39.2. Credit and loan sureties and guarantees issued by the Company

On 18 July 2018 ENEA S.A. as Guarantor executed a surety agreement with PKN Orlen S.A. The subject of the agreement is a surety for the future liabilities of ENEA Trading Sp. z o.o. up to a maximum amount of PLN 2 000 thousand concerning transactions in wholesale trade of gas.

(all amounts in PLN 000s unless stated otherwise)

**List of sureties issued as at 31 December 2018**

| No. | Name of entity for which surety was issued | Total amount of liabilities covered by surety | Purpose of amounts covered by surety | Period for which surety was issued | Nature of links between the Company and entity incurring the liability |
|---|---|---|---|---|---|
| 1. | ENEA Trading Sp. z o.o. | PLN 1 075 thousand (EUR 250 thousand) | collateral for ENEA Trading's liabilities towards Shell Energy Europe Limited | 30-11-2021 | subsidiary |
| 2. | ENEA Wytwarzanie Sp. z o.o. | PLN 50 000 thousand | collateral for payment of price for stake in subsidiary by ENEA Wytwarzanie Sp. z o.o. | purchase proposal validity period | subsidiary |
| 3. | Miejska Energetyka Cieplna Piła Sp. z o.o. | PLN 11 806 thousand | collateral for liabilities incurred by MEC Piła Sp. z o.o. | 30-06-2020 | subsidiary |
| 4. | ENEA Trading Sp. z o.o. | PLN 10 000 thousand | collateral for ENEA Trading's liabilities towards EDF Trading Limited | 30-10-2020 | subsidiary |
| 5. | ENEA Trading Sp. z o.o. | PLN 10 000 thousand | collateral for ENEA Trading's liabilities towards ČEZ a.s. | 10-08-2021 | subsidiary |
| 6. | ENEA Trading Sp. z o.o. | PLN 10 000 thousand | collateral for ENEA Trading's liabilities towards Zespół Elektrowni Pątnów Adamów Konin S.A. | 25-10-2021 | subsidiary |
| 7. | ENEA Trading Sp. z o.o. | PLN 10 000 thousand | collateral for ENEA Trading's liabilities towards PGE Polska Grupa Energetyczna S.A. | 26-10-2021 | subsidiary |
| 8. | ENEA Trading Sp. z o.o. | PLN 2 000 thousand | collateral for ENEA Trading's liabilities towards Polski Koncern Naftowy ORLEN S.A. | 15-07-2021 | subsidiary |
| 9. | ENEA Trading Sp. z o.o. | PLN 5 000 thousand | collateral for ENEA Trading's liabilities towards Polenergia Obrót S.A. | 30-06-2019 | subsidiary |

(all amounts in PLN 000s unless stated otherwise)

**List of sureties issued as at 31 December 2017**

| No. | Name of entity for which surety was issued | Total amount of liabilities covered by surety | Purpose of amounts covered by surety | Period for which surety was issued | Nature of links between the Company and entity incurring the liability |
|---|---|---|---|---|---|
| 1. | ENEA Trading Sp. z o.o. | PLN 14 598 thousand (EUR 3 500 thousand) | collateral for ENEA Trading's liabilities towards Shell Energy Europe Limited | 30-11-2018 | subsidiary |
| 2. | ENEA Wytwarzanie Sp. z o.o. | PLN 50 000 thousand | collateral for payment of price for stake in subsidiary by ENEA Wytwarzanie Sp. z o.o. | purchase proposal validity period 16.09.2018 | subsidiary |
| 3. | Miejska Energetyka Cieplna Piła Sp. z o.o. | PLN 11 806 thousand | collateral for liabilities incurred by MEC Piła Sp. z o.o. | 30-06-2020 | subsidiary |
| 4. | ENEA Trading Sp. z o.o. | PLN 10 000 thousand | collateral for ENEA Trading's liabilities towards EDF Trading Limited | 30-10-2020 | subsidiary |
| 5. | ENEA Trading Sp. z o.o. | PLN 10 000 thousand | collateral for ENEA Trading's liabilities towards ČEZ a.s. | 10-08-2018 | subsidiary |
| 6. | ENEA Trading Sp. z o.o. | PLN 10 000 thousand | collateral for ENEA Trading's liabilities towards Zespół Elektrowni Pątnów Adamów Konin S.A. | 25-10-2018 | subsidiary |
| 7. | ENEA Trading Sp. z o.o. | PLN 2 000 thousand | collateral for ENEA Trading's liabilities towards Elektrownia Pątnów II Sp. z o.o. | 25-10-2018 | subsidiary |
| 8. | ENEA Trading Sp. z o.o. | PLN 10 000 thousand | collateral for ENEA Trading's liabilities towards PGE Polska Grupa Energetyczna S.A. | 26-10-2018 | subsidiary |
| 9. | ENEA Trading Sp. z o.o. | PLN 4 000 thousand | collateral for ENEA Trading's liabilities towards Polski Koncern Naftowy ORLEN S.A. | 01-01-2018 | subsidiary |
| 10. | ENEA Trading Sp. z o.o. | PLN 5 000 thousand | collateral for ENEA Trading's liabilities towards Polenergia Obrót S.A. | 30-06-2019 | subsidiary |

The following table presents significant bank guarantees valid as of 31 December 2018 issued at the request of ENEA S.A. under an agreement with PKO BP S.A. up to the limit specified in the agreement.

| Guarantee issue date | Guarantee validity | Obliged entity | Entity for which the guarantee was issued | Bank - issuer | Guarantee amount in PLN 000s |
|---|---|---|---|---|---|
| 12.08.2018 | 12.08.2020 | ENEA Trading Sp. z o.o. | Izba Rozliczeniowa Giełd Towarowych S.A. | PKO BP S.A. | 150 000 |
| 12.08.2018 | 12.08.2020 | ENEA Elektrownia Połaniec | Izba Rozliczeniowa Giełd Towarowych S.A. | PKO BP S.A. | 60 000 |
| 12.08.2018 | 12.08.2020 | ENEA Wytwarzanie Sp. z o.o. | Izba Rozliczeniowa Giełd Towarowych S.A. | PKO BP S.A. | 40 000 |
| 12.08.2018 | 12.08.2020 | ENEA Wytwarzanie Sp. z o.o. | Polskie Sieci Elektroenrgetyczne | PKO BP S.A. | 20 000 |
| 12.08.2018 | 12.08.2020 | ENEA Elektrownia Połaniec | Polskie Sieci Elektroenrgetyczne | PKO BP S.A. | 15 000 |
| 13.11.2018 | 30.01.2020 | ENEA S.A. | Olsztyn municipality | PKO BP S.A. | 4 462 |
| 12.08.2018 | 12.08.2020 | ENEA S.A. | Górecka Projekt Sp. z o.o. | PKO BP S.A. | 1 944 |
| 29.08.2018 | 16.09.2019 | ENEA Logistyka Sp. z o.o. | ENEA Operator Sp. z o.o. | PKO BP S.A. | 1 080 |
| **Total** | | | | | **292 486** |

The following table presents significant bank guarantees valid as of 31 December 2017 issued at the request of ENEA S.A. under an agreement with BZ WBK S.A. up to the limit specified in the agreement.

**List of guarantees issued as at 31 December 2017**

| Guarantee issue date | Guarantee validity | Obliged entity | Entity for which the guarantee was issued | Bank - issuer | Guarantee amount in PLN 000s |
|---|---|---|---|---|---|
| 29.06.2015 | 31.05.2018 | ENEA Trading Sp. z o.o. | Izba Rozliczeniowa Giełd Towarowych S.A. | BZ WBK S.A. | 40 000 |
| 20.12.2017 | 11.08.2018 | ENEA Elektrownia Połaniec | Izba Rozliczeniowa Giełd Towarowych S.A. | BZ WBK S.A. | 30 000 |
| 12.06.2015 | 31.05.2018 | ENEA Wytwarzanie Sp. z o.o. | Izba Rozliczeniowa Giełd Towarowych S.A. | BZ WBK S.A. | 25 000 |
| 07.07.2017 | 11.08.2018 | ENEA Elektrownia Połaniec | Polskie Sieci Elektroenrgetyczne | BZ WBK S.A. | 15 000 |
| 01.01.2016 | 11.08.2018 | ENEA S.A. | Górecka Projekt Sp. z o.o. | BZ WBK S.A. | 1 662 |
| 21.12.2016 | 30.01.2018 | ENEA S.A. | Marshal's Office for the Zachodniopomorskie Voivodship in Szczecin | BZ WBK S.A. | 1 325 |
| 12.12.2017 | 11.08.2018 | ENEA Logistyka Sp. z o.o. | ENEA Operator Sp. z o.o. | BZ WBK S.A. | 1 080 |
| **Total** | | | | | **114 067** |

The value of other guarantees issued by ENEA S.A. as at 31 December 2018 was PLN 7 793 thousand (PLN 3 640 thousand as at 31 December 2017).

## 39.3. On-going proceedings in courts of general competence

Proceedings initiated by the Company

Proceedings in courts of general competence initiated by ENEA S.A. concern receivables related to electricity supplies and receivables related to other matters - illegal uptake of electricity, grid connections and other specialised services rendered by the Company.

At 31 December 2018, a total of 8 982 cases initiated by the Company were in progress before courts of general competence, worth in aggregate PLN 45 379 thousand (31 December 2017: 12 262 cases worth PLN 56 345 thousand).

The outcome of individual cases is not significant from the viewpoint of the Company's financial result.

Proceedings against the Company

Proceedings against the Company are initiated by both natural persons and legal entities. They concern issues such as: compensation for electricity supply disruptions, compensation for the Company's use of properties on which power equipment is located as well as claims related to terminated contracts for the purchase of property rights (note 39.6).

At 31 December 2018, a total of 150 cases against the Company were in progress before courts of general competence, worth in aggregate PLN 519 317 thousand (31 December 2017: 167 cases worth PLN 394 612 thousand).

## 39.4. Risk associated with legal status of properties used by ENEA S.A.

Risk associated with the legal status of properties used by the Company (currently used by ENEA Operator Sp. z o.o.) results from the fact that the Company does not have a legal title to use land for all of its facilities where its transmission grids and the associated equipment are located. In the future, the Company might be obligated to incur the costs of non-contractual use of property, which had taken place in previous years prior to the de-merger of ENEA Operator Sp. z o.o.

Unregulated legal status of properties previously used by the Company and currently in use by ENEA Operator Sp. z o.o. - grid infrastructure on such properties gives rise to a threat of claims involving a demand for payment of compensation for non-contractual use of land, establishing rent or in individual cases demands associated with a change of a facility's location (return of land to original condition).

The Company has a provision for court proceedings instigated against the Company by owners of properties on which transmission grids and associated equipment are located.

### 39.5. Cases concerning 2012 non-balancing

On 30 and 31 December 2014, ENEA S.A. submitted demands for settlement to:

| | Demanded amount in PLN 000s |
|---|---|
| PGE Polska Grupa Energetyczna S.A. | 7 410 |
| PKP Energetyka S.A. | 1 272 |
| TAURON Polska Energia S.A. | 17 086 |
| TAURON Sprzedaż GZE Sp. z o.o. | 1 826 |
| **Total** | **27 594** |

The subject of these demands is claims for the payment for electricity that was incorrectly settled on the balancing market in 2012. The companies receiving these demands obtained unjustified proceeds by not allowing ENEA S.A. to issue invoices for 2012.

Given a lack of amicable resolution in this case, ENEA S.A. has brought lawsuits against:

- TAURON Polska Energia S.A. – lawsuit of 10 December 2015,
- TAURON Sprzedaż GZE Sp. z o. o. – lawsuit of 10 December 2015,
- PKP Energetyka S.A. – lawsuit of 28 December 2015,
- PGE Polska Grupa Energetyczna S.A. – lawsuit of 29 December 2015.

The aforementioned disputes have not been resolved.

