ENEA Group consolidated financial statements for the financial year ended 31 December 2018

Poznań, 20 March 2019

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These consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union and approved by the Management Board of ENEA S.A.

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**	....

Poznań, 20 March 2019

Prepared by: Robert Kiereta
Head of Consolidated Reporting ....

Consolidated statement of financial position

		As at	
	Note	**31.12.2018**	**31.12.2017**
ASSETS			
Non-current assets			
Property, plant and equipment	8	21 027 393	20 416 867
Perpetual usufruct of land	9	105 141	105 571
Intangible assets	10	435 712	418 248
Investment properties	12	25 864	26 981
Investments in associates and jointly controlled entities	13	734 268	355 152
Deferred income tax assets	32	487 272	501 945
Available-for-sale financial assets		-	40 698
Financial assets at fair value through profit or loss		-	33 364
Derivative instruments		-	29 553
Financial assets measured at fair value	24	49 442	-
Debt financial assets at amortised cost	15	7 741	-
Trade and other receivables	17	23 257	30 729
Costs related to the conclusion of agreements		12 905	-
Funds in the Mine Decommissioning Fund		128 279	121 806
		23 037 274	**22 080 914**
Current assets			
CO_2 emission allowances	20	586 236	595 533
Inventories	21	1 264 870	846 187
Trade and other receivables	17	1 874 505	1 903 568
Costs related to the conclusion of agreements		16 948	-
Assets arising from contracts with customers	18	327 980	-
Current income tax receivables		93 659	149 859
Financial assets held to maturity		-	478
Financial assets at fair value through profit or loss		-	49 329
Financial assets measured at fair value	24	112 536	-
Debt financial assets at amortised cost	15	234	-
Other short-term investments		545	-
Cash and cash equivalents	23	2 650 838	2 687 126
		6 928 351	**6 232 080**
Total assets		**29 965 625**	**28 312 994**

Consolidated statement of financial position

	Note	As at 31.12.2018	As at 31.12.2017
EQUITY AND LIABILITIES			
Equity			
Equity attributable to shareholders of the parent			
Share capital		588 018	588 018
Share premium		3 632 464	3 632 464
Revaluation reserve - measurement of financial instruments		(16 295)	741
Other equity		-	(27 101)
Revaluation reserve - measurement of hedging instruments		(16 024)	25 967
Retained earnings		9 908 842	8 858 130
		14 097 005	**13 078 219**
Non-controlling interests	14	952 157	921 450
Equity	25	**15 049 162**	**13 999 669**
LIABILITIES			
Non-current liabilities			
Credit facilities, loans and debt securities	27	7 973 713	7 720 091
Trade and other payables	26	67 485	57 579
Liabilities arising from contracts with customers	18	3 312	-
Finance lease liabilities	30	3 646	1 651
Accounting for income from grants, connection fees and other	28	198 141	645 443
Deferred income tax provision	32	367 607	245 240
Employee benefit liabilities	33	814 769	739 946
Financial liabilities measured at fair value through profit or loss		-	9 875
Financial liabilities measured at fair value	31	24 072	-
Provisions for other liabilities and other charges	34	657 112	643 187
		10 109 857	**10 063 012**
Current liabilities			
Credit, loans and debt securities	27	355 840	539 429
Trade and other payables	26	2 534 733	2 051 385
Liabilities arising from contracts with customers	18	65 266	-
Finance lease liabilities	30	2 994	1 942
Accounting for income from grants, connection fees and other	28	11 925	92 422
Current income tax liabilities		134	1 797
Employee benefit liabilities	33	420 018	437 943
Liabilities concerning the equivalent for rights to free purchase of shares		281	281
Financial liabilities measured at fair value through profit or loss		-	41 185
Financial liabilities measured at fair value	31	108 818	-
Provisions for other liabilities and other charges	34	1 306 597	1 083 929
		4 806 606	**4 250 313**
Total liabilities		**14 916 463**	**14 313 325**
Total equity and liabilities		**29 965 625**	**28 312 994**