### 39.6. Dispute concerning prices for origin certificates for energy from renewable sources and terminated agreements for the purchase of property rights arising under origin certificates for energy from renewable sources

ENEA S.A. is a party to 9 court proceedings concerning agreements for the purchase of property rights arising under certificates of origin for energy from renewable sources, which includes:

- 6 proceedings for payment, in which ENEA S.A.'s former counterparties are seeking compensation for outstanding pay or contractual penalties,
- 3 proceedings for the avoidance of ENEA S.A.'s termination or withdrawal from agreements to sell property rights, which took place on 28 October 2016, including 2 proceedings in which claims for payment are being sought at the same time.

ENEA S.A. offset a part of receivables due for these counterparties from ENEA S.A. for sold property rights with damages-related receivables due for ENEA S.A. from renewables producers. The damage caused to ENEA S.A. arose as a result of the counterparties' failure to fulfil a contractual obligation to participate, in good faith, in re-negotiating long-term agreements for the sale of property rights in accordance with an adaptation clause that is binding for the parties.

On 28 October 2016, ENEA S.A. submitted statements depending on the agreement: on termination or withdrawal from long-term agreements for the purchase by the Company of property rights resulting from certificates of origin for energy from renewable sources (green certificates) (Agreements).

The Agreements were executed in 2006-2014 with the following counterparties, which own renewable generation assets ("Counterparties"):

- Farma Wiatrowa Krzęcin Sp. z o.o., based in Warsaw;
- Megawind Polska Sp. z o.o., based in Szczecin;
- PGE Górnictwo i Energetyka Konwencjonalna S.A., based in Bełchatów;
- PGE Energia Odnawialna S.A., based in Warsaw;
- PGE Energia Natury PEW Sp. z o.o., based in Warsaw (currently PGE Energia Odnawialna S.A., based in Warsaw);
- "PSW" Sp. z o.o., based in Warsaw;
- in.ventus Sp. z o.o. EW Śniatowo sp.k., based in Poznań;
- Golice Wind Farm Sp. z o.o., based in Warsaw.

The Agreements were generally terminated by the end of November 2016. The dates on which the respective Agreements were terminated depended on contractual provisions.

The reason for terminating/withdrawing from the Agreements by the Company was the fact that it was no longer possible to restore contractual balance and the equivalence of the parties' considerations, caused by changes in laws. Legal changes that occurred after the aforementioned Agreements were executed include in particular:

- ordinance of the Minister of Economy of 18 October 2012 on a detailed scope of obligations to obtain and present for redemption origin certificates, pay substitute fees, purchase electricity and industrial heat generated from renewable sources and the obligation to validate data concerning the quantity of electricity generated from renewable sources (Polish Journal of Laws of 2012, item 1229);
- the Act on renewable energy sources of 20 February 2015 (Polish Journal of Laws of 2015, item 478) and associated further legal changes and announced drafts of legal changes, including especially:
    - the Act on amendment of the act on renewable energy sources and certain other acts dated 22 June 2016 (Polish Journal of Laws of 2016, item 925); and
    - a draft of the Ordinance of the Minister of Energy concerning changes in the share of electricity resulting from redeemed origin certificates confirming production of electricity from renewable sources, which is to be issued based on an authorisation under art. 12 sec. 5 of the Act on amendment of the act on renewable energy sources and certain other acts dated 22 June 2016 and certain other acts,

caused an objective lack of possibilities to develop reliable models to forecast the prices of green certificates.

The Agreements were terminated with the intention for the Company to avoid losses constituting the difference between contractual and market prices of green certificates. Due to the changing legal conditions after termination of the Agreements in 2017, especially arising from the Act of 20 July 2017 on amendment of the act on renewable energy sources, the estimated value of future contract liabilities would have changed. In the current legal framework, this would be grossly lower in comparison to the amount estimated when the Agreements were being terminated, i.e. approx. PLN 1 187 million. This decline reflects a change in the way in which the substitute fee is calculated, which in accordance with the content of some of the Agreements constitutes the basis for calculating the contract price and indexing it to the market price. The Company created a PLN 104 345 thousand provision for potential claims resulting from the terminated Agreements in relation to submissions made by 31 December 2018 concerning transactions to sell property rights by the counterparties; the provision is presented in note 26.

### 39.7. Claim by Białystok Municipality

On 18 January 2018 ENEA Wytwarzanie Sp. z o.o. received a lawsuit dated 28 December 2017, which had been filed with the District Court in Białystok by the Municipality of Białystok against ENEA Wytwarzanie Sp. z o.o., for the payment of PLN 29 445 thousand together with statutory interest for the sale of 126 083 shares of Miejskie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o., based in Białystok (currently ENEA Ciepło Sp. z o.o.), constituting a residual stake, as part of an obligation arising under an agreement to sell ENEA Ciepło Sp. z o.o. shares executed on 26 May 2014. On 23 February 2018 ENEA Wytwarzanie Sp. z o.o. responded to the lawsuit, disagreeing with the position presented in it and requesting that the lawsuit be rejected in its entirety.

The dispute concerns interpretation of a provision in the share sale agreement of 2014 regarding whether or not ENEA Wytwarzanie Sp. z o.o. is obligated to purchase the remaining shares, i.e. residual stake. According to ENEA Wytwarzanie Sp. z o.o., the company has fulfilled all of its obligations specified in the share sale agreement of 2014 as regards the purchase of ENEA Ciepło Sp. z o.o. shares and is not required to additionally purchase the 121 863 shares.

If the dispute is resolved unfavourably for ENEA Wytwarzanie Sp. z o.o., the company might be required to purchase up to 126 083 shares at a price resulting from the agreement of 26 May 2014, i.e. for the overall amount indicated in the lawsuit. On 14 August 2018 the District Court in Białystok (first instance) ruled in favour of the lawsuit brought by the Municipality of Białystok in its entirety. This ruling is not final. On 10 September 2018 ENEA Wytwarzanie Sp. z o.o. appealed the ruling. The case was registered under file no. I A Gc 169/18 at the Appeals Court in Białystok. The first hearing at the Appeals Court was set for 21 December 2018. Due to an unexamined motion to exclude judges from the Appeals Court in Białystok, through a decision of 18 December 2018 the case was removed from the docket. Files were provided to the judges indicated in the motion to exclude in order to provide explanations concerning the motion to exclude. On 8 January 2019 the Appeals Court in Białystok referred the motion to exclude judges to the Supreme Court. The motion has not yet been registered and examined by the Supreme Court.

### 39.8. Other court cases

The Management Board of ENEA S.A. filed in December 2018 a response to a lawsuit brought by the Company's shareholder, Fundacja "CLIENTEARTH Prawnicy dla ziemi," based in Warsaw, to cancel, determine the non-existence or repeal resolution no. 3 of the Extraordinary General Meeting of ENEA S.A. of 24 September 2018 regarding directional approval to join the Construction Stage of the Ostrołęka C project, and demanded that the lawsuit be rejected in its entirety as unjustified, along with reimbursement of court representation costs. The hearing has been scheduled for 10 April 2019.

The Management Board of ENEA S.A. filed in December 2018 a response to a lawsuit brought by Międzyzakładowy Związek Zawodowy Synergia Pracowników Grupy Kapitałowej ENEA, based in Poznań, to cancel, determine the non-existence or repeal resolution no. 3 of the Extraordinary General Meeting of ENEA S.A. of 24 September 2018 regarding directional approval to join the Construction Stage of the Ostrołęka C project, and demanded that the lawsuit be rejected in its entirety as unjustified, along with reimbursement of court representation costs. The hearing has been scheduled for 8 May 2019.

(all amounts in PLN 000s unless stated otherwise)

## 40. Employment at ENEA S.A.

Average employment at the Company in 2018 and 2017 was as follows:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| White collar jobs | 382 | 352 |
| **Total** | **382** | **352** |

The data contained in the table presents employment in full-time jobs.

## 41. Tax group

On 18 September 2013, the Company executed a tax group agreement for a period of three years, starting from 2014, binding on 9 ENEA Group companies: ENEA S.A., ENEA Operator Sp. z o.o., ENEA Wytwarzanie Sp. z o.o., ENEA Centrum Sp. z o.o., ENEA Oświetlenie Sp. z o.o., ENEA Trading Sp. z o.o., ENEA Serwis Sp. z o.o., ENEA Pomiary Sp. z o.o. and ENEA Logistyka Sp. z o.o. The tax group is represented by ENEA S.A.

On 20 September 2016, the Company executed a tax group agreement for a period of three years, starting from 2017, binding on 9 ENEA Group companies: ENEA S.A., ENEA Operator Sp. z o.o., ENEA Wytwarzanie Sp. z o.o., ENEA Centrum Sp. z o.o., ENEA Oświetlenie Sp. z o.o., ENEA Trading Sp. z o.o., ENEA Serwis Sp. z o.o., ENEA Pomiary Sp. z o.o. and ENEA Logistyka Sp. z o.o. The tax group is represented by ENEA S.A.

The Act on corporate income tax treats a tax group as a separate payer of corporate income tax (CIT), meaning that companies within a tax group are not treated as separate entities for CIT purposes, while the tax group is treated as a whole.

Subject to tax is income of the entire group, calculated as the excess of the sum of income all of the companies within the group over their losses. The tax group is a separate entity only for CIT purposes. It is not a separate entity in a legal sense. It also does not apply to other taxes, especially each of the companies within the tax group is a separate payer of VAT, tax on civil-law transactions, property tax and payer of personal income tax.

Companies within the tax group must meet a number of requirements, including: sufficient capital, parent company's stake in companies within the tax group of at least 75%, no capital ties between subsidiaries, no tax arrears, share of income to revenue of at least 2% (calculated for the entire tax group) and execution of transactions on market terms only. Failing to meet these requirements would mean dissolution for the tax group and loss of taxpayer status. From dissolution, each company within the tax group would become a separate CIT payer.

## 42. Participation in nuclear power plant build programme

On 15 April 2015 KGHM, PGE, TAURON and ENEA executed an agreement to purchase shares in PGE EJ 1. KGHM, TAURON and ENEA purchased 10% stakes in PGE EJ 1 each from PGE (30% in total). ENEA paid PLN 16 million for its stake.

In accordance with the Founding Agreement, ENEA S.A.'s financial investment in the Preliminary Stage will not exceed approx. PLN 107 million.

One increase of PGE EJ 1's share capital took place in 2018. The shareholders decided to increase the company's share capital by approx. PLN 60 million. ENEA S.A. purchased shares with total nominal value of approx. PLN 6 million and paid for them with an approx. PLN 6 million cash contribution. Aside from the above share capital increase, in order to provide PGE EJ 1 with funds for on-going operations, the shareholders made a loan to the company. ENEA S.A.'s loan amounted to PLN 4.8 million. So far, ENEA S.A.'s overall expenditures on purchasing shares and increasing the company's share capital have amounted to PLN 32 544 thousand.

On 28 November 2018 PGE S.A. expressed preliminary interest in purchasing all of the shares of PGE EJ 1. PGE S.A. aims to restructure the company's operations and costs and integrate its operations within PGE Group. According to information from PGE S.A., this transaction would be possible after an independent adviser prepares a valuation and corporate approvals are secured by all of the entities involved. On 4 December 2018 ENEA expressed preliminary interest in selling its entire stake in PGE EJ 1. Preliminary interest in selling their stakes in PGE EJ 1 has also been expressed by the other shareholders, i.e. TAURON and KGHM.

As at 31 December 2018 and at the date on which these separate financial statements were prepared, ENEA S.A. held 263 020 shares in the capital of PGE EJ 1 Sp. z o.o., with a total nominal value of approx. PLN 37 086 thousand, representing 10% of shares/votes.

## 43. Involvement in project Ostrołęka C

On 8 December 2016, the Company executed an Investment Agreement with Energa S.A. and Elektrownia Ostrołęka Sp. z o.o. concerning project Ostrołęka C. The subject of the Agreement was to prepare, build and operate a modern 1000 MW coal unit at the Ostrołęka power plant.

On 19 December 2016, the SPV announced a tender procedure to select the general contractor to build the Ostrołęka C unit, with approx. 1000 MW and net efficiency of at least 45%, operating on supercritical steam. Under certain assumptions (including the appropriate participation of ENEA S.A., Energa S.A. and potential Financial Investors) and a support mechanism resulting from the introduction of a capacity market or other support mechanisms, Elektrownia Ostrołęka Sp. z o.o. will be able to implement the project in a comprehensive manner.