Consolidated statement of profit and loss and other comprehensive income

	Note	12 months ended 31.12.2018	12 months ended 31.12.2017
Revenue from sales		12 925 848	11 661 269
Excise duty		(253 078)	(255 580)
Net revenue from sales	35	**12 672 770**	**11 405 689**
Other operating revenue	38	245 122	141 790
Amortisation	36	(1 477 667)	(1 194 540)
Employee benefit costs	37	(1 711 414)	(1 470 644)
Use of materials and commodities and value of goods sold	36	(2 560 489)	(1 728 771)
Purchase of electricity and gas for sales purposes	36	(4 272 930)	(3 169 673)
Transmission services	36	(411 712)	(1 057 151)
Other third-party services	36	(908 949)	(815 743)
Taxes and fees	36	(411 184)	(376 542)
Loss on sale and liquidation of property, plant and equipment		(45 244)	(23 530)
Impairment losses on non-financial non-current assets	7	166 454	(1 284)
Costs related to onerous contracts	50.1	(78 981)	-
Other operating costs	38	(168 690)	(221 871)
Operating profit		**1 037 086**	**1 487 730**
Finance costs	40	(302 980)	(170 689)
Finance income	39	78 743	139 718
Dividend income		430	526
Share of profit of associates and jointly controlled entities		55 422	9 282
Profit before tax		**868 701**	**1 466 567**
Income tax	41	(149 451)	(301 676)
Net profit for the reporting period		**719 250**	**1 164 891**
Other comprehensive income			
Subject to reclassification to profit or loss:			
- measurement of hedging instruments		(51 840)	(9 703)
- other		-	(3)
- income tax		9 849	1 844
Not subject to reclassification to profit or loss:			
- restatement of defined benefit programme		(36 385)	(55 096)
- measurement of financial instruments		(17 036)	-
- income tax		6 913	10 139
Net other comprehensive income		**(88 499)**	**(52 819)**
Comprehensive income for the reporting period		**630 751**	**1 112 072**
Including net profit:			
attributable to shareholders of the Parent		686 739	1 070 168
attributable to non-controlling interests		32 511	94 723
Including comprehensive income:			
attributable to shareholders of the Parent		600 044	1 025 582
attributable to non-controlling interests		30 707	86 490
Net profit attributable to shareholders of the parent		686 739	1 070 168
Weighted average number of ordinary shares		441 442 578	441 442 578
Net profit per share (in PLN per share)	43	**1.56**	**2.42**
Diluted profit per share (in PLN per share)		**1.56**	**2.42**

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

Consolidated statement of changes in equity

(a) 2018

	Share capital (nominal amount)	Reserve for revaluation and merger accounting	**Total share capital**	**Share premium**	**Revaluation reserve - measurement of financial instruments**	**Other equity**	**Revaluation reserve - measurement of hedging instruments**	**Retained earnings**	**Equity attributable to non-controlling interests**	**Total equity**
As at 01.01.2018	441 443	146 575	**588 018**	**3 632 464**	**741**	**(27 101)**	**25 967**	**8 858 130**	**921 450**	**13 999 669**
Adjustment due to implementation of IFRS 9 and 15								391 641		**391 641**
As at 01.01.2018, adjusted	441 443	146 575	**588 018**	**3 632 464**	**741**	**(27 101)**	**25 967**	**9 249 771**	**921 450**	**14 391 310**
Net profit for the reporting period								686 739	32 511	719 250
Net other comprehensive income					(17 036)		(41 991)	(27 668)	(1 804)	(88 499)
Net comprehensive income recognised in the period					**(17 036)**		**(41 991)**	**659 071**	**30 707**	**630 751**
Expiry of option to buy non-controlling interests in subsidiaries						27 101				27 101
As at 31.12.2018	441 443	146 575	**588 018**	**3 632 464**	**(16 295)**	**-**	**(16 024)**	**9 908 842**	**952 157**	**15 049 162**

(b) 2017

	Note	Share capital (nominal amount)	Reserve for revaluation and merger accounting	**Total share capital**	**Share premium**	**Revaluation reserve - measurement of financial instruments**	**Other equity**	**Revaluation reserve - measurement of hedging instruments**	**Retained earnings**	**Equity attributable to non-controlling interests**	**Total equity**
As at 01.01.2017		441 443	146 575	**588 018**	**3 632 464**	**744**	**(25 652)**	**33 826**	**7 946 612**	**835 717**	**13 011 729**
Net profit for the reporting period									1 070 168	94 723	1 164 891
Net other comprehensive income						(3)		(7 859)	(36 724)	(8 233)	(52 819)
Net comprehensive income recognised in the period						**(3)**		**(7 859)**	**1 033 444**	**86 490**	**1 112 072**
Buy-out of non-controlling interests in subsidiaries							(1 449)			(301)	(1 750)
Dividends	42								(121 926)	(456)	(122 382)
As at 31.12.2017		441 443	146 575	**588 018**	**3 632 464**	**741**	**(27 101)**	**25 967**	**8 858 130**	**921 450**	**13 999 669**

Consolidated statement of cash flows

	Note	12 months ended 31.12.2018	12 months ended 31.12.2017
Cash flows from operating activities			
Net profit for the reporting period		719 250	1 164 891
Adjustments:			
Income tax in profit or loss	41	149 451	301 676
Amortisation	36	1 477 667	1 194 540
Loss on sale and liquidation of property, plant and equipment		45 244	23 530
Impairment losses on non-financial non-current assets	7	(166 454)	1 284
Gain on bargain purchase	38	-	(11 953)
(Gain)/loss on sale of financial assets		33 620	(3 149)
Interest income		(34 617)	(10 821)
Dividend income		(430)	(526)
Interest costs		215 136	84 257
(Gain)/loss on measurement of financial instruments		6 673	(29 171)
Share of results of associates and jointly controlled entities		(55 422)	(9 282)
Other adjustments		(19 494)	(1 588)
		1 651 374	**1 538 797**
Paid income tax		(35 173)	(372 170)
Changes in working capital:			
CO_2 emission allowances		6 551	(73 273)
Inventories		(417 611)	(178 679)
Trade and other receivables		(386 686)	(12 919)
Trade and other payables		621 663	483 178
Employee benefit liabilities		20 981	(119 934)
Accounting for income from grants, connection fees and other		20 673	(7 836)
Provisions for liabilities and other charges		234 217	157 589
		99 788	**248 126**
Net cash flows from operating activities		**2 435 239**	**2 579 644**
Cash flows from investing activities			
Purchase of tangible and intangible assets		(1 979 024)	(2 057 979)
Proceeds from sale of tangible and intangible assets		1 929	1 779
Purchase of financial assets		(173 898)	(19 443)
Proceeds from sale of financial assets		165 167	4 226
Purchase of subsidiaries adjusted by acquired cash		-	(1 065 633)
Purchase of associates and jointly controlled entities		(325 110)	(349 597)
Received dividends		430	526
Inflows concerning funds at Mine Decommissioning Fund bank account		(6 473)	(10 588)
Received interest		8 326	10 519
Other inflows/(outflows) from investing activities		(1 474)	3 265
Net cash flows from investing activities		**(2 310 127)**	**(3 482 925)**
Cash flows from financing activities			
Credit facilities and loans received		11 229	781 602
Bond issuance		550 000	1 199 000
Repayment of credit facilities and loans		(111 354)	(80 237)
Bond buy-back		(395 000)	(340 000)
Dividends paid		-	(122 382)
Expenditures concerning finance lease payments		(2 184)	(2 235)
Expenditures concerning future bond issues		(37)	(1 023)
Interest paid		(216 489)	(178 568)
Other inflows/(outflows) from financing activities		2 435	(5 967)
Net cash flows from financing activities		**(161 400)**	**1 250 190**
Total net cash flows		**(36 288)**	**346 909**
Cash at the beginning of reporting period	23	2 687 126	2 340 217
Cash at the end of reporting period	23	**2 650 838**	**2 687 126**
including restricted cash		588 632	99 244

Notes to the consolidated financial statements

1. General information

1.1. General information on ENEA S.A. and ENEA Group

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
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 Group's principal business activities are as follows:

- electric power and industrial heat generation (ENEA Wytwarzanie Sp. z o.o., ENEA Elektrownia Połaniec S.A., Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Obornikach, Miejska Energetyka Cieplna Piła Sp. z o.o., ENEA Ciepło Sp. z o.o.);
- trade of electricity (ENEA S.A., ENEA Trading Sp. z o.o.);
- distribution of electricity (ENEA Operator Sp. z o.o.);
- distribution of heat (Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Obornikach, Miejska Energetyka Cieplna Piła Sp. z o.o., ENEA Ciepło Sp. z o.o.);
- mining and enriching of hard coal (LW Bogdanka S.A.).

As at 31 December 2018, the Parent's shareholding structure was as follows: the State Treasury of the Republic of Poland held a 51.50% stake and the other shareholders held 48.50%. 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.