Performing the Investment Agreement, ENEA S.A. from 1 February 2017 to 23 March 2018 purchased from Energa S.A. shares of Elektrownia Ostrołęka Sp. z o.o. in tranches that add up to a 50% stake in share capital and amount to approx. PLN 101 million. As a result of the company's share capital increases, ENEA S.A. contributed PLN 170 500 thousand. Overall in 2017-2018, ENEA S.A. spent PLN 271 425 thousand on purchasing the company's shares and recapitalising it.

As a result of the above transactions, Energa S.A. and ENEA S.A. assumed joint control over Elektrownia Ostrołęka Sp. z o.o., based in Ostrołęka, the aim of which is to build and operate a new coal-based unit. Each of the parties has a 50% stake in Elektrownia Ostrołęka Sp. z o.o. and an equal number of General Meeting votes. An equal number of representatives of both of the investors seat on the Management Board and Supervisory Board. Decisions pertaining to significant activities require unanimous consent of the two shareholders that have rights to the net assets of Elektrownia Ostrołęka Sp. z o.o. Taking the above into account, the investment is classified as a joint venture and is accounted for using the equity method.

On 4 April 2018 Elektrownia Ostrołęka Sp. z o.o. concluded a procedure for the award of a public contract entitled "Construction of 1000-MW Elektrownia Ostrołęka C by selecting a consortium of GE Power Sp. z o.o. and Alstom Power System S.A.S as the General Contractor, which offered to perform the subject of the tender in parameters specified in the proposal for PLN 5 049 729 thousand net, PLN 6 023 035 thousand gross.

On 6 July 2018 an Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o. granted consent to execute a public supply contract with the General Contractor: Consortium of GE Power Sp. z o.o. (consortium leader) and ALSTOM Power Systems S.A.S., selected by the company in a procedure for the award of a public contract by way of competitive dialogue entitled "Construction of 1000-MW Elektrownia Ostrołęka C."

The agreement with the General Contractor: Consortium of GE Power Sp. z o.o. (consortium leader) and ALSTOM Power Systems S.A.S. was signed by the Management Board of Elektrownia Ostrołęka Sp. z o.o. on 12 July 2018.

On 4 September 2018 a memorandum was signed by ENEA S.A., Energa S.A., Elektrownia Ostrołęka Sp. z o.o. and FIZAN Energia ("Fund") concerning the Fund's equity investment (by purchasing shares in the SPV's share capital) in the project being implemented by the SPV to prepare, build and operate a hard coal-fired power unit with gross output of approx. 1000 MW. The Fund's investment in Elektrownia Ostrołęka Sp. z o.o. is subject to several legal, corporate and financial conditions being met, including the market situation. The memorandum was valid until 30 November 2018.

On 24 September 2018, an Extraordinary General Meeting of ENEA S.A. granted directional approval to join the Construction Stage of the Ostrołęka C project, i.e. the stage from the moment Elektrownia Ostrołęka Sp. z o.o. issues an order to proceed to the general contractor until the power unit being built as part of the Ostrołęka C project is put into commercial operation. This consent was one of a number of corporate approvals that precede the issue of the NTP.

On 21 December 2018, a Capacity Market auction took place for delivery year 2023, with the participation of Elektrownia Ostrołęka Sp. z o.o. The final results of the capacity auction were announced by the URE President on 14 January 2019. As a result of the auction, Elektrownia Ostrołęka C executed a capacity contract for a 15-year support period for 202.99 PLN/kW/year, translating into annual revenue of approx. PLN 173 million.

Through resolution 94/IX/2018 of 28 December 2018, the Supervisory Board of ENEA S.A. approved the following:

- execution by the Management Board of ENEA S.A. of a memorandum with ENERGA S.A. and Elektrownia Ostrołęka Sp. z o.o. regarding rules for cooperation between the parties in the project to build Elektrownia Ostrołęka C, including termination of the Investment Agreement of 8 December 2016 together with Annex 1/2018 executed on 26 March 2018 and limiting ENEA S.A.'s financial involvement in the Construction Stage to PLN 1 billion,
- vote by an ENEA S.A. representative at the Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o. for a resolution on consent to issued an NTP, provided that this is preceded by all parties reaching an agreement.

The aforementioned memorandum between ENEA S.A., ENERGA S.A. and Elektrownia Ostrołęka Sp. z o.o. was executed on 28 December 2018. Pursuant to the memorandum, the Investment Agreement of 8 December 2016 together with an annex of 26 March 2018 was terminated.
The memorandum specifies new rules for cooperation, including the Project's financing structure, where ENEA S.A. pledges financial involvement at the Construction Stage of PLN 1 billion, ENERGA S.A. pledges at least PLN 1 billion, on top of the funds already invested. Moreover, the memorandum sees other investors becoming involved as necessary to cover the Project's financial expenditures.

The parties to the memorandum intend to:

- agree on the form, schedule and conditions for a financial investment by a financial investor and/or other investors;
- execute a new investment agreement;
- agree on rules for the company to secure credit facilities from borrowers necessary to complete the Construction Stage so that ENEA S.A. and ENERGA S.A. do not breach financial covenants.

The memorandum included a condition for ENEA S.A. to approve issue of the NTP for the general contractor.

On 28 December 2018 an Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o. agreed to issued a notice to proceed to the general contractor - consortium of GE Power Sp. z o.o. (consortium leader) and ALSTOM Power Systems S.A.S.

The Management Board of Elektrownia Ostrołęka Sp. z o.o. on 28 December 2018 issued an NTP related to the construction of Elektrownia Ostrołęka C for the general contractor - consortium of GE Power Sp. z o.o. (consortium leader) and ALSTOM Power Systems S.A.S.

Given the issue of the NTP for the general contractor and taking into account the fact that in accordance with the memorandum the second advance tranche will be covered in equal parts by ENEA S.A. and Energa S.A. - in order to pay the second advance tranche to the contractor, an Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o. on 4 January 2019 adopted a resolution to increase the company's share capital by PLN 361 382 thousand.

ENEA S.A. purchased 3 613 821 shares in capital, with a nominal value of PLN 180 691 thousand, transferring a cash contribution to the SPV's bank account on 4 January 2019. The share capital increase was registered at the National Court Register on 1 March 2019.

On 7 January 2019 ENEA S.A., Energa S.A. and PGE Polska Grupa Energetyczna S.A. (PGE) began talks that might lead to PGE's involvement in the Elektrownia Ostrołęka C project, which is currently being implemented by ENEA S.A. and Energa S.A.

## 44. Investment in Polska Grupa Górnicza S.A.

In connection with a process to seek out equity investors by Katowicki Holding Węglowy S.A., in July 2016 ENEA S.A. began talks with potential investors concerning implementation of a potential investment and its parameters.
On 28 October 2016, ENEA S.A. signed a letter of intent with Węglokoks S.A. and Towarzystwo Finansowe Silesia Sp. z o.o. (Investors), expressing preliminary interest in a financial investment in Katowicki Holding Węglowy S.A. or KHW's assets.
With Polska Grupa Górnicza S.A. (PGG) being interested in acquiring selected assets from Katowicki Holding Węglowy S.A. and given that a re-capitalisation process had begun at PGG, ENEA S.A. and PGG's other shareholders analysed a business plan presented by PGG and expressed interest in an equity investment in Polska Grupa Górnicza S.A.
On 30 March 2017 ENEA S.A.'s Supervisory Board allowed the Company to invest in Polska Grupa Górnicza S.A. and acquire new PGG shares with nominal value of PLN 300 million in exchange for a PLN 300 million cash contribution.
On 31 March 2017, the Company executed:

- an investment agreement setting out the conditions for a financial investment in PGG (Investment Agreement),

- a memorandum between the Investors concerning exercise of joint control over PGG (Annex 1 to the Memorandum concerning Polska Grupa Górnicza).

Investment Agreement

The parties to the Investment Agreement are as follows: ENEA S.A., ENERGA Kogeneracja Sp. z o.o., PGE Górnictwo i Energetyka Konwencjonalna S.A., PGNiG TERMIKA S.A., Węglokoks S.A., Towarzystwo Finansowe Silesia Sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Investors) and PGG. Under the Investment Agreement, PGG were to purchase selected mining assets from Katowicki Holding Węglowy S.A. pursuant to a preliminary agreement, which was signed on 1 April 2017.

The Investment Agreement determines the way in which the investment is to be carried out and the manner in which the Company will invest in PGG, along with operational rules for PGG and its corporate bodies as well as rules for the parties' exit from the PGG investment.

As part of the PGG re-capitalisation, ENEA S.A. committed to purchasing new PGG shares with total nominal value of PLN 300 million in exchange for a PLN 300 million cash contribution in three stages:

a) in the first stage, the Company purchased new PGG shares with nominal value of PLN 150 million in exchange for a PLN 150 million cash contribution. After this purchase, the Company held a 4.39% stake in PGG. The first re-capitalisation took place in April 2017.
b) in the second stage, the Company purchased new PGG shares with nominal value of PLN 60 million in exchange for a PLN 60 million cash contribution. After this purchase, the Company held a 5.81% stake in PGG. The second re-capitalisation took place in June 2017.
c) in the third stage, the Company purchased, in a private subscription, PGG's series B shares with nominal value of PLN 90 million in exchange for a PLN 90 million cash contribution. ENEA S.A. increased its stake in PGG's share capital to 7.66%. The third re-capitalisation took place in January 2018.

The agreement sets out rules for appointing Supervisory Board members, pursuant to which each of the Investors and the State Treasury will be entitled to appoint one member to the Supervisory Board, which will consist of no more than eight persons.

The investment is in line with ENEA Group's Development Strategy, one element of which involves securing a raw material base for conventional power generation.

As a result of Polska Grupa Górnicza Sp. z o.o. being transformed into a joint-stock company (spółka akcyjna) and a change in rules preparing financial statements, i.e. adoption by Polska Grupa Górnicza Sp. z o.o. of IFRS, Annex 1 to the Investment Agreement of 31 March 2017 entered into force on 31 August 2018, taking into account the aforementioned changes, among other things.

Investor memorandum

On 31 March 2017, the Investors: ENERGA Kogeneracja Sp. z o.o., PGE Górnictwo i Energetyka Konwencjonalna S.A., PGNiG TERMIKA S.A., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and ENEA S.A. executed a Memorandum that governs the way in which the Parties come to agreement on decisions concerning the company and exercise of joint control over the company. For ENEA S.A., the Memorandum was executed on the condition that the President of the UOKiK approves the acquisition of joint control over the company. The UOKiK approval mentioned in the preceding sentence was issued on 22 December 2017.

At the same time, a letter of intent which had been signed on 16 October 2016 by ENEA S.A., Węglokoks S.A. and Towarzystwo Finansowe Silesia Sp. z o.o. concerning the previously contemplated equity investment in Katowicki Holding Węglowy S.A. was terminated on 31 March 2017.

## 45. Disclosures under art. 44 of the Energy Law concerning specific types of activity

### 45.1. General rules for preparing regulatory financial information

The Company prepares regulatory financial information in accordance with the following rules:

**Principle of causality**

Asset and liability components are defined in accordance with their intended purpose and use for the purposes of specific types of activity or service. Defining revenue and costs is done in accordance with the principle of causality for revenue and costs within a given activity.

**Principle of objectivity and non-discrimination**

Assigning assets and liabilities, revenue and costs should be objective and aimed at the equal treatment of customers.

**Principle of stability and comparability**

Methods and rules used in preparing regulatory financial information should be consistent from year to year. If significant changes occur to rules for preparing financial statements, detailed accounting methods or rules, which have considerable impact on the reported financial information, comparative data for the previous year, in the part affected by such changes, is appropriately adjusted in order to ensure comparability.

**Principle of transparency and consistency**

The applied methods for preparing regulatory financial information should be transparent and internally consistent and, where applicable, consistent with the methods and rules used in other calculations for regulatory purposes and with the methods and rules for preparing financial statements.

### 45.2. Definitions of types of activity

The Company reports the following types of activity:

1. **Trade of gas fuels -** trade of gas fuels purchased from external suppliers and delivered to external clients,
2. **Other activity** - other activities, intra-group financing and activity related to Group management. Trade of electricity and trade of property rights are also classified by the Company as other activity.

### 45.3. Principle of allocation

#### Allocation of items in the statement of financial position

| Item in the statement of financial position | Allocation key |
|---|---|
| Property, plant and equipment | depreciation cost structure |
| Perpetual usufruct of land | depreciation cost structure |
| Intangible assets | depreciation cost structure |
| Investment properties | directly to other activity |
| Investments in subsidiaries, associates and jointly controlled entities | directly to other activity |
| Deferred income tax assets | excluded from division |
| Financial assets at fair value | directly to other activity |
| Debt financial assets at amortised cost | directly to other activity |
| Costs related to the conclusion of agreements | directly to other activity |
| Available-for-sale financial assets | directly to other activity |
| Intra-group bonds | directly to other activity |
| Financial assets at fair value through profit or loss | directly to other activity |
| Derivative instruments | excluded from division |
| Trade and other receivables, including:<br>- accrued expenses, settlements concerning property insurance and other receivables<br>- settlements concerning income tax with other entities within tax group | detailed identification methods<br>directly to other activity<br>excluded from division |
| Inventory (energy origin certificates) | directly to other activity |
| Assets arising from contracts with customers | detailed identification methods |
| Current income tax receivables | excluded from division |
| Cash and cash equivalents | attributed directly to other activity |
| Equity | Excluded from division - element of invested capital |
| Credit facilities, loans and debt securities (long-term instruments) | excluded from division - element of employed capital |
| Finance lease liabilities (long-term contracts) | excluded from division - element of employed capital |
| Employee benefit liabilities | wage cost structure |
| Financial liabilities at fair value | excluded from division |
| Trade and other payables, including:<br>- other liabilities<br>- excise duty liabilities<br>- VAT liabilities | detailed identification methods<br>wage cost structure<br>excise duty cost structure<br>trade receivables and payables structures within specific activities |
| Liabilities concerning the equivalent for rights to free purchase of shares | directly to other activity |
| Other financial liabilities | directly to other activity |
| Provisions for other liabilities and other charges | detailed identification methods |

### Allocation of items in the statement of profit and loss and other comprehensive income

The Company records costs by type and in multiple-step format using cost centres (CC).

The costs of core activities related to trade of electricity and gas fuels include CCs assigned directly to these activities and part of general administrative expenses appropriately allocated to the given CC. These costs are than split using by electricity and gas volume into trade of electricity (other activity) and trade of gas fuels. The remaining part of costs of operating activities is classified into other activity.

The following table shows the allocation of other items in the statement of profit and loss and other comprehensive income:

| **Item in the statement of profit and loss and other comprehensive income** | **Allocation key** |
|---|---|
| Revenue from sales | detailed identification methods |
| Other operating revenue | detailed identification method or structure of revenue from sales in given financial year in given type of activity |
| Other operating costs | detailed identification method or structure of revenue from sales in given financial year in given type of activity |
| Gain on sale and liquidation of property, plant and equipment | directly to other activity |
| Finance income, including:<br>- interest on over-due receivables for electricity<br><br>- interest on financial instruments<br>- other | <br>structure of revenue from sales in given financial year in given type of activity or directly to other activity<br>directly to other activity<br>structure of revenue from sales in given financial year in given type of activity |
| Finance costs, including:<br>- interest on long-term financial liabilities<br>- other | <br>excluded from division - concerns invested capital<br><br>detailed identification method or structure of revenue from sales in given financial year in given type of activity |
| Income tax | excluded from division |
| Other comprehensive income | excluded from division |

### 45.4. Eliminating cross-subsidisation and ensuring equal treatment of customers

Striving to ensure equal treatment for customers and eliminate cross-subsidisation between its activities, the Company keeps records that make it possible to separate calculate the costs of revenue for economic activities, as listed in art. 44 sec. 1 of the Energy Law.

(all amounts in PLN 000s unless stated otherwise)

## Statement of financial position
## as at 31 December 2018

| | Trade of gas fuels | Other activity | Excluded from division | TOTAL |
|---|---|---|---|---|
| **Non-current assets** | **572** | **19 479 830** | **98 432** | **19 578 834** |
| Property, plant and equipment | 464 | 25 327 | - | **25 791** |
| Perpetual usufruct of land | 27 | 1 477 | - | **1 504** |
| Intangible assets | 81 | 4 420 | - | **4 501** |
| Investment properties | - | 14 305 | - | **14 305** |
| Investments in subsidiaries, associates and jointly controlled entities | - | 12 794 956 | - | **12 794 956** |
| Deferred income tax assets | - | - | 98 432 | **98 432** |
| Financial assets at fair value | - | 46 357 | - | **46 357** |
| Debt financial assets at amortised cost | - | 6 578 980 | - | **6 578 980** |
| Trade and other receivables | - | 1 103 | - | **1 103** |
| Costs related to the conclusion of agreements | - | 12 905 | - | **12 905** |
| **Current assets** | **28 084** | **3 259 778** | **77 098** | **3 364 960** |
| Inventories | - | 333 578 | - | **333 578** |
| Trade and other receivables | 28 084 | 942 573 | - | **970 657** |
| Costs related to the conclusion of agreements | - | 16 948 | - | **16 948** |
| Assets arising from contracts with customers | - | 227 480 | - | **227 480** |
| Current income tax receivables | - | - | 77 098 | **77 098** |
| Debt financial assets at amortised cost | - | 593 221 | - | **593 221** |
| Cash and cash equivalents | - | 1 145 978 | - | **1 145 978** |
| **ASSETS** | | | | **22 943 794** |
| | | | | |
| **Non-current liabilities** | **1 275** | **52 311** | **22 176** | **75 762** |
| Employee benefit liabilities | 1 275 | 52 311 | - | **53 586** |
| Financial liabilities measured at fair value | - | - | 22 176 | **22 176** |
| **Current liabilities** | **16 565** | **1 259 881** | **53 346** | **1 329 792** |
| Trade and other payables | 15 629 | 577 685 | 53 346 | **646 660** |
| Employee benefit liabilities | 551 | 22 592 | - | **23 143** |
| Liabilities concerning the equivalent for rights to free purchase of shares | - | 281 | - | **281** |
| Other financial liabilities | - | 146 785 | - | **146 785** |
| Provisions for other liabilities and other charges | 385 | 512 538 | - | **512 923** |
| **Employed capital** | **10 816** | **21 427 416** | **(21 438 232)** | **-** |
| Equity | - | - | 13 295 846 | **13 295 846** |
| Credit facilities, loans and debt securities | - | - | 8 240 970 | **8 240 970** |
| Finance lease liabilities | - | - | 1 424 | **1 424** |
| **EQUITY AND LIABILITIES** | | | | **22 943 794** |

(all amounts in PLN 000s unless stated otherwise)

## Statement of financial position

## as at 31 December 2017

| | Trade of gas fuels | Other activity | Excluded from division | TOTAL |
|---|---|---|---|---|
| **Non-current assets** | **512** | **18 972 207** | **96 246** | **19 068 965** |
| Property, plant and equipment | 417 | 25 488 | - | **25 905** |
| Perpetual usufruct of land | 20 | 1 195 | - | **1 215** |
| Intangible assets | 75 | 4 591 | - | **4 666** |
| Investment properties | - | 14 855 | - | **14 855** |
| Investments in subsidiaries, associates and jointly controlled entities | - | 11 945 473 | - | **11 945 473** |
| Deferred income tax assets | - | - | 66 693 | **66 693** |
| Available-for-sale financial assets | - | 39 307 | - | **39 307** |
| Intra-group bonds | - | 6 771 221 | - | **6 771 221** |
| Financial assets at fair value through profit or loss | - | 23 836 | - | **23 836** |
| Derivative instruments | - | - | 29 553 | **29 553** |
| Trade and other receivables | - | 146 241 | - | **146 241** |
| **Current assets** | **26 539** | **3 231 081** | **126 336** | **3 383 956** |
| Inventories | - | 217 158 | - | **217 158** |
| Trade and other receivables | 26 539 | 1 100 443 | - | **1 126 982** |
| Current income tax receivables | - | - | 126 336 | **126 336** |
| Intra-group bonds | - | 167 054 | - | **167 054** |
| Cash and cash equivalents | - | 1 746 426 | - | **1 746 426** |
| **ASSETS** | | | | **22 452 921** |
| | | | | |
| **Non-current liabilities** | **1 470** | **50 502** | **-** | **51 972** |
| Employee benefit liabilities | 1 470 | 50 471 | - | **51 941** |
| Provisions for liabilities and other charges | - | 31 | - | **31** |
| **Current liabilities** | **15 573** | **1 786 447** | **100 265** | **1 902 285** |
| Trade and other payables | 14 017 | 683 287 | 100 265 | **797 569** |
| Employee benefit liabilities | 563 | 19 322 | - | **19 885** |
| Liabilities concerning the equivalent for rights to free purchase of shares | - | 281 | - | **281** |
| Other financial liabilities | - | 723 735 | - | **723 735** |
| Provisions for other liabilities and other charges | 993 | 359 822 | - | **360 815** |
| **Employed capital** | **10 008** | **20 366 339** | **(20 376 347)** | **-** |
| Equity | - | - | 12 631 977 | **12 631 977** |
| Credit facilities, loans and debt securities | - | - | 7 866 181 | **7 866 181** |
| Finance lease liabilities | - | - | 506 | **506** |
| **EQUITY AND LIABILITIES** | | | | **22 452 921** |

(all amounts in PLN 000s unless stated otherwise)

## Statement of profit and loss and other comprehensive income

## for the period from 1 January 2018 to 31 December 2018

| | Trade of gas fuels | Other activity | Excluded from division | TOTAL |
|---|---|---|---|---|
| Revenue from sales | 97 071 | 4 856 781 | - | 4 953 852 |
| Excise duty | (2 319) | (249 844) | - | (252 163) |
| **Net revenue from sales** | **94 752** | **4 606 937** | **-** | **4 701 689** |
| Other operating revenue | - | 35 016 | - | 35 016 |
| Amortisation | (39) | (2 195) | - | (2 234) |
| Employee benefit costs | (1 503) | (61 782) | - | (63 285) |
| Use of materials and commodities and value of goods sold | (80) | (2 901) | - | (2 981) |
| Purchase of electricity and gas for sales purposes | (96 635) | (4 365 155) | - | (4 461 790) |
| Transmission and distribution services | - | (1 973) | - | (1 973) |
| Other third-party services | (4 399) | (192 365) | - | (196 764) |
| Taxes and fees | (74) | (3 091) | - | (3 165) |
| Gain on sale and liquidation of property, plant and equipment | - | 109 | - | 109 |
| Costs related to onerous contracts | - | (78 981) | - | (78 981) |
| Other operating costs | (92) | (70 126) | - | (70 218) |
| **Operating loss** | **(8 070)** | **(136 507)** | **-** | **(144 577)** |
| Finance costs | (8) | (25 909) | (239 405) | (265 322) |
| Finance income | 327 | 467 094 | - | 467 421 |
| Dividend income | - | 645 293 | - | 645 293 |
| **(Loss)/profit before tax** | **(7 751)** | **949 971** | **(239 405)** | **702 815** |
| Income tax | | | 24 321 | 24 321 |
| **Net (loss)/profit for the reporting period** | | | **(215 084)** | **727 136** |
| Other comprehensive income | | | (60 979) | (60 979) |
| **Comprehensive income for the reporting period** | | | **(276 063)** | **666 157** |

(all amounts in PLN 000s unless stated otherwise)