As at 31 December 2018 the Group consisted of the parent - ENEA S.A. ("Company," "Parent"), 15 subsidiaries, 8 indirect subsidiaries, 2 associates and 3 jointly controlled entities.

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

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	Sławomir Brzeziński
Member of the Supervisory Board	Wojciech Klimowicz	Wojciech Klimowicz
Member of the Supervisory Board	Paweł Koroblowski	Piotr Mirkowski
Member of the Supervisory Board	Ireneusz Kulka	Rafał Bargiel
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, of 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.

2. Statement on compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union ("EU IFRS") and approved by the Management Board of ENEA S.A.

The Parent's Management Board used its best knowledge as to the application of standards and interpretations as well as methods and rules for the measurement of items in ENEA Group's consolidated financial statements in accordance with EU IFRS as at 31 December 2018. The presented tables and explanations are prepared with due diligence. These consolidated financial statements have been audited by a statutory auditor. The accounting rules are applied consistently across all of the presented periods unless stated otherwise.

3. Significant estimates and assumptions

Preparing consolidated 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 consolidated financial statements and notes to financial statements. Such assumptions and estimates are based on the Management Board's best knowledge regarding current and future events and activities. Actual results may significantly differ from forecasts. Key areas where the Management Board's estimates have considerable impact on consolidated financial statements:

- **employment benefits during and after employment** – 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 33),
- **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,

- **depreciation and amortisation periods for tangible and intangible assets** - the amount of depreciation / amortisation charges is determined on the basis of expected period of use for tangible and intangible assets. Periods of economic life are verified at least once every financial year. The depreciation / amortisation periods used are presented in notes, 55.5, 55.6, 55.7 and 55.12 to these consolidated financial statements. Verification conducted this year resulted in changes to depreciation / amortisation periods. Their impact in 2019 on the amount of depreciation / amortisation will be PLN (23 989 thousand).
- **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 17). 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 (notes 17 and 18),
- **compensation for non-contractual use of property** – this estimate includes potential payments of compensation for non-contractual use of land and for rent (notes 34 and 50.6),
- **provision for rehabilitation of landfill site** – after filling or closing a slag and ash landfill site, the Group is required to rehabilitate the land. Due to the fact that the Group owns large unfilled landfill areas, it is expected that rehabilitation of the landfill will be required in 2060 at ENEA Wytwarzanie Sp. z o.o. and 2043 at ENEA Elektrownia Połaniec S.A. Future estimated costs for landfill rehabilitation were discounted to present value as at 31 December 2018 using a discount rate of 3.22% (note 34),
- **recoverable value of tangible and intangible assets** – cash generating units are tested for impairment using a variety of assumptions, some of which are beyond the Group's control. Significant changes in these estimates have an impact on impairment test results and, in consequence, on the Group's financial position and financial results (note 7),
- **provision for purchasing CO_2 emission allowances** – judgements concern assumptions related to the allocation of free CO_2 emission allowances for the Group for 2018 (note 34),
- **estimates of mine life-cycles and coal resources –** LWB's life-cycle is expected to reach 2051 on the basis of coal resources covered by a concession and estimated production capacities. The actual deadline for mine closure might be different from the Group's estimates. This results from the calculation being based on the mine's estimated life-cycle and only the coal resources being available as at the reporting date. A decline in demand for the Group's coal might result in production falling below production capacities, which would extend the mine life-cycle. On 17 November 2017 the Group received a mining concession for the "Ostrów" area, with estimated coal resources of approx. 186 million tonnes. Securing this concession constitutes a key element in a plan to double resources and extend the mine's life-cycle to approx. 50 years (which will

necessitate significant investment in new infrastructure, including a new shaft).