## Statement of profit and loss and other comprehensive income
## for the period from 1 January 2017 to 31 December 2017

| | Trade of gas fuels | Other activity | Excluded from division | TOTAL |
|---|---|---|---|---|
| Revenue from sales | 120 592 | 5 774 037 | - | 5 894 629 |
| Excise duty | (2 352) | (252 697) | - | (255 049) |
| **Net revenue from sales** | **118 240** | **5 521 340** | **-** | **5 639 580** |
| Other operating revenue | - | 34 819 | - | 34 819 |
| Amortisation | (42) | (2 593) | - | (2 635) |
| Employee benefit costs | (1 514) | (52 030) | - | (53 544) |
| Use of materials and commodities and value of goods sold | (60) | (2 094) | - | (2 154) |
| Purchase of electricity and gas for sales purposes | (85 309) | (3 496 851) | - | (3 582 160) |
| Transmission and distribution services | (32 474) | (1 559 972) | - | (1 592 446) |
| Other third-party services | (3 601) | (175 814) | - | (179 415) |
| Taxes and fees | (101) | (3 171) | - | (3 272) |
| Gain on sale and liquidation of property, plant and equipment | - | 3 971 | - | 3 971 |
| Other operating costs | (113) | (140 751) | - | (140 864) |
| **Operating (loss)/profit** | **(4 974)** | **126 854** | **-** | **121 880** |
| Finance costs | (8) | (1 723) | (193 506) | (195 237) |
| Finance income | - | 1 097 427 | - | 1 097 427 |
| Dividend income | - | 810 534 | - | 810 534 |
| **(Loss)/profit before tax** | **(4 982)** | **2 033 092** | **(193 506)** | **1 834 604** |
| Income tax | | | (21 280) | (21 280) |
| **Net (loss)/profit for the reporting period** | | | **(214 786)** | **1 813 324** |
| Other comprehensive income | | | (11 465) | (11 465) |
| **Comprehensive income for the reporting period** | | | **(226 251)** | **1 801 859** |

## 46. Events after the balance sheet date

On 4 January 2019 an Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o. adopted a resolution to increase the company's share capital by PLN 361 382 thousand. This amount, in accordance with the Agreement of 28 December 2018 between ENEA S.A., Energa S.A. and Elektrownia Ostrołęka Sp. z o.o., was used to finance the second advance instalment for the General Contractor in connection with the NTP being issued on 28 December 2018. ENEA S.A. purchased 3 613 821 shares in capital, with a nominal value of PLN 180 691 thousand, transferring a cash contribution to the SPV's bank account on 4 January 2019. The share capital increase was registered at the National Court Register on 1 March 2019.

On 7 January 2019 ENEA S.A., Energa S.A. and PGE Polska Grupa Energetyczna S.A. (PGE) began talks that might lead to PGE's involvement in the Elektrownia Ostrołęka C project, which is currently being implemented by ENEA S.A. and Energa S.A.

A draft regulation of the Minister of Energy concerning the means of calculating the price difference amount and the means for determining reference prices, the final content of which will be known once it is published, was submitted for public consultations on 14 March 2019. The Company is currently analysis this document.

## 47. Description of significant accounting rules

Described below are the key accounting rules used in preparing these financial statements. There rules were applied to all of the presented periods in a continuous manner, except accounting rules resulting from IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, which entered into force on 1 January 2018.

### 47.1. Basis for preparation

The separate financial statements for the period from 1 January 2018 to 31 December 2018 are prepared in accordance with the requirements of International Financial Reporting Standards, as endorsed by the European Union ("EU IFRS").

The Company prepares separate financial statements to comply with the obligation to file them in the competent register court pursuant to art. 69 of the Accounting Act.

These separate financial statements are prepared on an historic cost basis, except for financial instruments measured at fair value.

The Company prepares ENEA Group's consolidated financial statements in compliance with EU IFRS. In the consolidated financial statements, entities in which the Company directly or indirectly holds a stake and at least half of voting rights or exerts control in another manner are subject to full consolidation. ENEA Group's consolidated financial statements were approved by the Management Board of ENEA S.A. on the same date as the separate financial statements.

ENEA S.A.'s separate financial statements should be read in conjunction with ENEA Group's consolidated financial statements for the period from 1 January to 31 December 2018 in order to obtain full information on the Group's financial situation and results.

### 47.2. Mergers and acquisitions

Mergers and acquisitions of entities that are not under joint control are accounted for using the equity method in accordance with IFRS 3.

### 47.3. Methods for measurement of investments in subsidiaries, associates and jointly controlled entities

Subsidiaries are all entities in respect of which the Company has the capability to shape their financial and operational policies, which is usually accompanied with having a majority of voting rights. In assessing whether or not the Company controls an entity, the existence and impact of potential voting rights that may be exercised or exchanged is taken into account. Subsidiaries are fully consolidated from the date on which control over them is obtained by ENEA S.A. They are deconsolidated on the date control ceases.

Associates are all entities in respect of which the Company exerts a significant influence but does not have control, which typically means holding 20-50% of voting rights.

Jointly controlled entities are all entities in respect of which the Company exercises, through contractual arrangements, control jointly with other entities.

Investments in subsidiaries and associates are measured at purchase price less impairment. Impairment of investments is recognised in finance costs and is not treated as tax deductible. If reasons for which an impairment loss had been recognised cease, all or part of the previously recognised impairment loss increase the investment's value and is classified into finance income (not taxable).

### 47.4. Transactions in foreign currencies and measurement of foreign-currency positions

(a) Functional currency and presentation currency

Items in the Company's financial statements are measured in the currency of the main economic environment in which the Company operates (in the functional currency). Financial statements are presented in Polish zloty (PLN), which is the functional currency and presentation currency. Items in financial statements are rounded to full thousands of zlotys (PLN 000s), unless otherwise stated.

(b) Transactions and balances

Transactions expressed in foreign currencies are translated at initial recognition into the functional currency at the exchange rate valid on the transaction date.

At the balance sheet date, foreign currency cash items are translated using the closing exchange rate (closing rate is the average exchange rate published by the National Bank of Poland for the measurement day).

Gains and losses on exchange differences arising from settlement of transactions in foreign currencies and balance sheet measurement of foreign currency cash assets and liabilities are recognised in the gain or loss for the period, while gains and losses on exchange differences concerning tangible assets under construction are recognised as expenditures on tangible assets under construction.

### 47.5. Property, plant and equipment

Property, plant and equipment items are measured at purchase price or cost to manufacture, less accumulated depreciation and impairment.

The Company elected to exclude IFRS 1 and used the fair value of selected property, plant and equipment as the cost at the date of transition to EU IFRS.

Subsequent expenditures are recognised in the book value of the given tangible asset or as a separate tangible asset (where appropriate) only if it is likely that there will be an inflow of economic benefits to the Company, while the item's costs may be reliably estimated.

All other expenses on repairs and maintenance are recognised as profit or loss in the reporting period in which they are incurred.

If a part of a tangible asset is replaced (partial liquidation), the cost of the replaced part is recognised in its balance sheet value, at the same time the balance sheet value of the replaced part is removed from the statement of financial position, regardless of whether it was separately depreciated and it is recognised in the current-period profit or loss.

Land is not subject to depreciation. For other tangible assets, depreciation is calculated on a straight-line basis throughout the estimated period of use. The base for calculating depreciation constitutes the initial value less final value.

(all amounts in PLN 000s unless stated otherwise)

Use periods for property, plant and equipment are as follows:

| | |
|---|---|
| - buildings and structures | 20 – 70 years |
| - technical equipment and machinery | 2 – 40 years |
| - means of transport | 3 – 20 years |
| - other property, plant and equipment | 5 – 15 years |

Verifying the end values and periods of use of tangible assets takes places at least once a year. Each change of depreciation period requires agreement and necessitates an adjustment to the depreciation charges in subsequent financial years.

At each balance sheet date ending a financial year, impairment assessments are carried out in compliance with IAS 36. If grounds for impairment are identified, impairment tests are carried out in compliance with IAS 36.

Depreciation begins when an asset is available for use. Depreciation ends when an asset is designated as available for sale in accordance with IFRS 5 or if it is removed from the statement of financial position, depending on which occurs earlier.

### 47.6. Right to perpetual use

Land constituting the property of the State Treasury, local government units or their associations may be used pursuant to perpetual usufruct. Perpetual usufruct is a specific property right entitling to: use of property, excluding other persons or management of this item (right).

Depending on the means of purchasing such rights, the Company classifies them as follows:

1. Right to perpetual usufruct of land obtained legally for free through a decision of voivodship marshal or local government - this is treated at operational leasing.
2. Right to perpetual usufruct of land obtained from third persons for a fee - this is recognised as assets under right to perpetual usufruct of land, at purchase price less depreciation.
3. Right to perpetual usufruct of land obtained under an agreement on transfer of land for perpetual usufruct, executed with the State Treasury or local government units - this is defined as excess of the first payment over annual payment and is classified as an asset under rights to perpetual usufruct of land and is depreciated.

Depreciation of a right to perpetual usufruct of land takes place over the period for which it was granted (from 40 to 99 years).

### 47.7. Intangible assets

Intangible assets include: computer software, licences and other intangible assets.

Intangible assets are measured at purchase price or cost to manufacture, less accumulated amortisation and impairment.

Amortisation is calculated on a straight-line basis, using estimated period of use, which is:

- for licences and computer software 2 – 10 years,
- for working station licences and software and anti-virus software 2 – 10 years,
- for other intangible assets 2 – 10 years.

Each year, the Company verifies the correctness of periods of use for intangible assets. Each change of amortisation period requires agreement and necessitates an adjustment to the amortisation charges in subsequent financial years.

At each balance sheet date ending a financial year, impairment assessments are carried out for intangible assets. If grounds for impairment are identified, impairment tests are carried out in compliance with IAS 36.

### 47.8. Costs of R&D work

The costs of research works are recognised in profit or loss in the period in which they are incurred.

The costs of development works that meet the capitalisation criteria described below, like intangible assets, are measured at purchase price or cost to manufacture, less accumulated amortisation and impairment.

Amortisation is calculated on a straight-line basis, using estimated period of use between 2 and 7 years.

Capitalisation criteria:

- the technical capability to complete the intangible asset so that it is fit for use or sale,
- intention to complete the intangible asset and use or sell it,
- ability to use or sell the intangible asset,
- the way in which this intangible asset will produce future economic benefits. The economic entity should provide the existence of a market for products that are created using the intangible asset or for the intangible asset itself or - if the asset is to be used by the entity - the usefulness of this intangible asset,
- the availability of appropriate technical, financial and other means intended to complete the development works and use or sell the intangible asset,
- the ability to reliably determine expenditures on development works that can be attributed to the intangible asset.

### 47.9. Investment properties

Investment properties are maintained in order to generate income from rent, growth in value or both. The Company selected the purchase price model at initial recognition.

Investments in properties are amortised on a straight-line basis. Amortisation begins in the month following the month in which the investment in property is accepted for use.

Estimated periods of use are as follows:

- Buildings 25 – 35 years

Income from renting investment properties is recognised in profit or loss on a straight-line basis throughout the contract term.

### 47.10. Leases

A lease contract in which generally all of the risk and benefits are for the Company is classified as a finance lease. Leases other than finance leases are considered as operating leases.

The object of a finance lease is recognised in assets on the date at which the lease starts at the lower of the following two amounts: fair value of the leased object or the present minimum lease payments. Under financial leases, each payment is divided into an amount that decreases the liability and an amount of finance costs so as to maintain a fixed interest rate for the outstanding part of the liability. The interest component of a lease payment is recognised as finance costs in the statement of profit and loss throughout the lease term. Assets purchased under finance leasing that are subject to depreciation are depreciated throughout their period of use.

Lease payments under operating leases (after subtracting any potential promotional deals received from the lessor) are recognised as costs on a straight-line basis throughout the lease term.

### 47.11. Impairment of assets

Assets that are subject to depreciation are analysed in terms of impairment whenever indications of impairment are identified.

#### Non-financial assets

An impairment loss is recognised in the amount by which the asset's balance sheet value exceeds its recoverable value. The recoverable value is determined as the higher of the following two amounts: fair value less cost to sell or usable value (i.e. estimated present value of future cash flows that are expected to be obtained from further use of the asset or cash generating unit). For impairment analysis purposes, assets are grouped at the lowest level where it is possible to identify separate cash flows (cash generating units).

All impairment losses are recognised in profit or loss. Impairment losses may be reversed in subsequent periods if events occur that justify a lack of or change in impairment.

#### Financial assets

Financial assets are analysed at the end of each reporting period in terms of expected credit losses and indications of impairment.

Individual financial instruments of significant value are assessed for impairment individually. Other financial assets are split into groups with similar credit risk.

Rules for recognising impairment losses on financial assets are described in detail in note 47.12.

### 47.12. Financial assets

Rules in effect from 1 January 2018:

The Company classifies its financial instruments in the following categories:

- financial assets at fair value through profit or loss,
- equity instruments through other comprehensive income,
- financial assets at amortised cost,
- financial assets at fair value through other comprehensive income.

a) Financial assets at fair value through profit or loss include:

   - financial assets held for trading (including derivative instruments for which no hedging policy is designated),
   - financial assets voluntarily assigned to this category,
   - financial assets that do not meet the definition of basic lending arrangement, including equity instruments such as shares, except instruments designated as equity instruments measured through other comprehensive income,
   - financial assets that meet the definition of basic lending arrangement and are not held in accordance with a business model for the purpose of obtaining cash flows or in order to obtain cash flows and for sale.

Assets in this category are classified as current assets if they are held for trading or expected to be performed within 12 months from the balance sheet date.

b) Financial assets at amortised cost

Financial assets measured at amortised cost are financial assets that are held in accordance with a business model that aims to hold financial assets to generate contractual cash flows and whose contractual terms meet the criteria of basic lending arrangement.

c) Financial assets at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are financial assets that are held in accordance with a business model that aims to both receive contractual cash flows and sell financial assets as well as whose contractual terms meet the criteria of basic lending arrangement.

d) Equity instruments through other comprehensive income

Equity instruments through other comprehensive income include investments in equity instruments that are voluntarily and irreversibly classified as such at initial recognition. Equity instruments that meet the definition of held for trading and meet the criteria for mandatory payment recognised by the acquiring Company in a business combination may not be subject to this classification.

At initial recognition, the Company measures a financial asset that is subject to classification for the purposes of fair value measurement. Trade receivables without a financial component that are measured at transaction prices are an exception to this rule.

The fair value of financial assets not classified as at fair value through profit or loss is increased by transaction costs that may be directly assigned to the purchase/acquisition of these assets.

Financial assets at fair value through profit or loss are measured at fair value on every balance sheet date. Fair value determined as at the balance sheet date is not adjusted by transaction costs that would be necessary to perform the given item. Restatement to fair value for assets in this category is recognised in profit or loss. If a given item is removed from accounts, the Company determines the profit or loss on the disposal and recognises it in the period's result.

Financial assets at amortised cost are measured at amortised cost on every balance sheet date. The amortised cost of a financial asset is the amount at which the given financial asset is measured at initial recognition, decreased by repayment of principal and increased or decreased by accumulated depreciation, determined using the effective interest rate method, of any differences between the initial amount and the amount at maturity, and adjusted by any allowances for expected credit losses.

Financial assets at fair value through other comprehensive income are measured at fair value on every balance sheet date. Fair value determined as at the balance sheet date is not adjusted by transaction costs that would be necessary to perform the given item. Interest charged on such items and allowances for expected credit losses are recognised in the period's result, while other restatements to fair value are recognised as other comprehensive income.

Equity instruments through other comprehensive income are measured at fair value on every balance sheet date. Fair value determined as at the balance sheet date is not adjusted by transaction costs that would be necessary to perform the given item. Restatements to fair value are recognised as other comprehensive income.

Rules in effect until 31 December 2017:

The Company classifies its financial instruments in the following categories:

- financial assets at fair value through profit or loss
- loans and receivables
- financial assets held to maturity
- available-for-sale financial assets

This classification is based on the criterion of purpose for purchasing the investment. Classification is performed at initial recognition and subsequently verified at each reporting date if required or permitted under IAS 39.

a) Financial assets at fair value through profit or loss

This category includes two sub-categories:

- financial assets held for trading. A financial asset is assigned to this category if it was purchased mainly to be sold in the short term, constitutes a part of a portfolio of specified financial instruments managed together and there is a likelihood that a gain will be made in the short term, or it is a derivative instrument that does not constitute a hedge.
- financial assets at fair value through profit or loss at initial recognition.

Assets in this category are classified as current assets if they are held for trading or excepted to be performed within 12 months from the balance sheet date.

Financial assets at fair value through profit or loss are measured at fair value, taking into account their market value, on every balance sheet date, without selling costs. Changes in the value of these financial instruments are recognised as gains or losses in finance income or finance costs. If a contract contains one or more embedded derivative instruments, the entire contract may be classified in the category of financial assets at fair value through profit or loss. This does not apply to cases where the embedded derivative does not have a significant impact on contractual cash flows or where separating embedded instruments is explicitly advised.

b) Loans and receivables

Loans and receivables are financial assets other than derivatives with payments that are defined or possible to define, unquoted on an active market. They typically arise when the Company expends cash, delivers goods or services directly to a debtor, without the intent to classify these receivables as held for trading.

Loans and receivables are classified as current assets if their maturity does not exceed 12 months from the balance sheet date. Loans and receivables with maturities exceeding 12 months from the balance sheet date are classified as non-current assets. Loans and receivables are recognised in the statement of financial position as 'Trade and other receivables.' Loans and receivables are recognised at amortised cost.

c) Investments held to maturity

Investments held to maturity are financial assets other than derivatives with payments that are defined or possible to define and a fixed maturity, which the Company intends to and is able to hold to maturity, other than:

- designated by the Company at initial recognition as measured at fair value through profit or loss,
- designated by the Company as available-for-sale, and
- that meet the definition of loans and receivables.

Investments held to maturity are measured at amortised cost using the effective interest rate approach.

If there are indications of impairment of loans and receivables or investments held to maturity measured at amortised cost, the amount of impairment loss is determined as the difference between these assets' book value and the present value of estimated future cash flows discounting using the effective interest rate approach for these assets (i.e. effective interest rate calculated as at initial recognition for assets based on a fix rate of interest and effective interest rate determined at the most recent revaluation of assets based on a variable rate of interest). Impairment losses are recognised in profit or loss. A reversal of an impairment loss is recognised if in subsequent periods the loss of value decreases and this decrease may be attributed to events taking place after the impairment loss is recognised. In the case of a reversal, the book value of financial assets may not exceed the amortised cost that would be determined had no impairment loss been recognised. The reversal of an impairment loss is recognised in profit or loss.

d) Available-for-sale financial assets

Available-for-sale financial assets are financial instruments other than derivatives that are designated as "available-for-sale" or are not classified in any other category. This category includes interests in unrelated entities.

Available-for-sale financial assets are classified as non-current assets if the Company does not intend to sell the investment within 12 months from the balance sheet date.

Transactions to purchase and sell financial assets are recognised on the transaction date - i.e. the date on which the Company commits to purchase or sell a given asset. Financial assets are initially recognised at fair value plus transaction costs, except for investments assigned to the category 'measured at fair value through profit or loss,' which are initially recognised at fair value, without transaction costs.

Financial assets are removed from accounting books if the rights to obtain cash flows from them expire or are transferred and the Company transferred essentially all of the risk and benefits from their ownership.

Available-for-sale financial assets at fair value through profit or loss after initial recognition are measured at fair value. Available-for-sale financial assets, if it is not possible to determine their fair value and they do not have a set maturity, are measured at the purchase price less impairment.

Financial assets held to maturity are measured at amortised cost using the effective interest rate approach.

The effects of measurement of financial assets at fair value through profit or loss are recognised in the profit or loss for the period in which they arise. The effects of measurement of available-for-sale financial assets are recognised in components of other comprehensive income, except for impairment losses and those gains or losses on exchange differences that arise for cash assets.

When an available-for-sale asset is removed from the books, the overall gains or losses previously recognised as other comprehensive income are recognised in the present period's profit or loss.

The fair value of investments for which an active market exists results from their present purchase price. If there is no active market for financial assets (or if such securities are not quoted), the Company determined fair value using appropriate valuation techniques, which include the use of recent transactions on normal market terms, comparisons to other instruments that are essentially identical, analysis of discounted cash flows, options valuation models and other valuation techniques/models commonly used in the market, adapted to the issuer's specific situation.

If there are indications of impairment of unquoted equity instruments that are measured at the purchase price (due to a lack of opportunity to reliably determine fair value), the amount of impairment is determined as the difference between the asset's balance sheet value and the present value of estimated future cash flows discounted using the present market rate of return for similar financial assets. Such impairment losses are irreversible.

At each balance sheet date, the Company assesses whether there is objective proof that a financial asset or a group of financial assets is impaired.

If such proof exists for available-for-sale financial assets, the overall losses recognised in equity - determined as the difference between the purchase price and actual fair value, less any impairment losses recognised previously in profit or loss - this is removed from equity and recognised in profit or loss. Impairment losses are recognised in profit or loss, and impairment losses concerning equity instruments are irreversible. A reversal of an impairment loss on debt financial instruments is recognised in profit or loss if in subsequent periods after recognition the fair value of such financial instruments increased as a result of events taking place after recognition.

## 47.13. Hedge accounting and derivative instruments

Rules in effect from 1 January 2018:

Derivative instruments that are used by the Company in order to hedge against specific risk, related to changes in interest rates and exchange rates, are measured at fair value. Derivative instruments are recognised as assets if their value is positive and as liabilities if their value is negative.

The fair value of currency contracts is determined by reference to current forward rates for contracts with the same maturity or based on valuation by independent entities. The fair value of interest rate swaps may be determined based on valuation by independent entities. The fair value of other derivative instruments is determined based on market data or valuation by independent institutions specialised in this type of valuation.

For some or all of its exposure to a particular risk, the Company may apply hedge accounting if the hedging instrument and the hedged item that create a hedging relationship are in line with risk management objectives and the hedging strategy.

The Company defines hedging relationships concerning various types of risk as fair value hedges or cash flow hedges. Hedging a risk that concerns likely future obligations is treated as a cash flow hedge.

When a hedging relationship is established, the Company documents the relation between the hedging instrument and the hedged item as well as risk management objectives and the strategy for implementing various hedging transactions.

Derivatives that are hedging instruments are recognised by the Company in accordance with rules concerning fair value or cash flow hedges if all of the following conditions are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge,
- the hedging relationship covers only qualified hedging instruments and qualified hedged items,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss,
- the effectiveness of the hedge can be reliably measured.

If the Company identifies an ineffectiveness of a hedge that goes beyond the risk management objective and the hedging relationship continues to implement the risk management strategy and risk management objectives, the Company re-balances the hedging relationship.

The Company discontinues to prospectively apply hedge accounting rules if:

- the hedge no longer meets the criteria for hedge accounting if the hedging instrument expires or is sold, terminated or exercised,
- the hedge no longer meets the criteria for hedge accounting if the risk management strategy or risk management objectives change.

The Company does not discontinue a hedging relationship that:

- continues to meet the risk management objectives based on which it had qualified for hedge accounting, and
- continues to meet all of the other qualification criteria (after taking into account the re-balancing of the hedging relationship, if applicable).

If a fair value hedge is applied to an item other than equity instrument classified as an equity instrument through other comprehensive income, the Company:

- recognises the gains or losses from the fair value restatement of a derivative hedge in profit or loss, and
- adjusts the book value of the hedged item by the gains or losses related to the hedged item, resulting from the hedged risk, and recognises this in the current period's financial result.

If a fair value hedge is applied to an equity instrument classified as an equity instrument through other comprehensive income, the Company:

- recognises the gains or losses from the fair value restatement of a derivative hedge in other comprehensive income, and
- measures the equity instrument through other comprehensive income, recognising restatements in other comprehensive income.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and which might affect profit or loss. A forecast transaction is a transaction that is not based on a concluded binding agreement (expected future transaction).

For cash flow hedges, the Company:

- recognises the effective part of changes in the fair value of derivative instruments designated as cash flow hedges in the revaluation reserve,
- recognises the gain or loss related to the ineffective part in the current period's financial result.

If a hedge of a forecast transaction results in the recognition of a financial asset or financial liability, the related gains or losses that were recognised in the revaluation reserve are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. However, if the Company expects that all or a portion of an impairment loss recognised directly in equity will not be recovered in one or more future periods, it reclassifies into profit or loss the amount that is not expected to be recovered.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the Company reclassifies the associated gains and losses that were recognised directly in the revaluation reserve into the initial purchase cost or another book value in assets or liabilities.

If the Company discontinues a cash flow hedge in accordance with the aforementioned criteria, the cumulative gain or loss on a hedging instrument recognised in the revaluation reserve remains in it until the hedging transaction is exercised. If the hedging transaction will not be exercised (or is not expected to be exercised), cumulative net profit recognised in the revaluation reserve is immediately reclassified into profit or loss.

<u>Rules in effect until 31 December 2017:</u>

Derivative instruments that are used by the Company in order to hedge against specific risk, related to changes in interest rates and exchange rates, are measured at fair value. Derivative instruments are recognised as assets if their value is positive and as liabilities if their value is negative.

The fair value of currency contracts is determined by reference to current forward rates for contracts with the same maturity or based on a valuation received from financial institutions. The fair value of interest rate swaps may be determined based on valuation by independent financial institutions.
For some of its hedged exposure, the Company applies hedge accounting.

The Company defines specific hedges of exchange differences, covering derivatives, embedded derivatives and other instruments as fair value or cash flow hedges. Hedging exchange risk concerning likely future obligations is treated as cash flow hedge.

When a hedging relationship is established, the Company documents the relation between the hedging instrument and the hedged item as well as risk management objectives and the strategy for implementing various hedging transactions.

Derivatives are recognised in accordance with rules concerning fair value or cash flow hedges if all of the following conditions are met:

- at inception of the hedge there is formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss,
- the effectiveness of the hedge can be reliably measured,
- the hedge is evaluated on an on-going basis and there is high effectiveness in all reporting periods for which the hedge was established.

For fair value hedge accounting, the Company:

- recognises the gains or losses from the fair value restatement of a derivative hedge in profit or loss, and
- adjusts the book value of the hedged item by the gains or losses related to the hedged item, resulting from the hedged risk, and recognises this in the current period's financial result (also in reference to available-for-sale financial assets, the valuation effects of which are recognised in the revaluation reserve).

The Company ceases to apply fair value hedge accounting if:

- the hedging instrument expires, is sold, terminated or exercised,
- the hedge no longer meets the hedge accounting criteria, or
- the Company cancels the hedge relationship.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and which might affect profit or loss. A planned transaction is a non-binding expected future transaction.

For cash flow hedges, the Company:

- recognises the effective part of changes in the fair value of derivative instruments designated as cash flow hedges in the revaluation reserve,
- recognises the gain or loss related to the ineffective part in the current period's financial result.

If a hedge of a forecast transaction results in the recognition of a financial asset or financial liability, the related gains or losses that were recognised in the revaluation reserve are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. However, if the Company expects that all or a portion of an impairment loss recognised directly in equity will not be recovered in one or more future periods, it reclassifies into profit or loss the amount that is not expected to be recovered.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the Company reclassifies the associated gains and losses that were recognised directly in the revaluation reserve into the initial purchase cost or another book value in assets or liabilities.

The Company ceases to apply cash flow hedging if the hedge instrument expires, is sold, completed or exercise or no longer meets hedge accounting criteria.  In this situation, the cumulative gain or loss on a hedging instrument recognised in the revaluation reserve remains in it until the hedging transaction is exercised. If the hedging transaction will not be exercised, the cumulative net profit recognised in the revaluation reserve is immediately reclassified into profit or loss.

Moreover, the Company documents the effectiveness of how the hedging instrument offsets changes in the fair value or cash flows of the hedged item both at inception of the relationship and in subsequent periods on an on-going basis.

### 47.14. Inventory (including energy origin certificates)

Components of inventory are measured at the purchase price, which includes the purchase price plus costs, especially the cost to transport it to storage or the cost to manufacture, not exceeding the net sales price less impairment of inventory.

Inventory distribution is determined using the weighted average purchase price approach.

The Company's inventory includes energy origin certificates purchased for redemption, for further sale and those produced on its own.

Energy origin certificates are proof that energy was produced from a renewable energy source (energy from wind, water, sun, biomass - green certificates, energy from farming biogas - blue certificates) or energy produced in cogeneration (from three types of sources, i.e. gas sources or sources with less than 1 MW - yellow certificates, sources with over 1 MW other than gas fuel-, methane- and biogas-fired - red certificates, and sources using gas obtained from biomass processing or methane from mine purification - purple certificates). They are issued by the URE President at the request of an energy enterprise that produces energy from renewable sources and in cogeneration.

Energy efficiency certificates, i.e. white certificates, serve as confirmation for declared energy savings resulting from activities intended to improve energy efficiency in three areas: increase energy savings by end customers, increase energy savings for own purposes and reduce losses of electricity, heat or natural gas in transmission and distribution. The URE Presidents conducts tenders for white certificates in these categories. They are issued by the URE President at the request of the tender winner.

Property rights arising from energy origin certificates and energy efficiency certificates arise when energy origin certificates and energy efficiency certificates are entered into registers maintained by Towarowa Giełda Energii S.A. (TGA S.A.). These rights are disposable and constitute an exchange-traded commodity. These rights are transferred when an appropriate entry is made in the energy origin certificate register or energy efficiency certificate register. Property rights expire when they are redeemed.

Purchased origin certificates are measured at the purchase price, less any impairment.

In accordance with the Energy Law and the Act on Energy Efficiency, an energy enterprise involved in trade of energy and sales of energy to end customers is required to:

a) obtain energy origin certificates and energy efficiency certificates and submit them to the URE President for redemption or
b) pay substitute fees.

The Company is required to obtain and present for redemption the following:

a) energy origin certificates corresponding to the quantities specified in the Energy Law, as a percent of total energy sales to end customers,
b) energy efficiency certificates in quantities expressed in tonnes of oil equivalent (toe), no larger than 3% of division of the amount of revenue from electricity sales to end customers in a given year in which this obligation is performed by the unit substitute fee. The amount of revenue from electricity sales to end customers in a given settlement year is decreased by the amounts and costs referred to in art. 12 sec. 4 of the Act on Energy Efficiency. The size of the obligation in specific settlement years is specified in regulations to the Act on Energy Efficiency.

The deadlines for performing the obligation to redeem energy origin certificates and energy efficiency certificates or paying the substitute fees for each year are governed by the provisions of law in force.

The Company submits to the URE President energy origin certificates and energy efficiency certificates for redemption in monthly cycles in order to perform its obligation for the given year. In accounting books, redemptions of energy origin certificates and energy efficiency certificates are recognised based on a decision from the URE President concerning redemption, using the detailed identification approach.

If at the balance sheet date there is an insufficient quantity of certificates required to perform the obligations imposed by the Energy Law and the Act on Energy Efficiency, the Company creates provisions for redemption of energy origin certificates and energy efficiency certificates or payment of substitute fees.

## 47.15. Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts, on-demand bank deposits, other highly liquid short-term investments with initial maturity of up to three months. Cash on hand is measured at nominal value on every balance sheet date. Cash in bank accounts, on-demand bank deposits, other highly liquid short-term investments with initial maturity of up to three months are measured at amortised cost on each balance sheet date (at nominal/initial value plus interest accrued until the balance sheet date, adjusted by expected credit losses). Restricted cash, including cash serving as collateral for settlements with the clearing-house IRGiT, is included in cash and cash equivalents.

## 47.16. Trade and other receivables

Trade receivables are initially recognised at the transaction price and subsequently measured at amortised cost using effective interest rates, less impairment. If there is no difference between the initial value and the amount (amounts) at maturity (maturities) (payment), interest charged using the effective rate does not apply.

Impairment of receivables is determined on the basis of expected credit losses. Expected credit losses take into account the counterparty's previous default events as well as potential estimated credit losses. An impairment loss is recognised in the statement of profit and loss and other comprehensive income at the end of each reporting period.

### 47.17. Costs arising from the conclusion of agreements

Costs related to the conclusion of agreements are costs incurred by the Company in order to conclude an agreement with a customer that would not have been incurred by the Company had the agreement not been concluded (including the costs of commissions for partners for concluding electricity sale agreements). Costs that would have been incurred regardless of agreement conclusion are recognised in results for the period in which they are incurred.

### 47.18. Assets arising from contracts with customers

In its statement of financial position, the Company recognises a contract asset that is the Company's right to remuneration in exchange for goods or services that the Company transfers to the customer. An asset is recognised if the Company satisfies its obligation by transferring goods or services to the customer before the customer pays or before the payment deadline.

### 47.19. Share capital

The Company's share capital is presented in the amount specified and entered in the National Court Register, adjusted appropriately to include the effects of hyperinflation, accounting for divisions, mergers and acquisitions.

A share capital increase that is paid as of the balance sheet date but awaits registered at the National Court Register is presented as share capital.

### 47.20. Financial liabilities, including credit facilities, loans and debt securities

<u>Rules in effect from 1 January 2018:</u>

Financial liabilities that include trade and other payables are initially recognised at fair value less transaction costs.
Financial liabilities that include credit facilities, loans and debt securities are classified at initial recognition as:

- financial liabilities at fair value through profit or loss,
- financial assets at amortised cost.

Financial liabilities at fair value through profit or loss include:

- financial liabilities that meet the definition of held for trading, including derivative instruments that are not used for hedge accounting,
- financial liabilities that are voluntarily designated by the Company as measured at fair value through profit or loss.

Financial liabilities at amortised cost include all financial liabilities that are subject to classification for the purposes of measurement that are not classified as financial liabilities at fair value through profit or loss.

At initial recognition, the Company measures a financial liability that is subject to classification for the purposes of fair value measurement.
The fair value of financial liabilities not classified as at fair value through profit or loss is decreased by transaction costs that may be directly assigned to the origination of the liability.

The balance sheet measurement of a financial liability and the recognition of restatements depend on the classification of the given item to the relevant category for measurement purposes:

- financial liabilities classified as financial liabilities at fair value through profit or loss are measured at fair value on every balance sheet date. Fair value determined as at the balance sheet date is not adjusted by transaction costs which would be necessary to settle the given item. Restatements to fair value are recognised in the period's result,
- financial liabilities at amortised cost are measured at amortised cost on every balance sheet date.

Rules in effect until 31 December 2017:

Financial liabilities are initially recognised at fair value less transaction costs.

Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate approach.

In determining the amortised cost, costs related to obtain credit or loan and discount or bonuses related to the liability are taken into account.

### 47.21. Liabilities arising from contracts with customers

The Company recognised in its statement of financial position a contract liability consisting of an obligation for the Company to provide goods or services to the customer in exchange for which the Company received remuneration (or is due to receive remuneration) from the customer.

If the customer paid the remuneration or the Company has the right to an unconditional amount of remuneration (i.e. a receivable), then prior to the transfer of goods or services to the customer the Company treats the contract as a contract liability when payment is made or becomes due (depending on which is sooner).

### 47.22. Income tax (including deferred income tax)

The income tax presented in the statement of profit and loss and other comprehensive income includes: current tax and deferred tax.

The current tax burden is calculated based on the tax result (tax base) for the given reporting period. Tax gain/loss differs from accounting net profit/loss due to the exclusion of taxable revenue and tax-deductible costs in subsequent years as well as cost and revenue items that are not subject to tax. Tax burdens are calculated using tax rates in effect during the reporting period.

Deferred tax is the tax effect of events in a given period recognised using the accrual principle in accounting books for the period but is performed in the future. It arises when the tax effect of revenue and costs is the same as the balance sheet effect but takes place in different periods.

Deferred income tax arises in respect of all temporary differences, except for cases where deferred income tax results from:

a) initial recognition of goodwill; or
b) initial recognition of an asset or liability from a transaction that:
   - is not a merger of economic entities; and
   - has no impact at the transaction date on gross financial result or taxable income (tax loss);
c) investment in subsidiaries, branches, associates and interests in joint ventures.

In reference to all negative temporary differences, a deferred income tax asset is recognised up to an amount of likely taxable income to be generated that will offset the negative temporary differences.

The amount of deferred tax is set using income tax rates in effect for the year in which the tax obligation arises.

During the term of ENEA's tax group agreement, ENEA S.A. as the representing entity calculates and settles tax for the tax group. For tax groups, subject to income tax is income of the entire group, calculated as the excess of the sum of income all of the companies within the group over their losses.

### 47.23. Employee benefits

ENEA S.A. offers the following types of employee benefits:

#### A. Short-term employee benefits

ENEA S.A. classifies the following as short-term employee benefits: monthly salary, annual bonus, right to discounts on electricity, short-term paid absences together with social security contributions, Energy Professionals' Day awards and liabilities concerning the Voluntary Redundancy Programme.
The liability concerning (accumulated) short-term paid absences (pay for leave) is recognised even if the paid absences do not entitle to a cash equivalent. The Company determines the expected cost of accumulated paid absences as an additional amount that it expects to pay as a result of not exercising this entitlement as at the balance sheet date.

#### B. Defined benefit plans

The Company classifies the following as defined benefit plans:

1) retirement and disability severance payments

Employees going into retirement (disability) are entitled to cash severance payments. The amount of these payments depends on seniority and the employee's remuneration. Actuarial methods are used to estimate this liability.

2) death allowance

If an employee dies in the course of work or while on disability leave after work, the family is entitled to a death allowance from the employer. The amount of this allowance depends on seniority and the employee's remuneration. Actuarial methods are used to estimate this liability.

3) right to discounts in purchasing energy after retirement

Retiring employees who have been employed at the Company for at least one year have the right to discounts in purchasing energy. Retirees have the right to a cash equivalent of 3 000 kWh x 80% of the electricity price and the variable component of the transmission fee and 100% of the fixed grid fee and instalment fee according to a one-zone tariff generally applicable to households. The cash equivalent is paid out twice a year in an amount constituting half the annual equivalent. The value of this equivalent is indexed by electricity price growth using a tariff generally applicable to households in the year preceding payment.
If an employee dies, this right is transferred to the spouse if the spouse collects a family pension.

4) contribution by the Company to the Company Social Benefit Fund for retirees covered by social services

A contribution by the Company to the Company Social Benefit Fund for retirees covered by social services is made in an amount that is calculated on the basis of binding provisions of law.
Employee benefits are recognised in the statement of financial position under employee benefit liabilities, while changes in provisions are presented in the statement of profit and loss and other comprehensive income.

Estimating liabilities concerning the benefits referred to in points 1-3 is performed by an actuary using the Projected Unit Credit Method. Actuarial gains and losses are fully recognised in other comprehensive income.

### C. Other long-term employee benefits

Longevity bonus

Other long-term employee benefits at ENEA S.A. include longevity bonuses. The amount of these bonuses depends on seniority and the employee's remuneration. Actuarial methods are used to estimate these liabilities. Actuarial gains and losses are fully recognised in present-period profit or loss.

### D. Defined contribution plans

1) Social insurance contributions

The social insurance system is based on a state programme under which the Company is obligated to pay contributions for employees' social insurance when they are due. The Company is not required, either legally or customarily, to make future social insurance contributions. The cost of present-period contributions is recognised in present-period profit or loss as employee benefit cost.

2) Employee Pension Programme

In accordance with an appendix to the Collective Labour Agreement, the Company runs an Employee Pension Programme in the form of group insurance for employees with a capital fund in accordance with rules specified in the Act and negotiated with the trade unions.
The Employee Pension Programme is available to the Company's employees after a year's employment regardless of the type of work contract.
Employees join the Employee Pension Programme on the following terms:

- insurance is in the form of group life insurance with insurance protection,
- the level of base contribution is 7% of the employee's remuneration,
- 90% of the base contribution goes to an investment contribution and 10% to insurance protection.

The Company covers the cost of contributions to the Employee Pension Programme from present-period profit or loss as employee benefit cost.

## 47.24. Provisions

Provisions are created when the Company has a present obligation (legal or customarily expected) resulting from past events, and there is a likelihood that performing this obligation will result in an outflow of economic benefits and if the amount of this obligation can be reliably estimated.

The amount of the provision constitutes the most accurate estimate of funds necessary to satisfy the claim as at the balance sheet date.

Using a previously created provision for certain or highly likely future obligations is recognised when these obligations arise as a decrease of the provision.

In the event of a decrease or cessation of risk justifying the creation of a provision, an unused provision increases finance income or other operating revenue.

The Company also creates provisions for pre-trial claims submitted by the owners of properties on which its distribution grids with equipment are located and for other claims related to the Company's grid assets on properties for which the Company has no legal title. Estimating the amount of compensation includes potential payments of compensation for non-contractual use of land and for rent, and is prepared by the Company's technical personnel.

**Provision for energy origin certificates and energy efficiency certificates**

The Company creates provisions for redemption of energy origin certificates and energy efficiency certificates or payment of substitute fees.

The basis for determining provisions for redemption of energy origin certificates for each instrument is the quantity of energy origin certificates constituting the difference between the quantity of certificates required for redemption in accordance with the Energy Law and the quantity of certificates redeemed as at the reporting date.

The basis for determining provisions for redemption of energy efficiency certificates is the quantity of certificates expressed in tonnes of oil equivalent constituting the difference between the quantity of certificates required for redemption under the Energy Law and the quantity of certificates redeemed as at the reporting date.

Provisions are measured as follows:

1. first, based on the purchase price for energy efficiency certificates held but not redeemed at the balance sheet date,
2. second, based on the purchase price resulting from the Company's sale agreements as regards the part of the certificates that the Company intends to receive first,
3. third, based on the weighted average price in session transactions executed on the property rights market managed by Towarowa Giełda Energii S.A. in the course of the month with the reporting date that is used to determine the amount of provision,
4. in the case of a lack of such transactions or a market shortage preventing the Company from purchasing a sufficient quantity of rights required to perform its obligation, the missing quantity of the provision is valued based on the unit substitute fee for the given financial year.

## 47.25. Revenue recognition

Rules in effect from 1 January 2018:

The Company recognises revenue when an obligation to provide a consideration by providing a promised good or service (i.e. asset) to the customer is performed (or is being performed), thus obtaining the right to remuneration and legal title to the asset. The asset is transferred when the customer obtains control over it.

The transfer of control may be gradual if the obligation to provide a consideration is satisfied or over time, i.e. when:

- the customer simultaneously receives and consumes all of the benefits provided by the Company as the Company performs,

- the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced (production in progress, for example), or
- the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

The performance-based method and overlay approach are used to determine the level of completion, taking into account the nature of the good or service being transferred.

In the item revenue from core activities, the Company recognises revenue from the sale of the following product and service groups:

- services provided in a continuous manner - the level of revenue depends on consumption (including supply of electricity, natural gas). Revenue is recognised when the Company transfers control over a part of the service being provided. The Company recognises revenue in the amount of remuneration from the customer to which it has a right and which corresponds directly to the value to the customer of the obligation performed so far - this value constitutes the amount that the Company has the right to invoice for,
- provision of goods/services at a point in time (including the sale of property rights). Revenue is recognised when control over the product/service is transferred. Control is transferred when the customer receives the goods or when service is rendered,

Revenue from sales is recognised in the net amount of remuneration when the Company acts as agent, i.e. its performance obligation is subject to the delivery of goods or services by another entity. Such revenue is recognised in the form of fee or commission to which - according to the Company's expectations - the Company will be entitled in exchange for the provision of goods or services by another entity. The fee or commission due for the Company may be a net amount that the Company retains after payment to another entity of consideration in exchange for goods or services provided by this entity.

Interest income is recognised on an accrual basis using the effective interest rate approach, provided that this income is not in doubt.

Dividend income is recognised when the right to receive payment is obtained. Dividend income is presented in the statement of profit and loss and other comprehensive income below operating profit.

Rules in effect until 31 December 2017:

Revenue from sales is recognised at the fair value of received or due payment, less tax on goods and services, discounts and rebates.

Revenue from the sale of energy and distribution services is recognised at delivery of such energy. In order to determine the amount of revenue for the period between the date of last invoice and the balance sheet date, an estimate of revenue is prepared and shown in the statement of financial position in the item 'trade and other receivables.'

Revenue from the sale of origin certificates purchase for further sale is recognised in accordance with the rules described in note 47.14.

Revenue from the sale of goods and materials is recognised when the entity transfers significant risk and benefits resulting from ownership of the goods and materials and there is likelihood that economic benefits from the transaction will be obtained.

Income from renting investment properties is recognised in profit or loss on a straight-line basis throughout the contract term.

Interest income is recognised on an accrual basis using the effective interest rate approach, provided that this income is not in doubt.

Dividend income is recognised when the right to receive payment is obtained.

### 47.26. Dividend payment

Dividend payments to shareholders are recognised as a liability in the Company's financial statements in the period in which they were approved.

### 47.27. Available-for-sale non-current assets

Available-for-sale non-current assets are assets that meet the following criteria:

- their balance sheet value will be recovered through a sale transaction rather than through further use,
- the Company's Management Board declares to sell them and begins an active search for a potential buyer,
- the assets are available for an immediate sale in their current shape,
- a sale transaction is highly likely and can be accounted for within 12 months from the decision,
- the sale price is rational in relation to the present fair value,
- there is a small likelihood of changes to the plan to dispose of these assets.

If the criteria are met after the end of the reporting period, no change is made to the classification of such assets at the end of the financial year preceding the event. A change in classification is reflected in the reporting period in which the criteria are met. When a given asset is designated for sale, depreciation stops accumulating.

Available-for-sale assets are measured at the lower of the following two values: net balance sheet value or fair value less costs to sell.

### 47.28. Statement on new IFRS standards and interpretations

The following new standards, amendments to standards and interpretations have not yet been endorsed by the EU or are not yet in force for annual periods ending 31 December 2018 and are not applied in the separate financial statements:

- IFRS 16 Leases - for annual periods beginning on 1 January 2019,
- Amendments to IFRS 9 Financial Instruments - for annual periods beginning on 1 January 2019,
- IFRS 17 Insurance Contracts - for annual periods beginning on 1 January 2021,
- Amendments to IAS 28 Investments in Associates and Joint Ventures - for annual periods beginning on 1 January 2019,
- IFRS 3 Business Combinations - for annual periods beginning on 1 January 2020,
- IAS 1 Presentation of Financial Statements - for annual periods beginning on 1 January 2020,

(all amounts in PLN 000s unless stated otherwise)

- IAS 19 Employee Benefits - for annual periods beginning on 1 January 2019,
- IAS 8 Accounting Policies - for annual periods beginning on 1 January 2020,
- IFRS 14 Regulatory Deferral Accounts - for periods beginning on 1 January 2016 - the European Commission decided not to endorse this temporary standard and instead wait for the proper standard,
- IFRIC 23 Uncertainty over Income Tax Treatments - 1 January 2019,
- Amendments to IFRS 2015-2017 - for periods beginning on 1 January 2019,

The Company intends to apply them for the periods for which they will be in force for the first time.

IFRS 16 went into force on 1 January 2019. ENEA S.A. adopted a modified retrospective approach as the approach for implementing IFRS 16.

Subject to change will be those provisions of accounting policies which in the case of contracts in which the Company is a lessee will introduce exemptions for:

- short-term contracts, i.e. up to 12 months,
- low-value contracts, i.e. contracts with an asset of low value - up to PLN 10 thousand.

A contract is a lease when:

- it concerns an identified asset that is explicitly specified in the contract (e.g. using an inventory number or indication of a specific floor of a building) or indirectly specified when it is made available to the client;
- the lessee receives essential all of the economic benefits from such assets during the period of use, i.e. both basic benefits and the benefits derived from it;
- the lessee has the right to specify the method in which it uses the identified asset.

According to estimates, the Company's assets will increase by approx.

- PLN 31 522 thousand, and this concerns the right to use assets, and by approx.
- PLN 5 870 thousand - leasing receivables,

and equity and liabilities will increase by approx. PLN 37 392 thousand, and this concerns lease liabilities. The Company recognises a right to use the asset and the corresponding lease liability on 1 January 2019 as regards paid and unpaid right to perpetual usufruct of land and subleasing contracts, as presented in the following table:

| | **01.01.2019** |
|---|---|
| Undiscounted flows | 76 697 |
| Effect of discount | (30 041) |
| Other | (9 264) |
| **Total lease liability** | **37 392** |

Other contracts recognised in the item: Other as at 31 December 2018 are negligible therefore the Company decided not to convert them into finance leases as of 1 January 2019.

To calculate the present value of future leasing payments, the Company adopted a discount rate based on ENEA S.A.'s debt for 2019 at 2.72%. The discount rate will be updated once a year, at the end of the year, and will be in force in the next period.