The Group is also working on extending the mining area in the coming years by including the "Orzechów" field (the Group currently has an exploration concession for "Orzechów"). At the same time, the Group continues attempts to secure a mining concession for fields K-6 and K-7,

- **estimating provisions for mine closure** - the Group creates a provision for the costs of mine closure as required by law. The key assumptions used in determining mine closure costs include mine life-cycle, expected inflation and long-term discount rates. Any changes to these assumptions have an impact on the provision's book value (note 34),
- **provision for difference in estimate of value of Eco-Power Sp. z o.o. shares -** the Group has estimated the value of its stake in Eco-Power Sp. z o.o. and created a provision for the difference between the price, taking into account the base amount, which is PLN 286 500 000.00, and the amount estimated using ENEA S.A.'s model (note 52),
- **provision for claims concerning contracts for purchase of property rights –** the recognition of this provision requires the most accurate estimate of potential compensation for terminating contracts for the purchase of property rights (note 50.8),
- **recoverability of deferred income tax assets –** these are measured using tax rates in effect when the asset is performed. The Group recognises a deferred income tax asset with the assumption that it will generate a tax profit in the future and use the tax asset,
- **presentation of deposits at clearing-house IRGiT** – these are funds constituting collateral for settlements with the clearing-house Izba Rozliczeniowa Giełd Towarowych S.A. and they are analysed in terms of the possibility to free them up without incurring a substantial loss (note 23).

4. Methods for implementing new standards

IFRS 9 - the Group implemented IFRS 9 retrospectively, with recognition of adjustments as at 1 January 2018. The Group applies IFRS 9 in accordance with its transition regulations - without restating comparative data for previous periods, i.e. 1 January 2017 and 31 December 2017, to reflect IFRS 9 requirements concerning measurement. As at 1 January 2018, the Group recognised an impairment loss on trade and other receivables amounting to PLN 3 741 thousand net.

IFRS 15 - the Group 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.

The Group does not restate comparative data for previous periods, i.e. 1 January 2017 and 31 December 2017. Revenue from connection fees thus far settled over time (for tasks completed prior to 31 December 2009) was recognised as an adjustment of the beginning balance of retained earnings in the amount of PLN 417 391 thousand. Revenue from assets received prior to 31 December 2009 was recognised as an adjustment of the beginning balance of retained earnings in the amount of PLN 70 735 thousand. The impact of the above adjustments on the beginning

balance of retained earnings reached PLN 395 382 thousand net, which constitutes the sum total of the amounts, adjusted by deferred income tax assets.

Under IFRS 15, the Group acts as agent collecting fees for other energy market participants, including for PSE. In consequence, revenue from the sale of distribution services is decreased by the amount of renewables fee, quality fee and transition fee collected. Costs related to the procurement of transmission services and costs related to invoices for renewables support and support for producers are subject to adjustment.

In these consolidated financial statements, the Group offset revenue from the sale of electricity distribution services and the cost of electricity transmission services for a total amount of PLN 585 328 thousand. This is the most significant netted item in these consolidated financial statements.

	31.12.2017	Impact of IFRS 9	Impact of IFRS 15	01.01.2018
ASSETS				
Non-current assets				
Property, plant and equipment	20 416 867	-	-	20 416 867
Perpetual usufruct of land	105 571	-	-	105 571
Intangible assets	418 248	-	-	418 248
Investment properties	26 981	-	-	26 981
Investments in associates and jointly controlled entities	355 152	-	-	355 152
Deferred income tax assets	501 945	878	(92 744)	410 079
Financial assets at fair value	-	103 615	-	103 615
Debt financial assets at amortised cost	-	2 940	-	2 940
Available-for-sale financial assets	40 698	(40 698)	-	-
Financial assets at fair value through profit or loss	33 364	(33 364)	-	-
Derivative instruments	29 553	(29 553)	-	-
Trade and other receivables	30 729	(2 940)	(14 747)	13 042
Costs related to the conclusion of agreements	-	-	14 747	14 747
Funds in Mine Decommissioning Fund	121 806	-	-	121 806
	22 080 914	**878**	**(92 744)**	**21 989 048**
Current assets				
CO_2 emission allowances	595 533	-	-	595 533
Inventories	846 187	-	-	846 187
Trade and other receivables	1 903 568	(14 657)	(262 811)	1 626 100
Costs related to the conclusion of agreements	-	-	17 785	17 785
Assets arising from contracts with customers	-	-	245 026	245 026
Current income tax receivables	149 859	-	-	149 859
Financial assets at fair value	-	49 329	-	49 329
Debt financial assets at amortised cost	-	10 516	-	10 516
Financial assets held to maturity	478	(478)	-	-
Financial assets at fair value through profit or loss	49 329	(49 329)	-	-
Cash and cash equivalents	2 687 126	-	-	2 687 126
Available-for-sale non-current assets	-	-	-	-
	6 232 080	**(4 619)**	**-**	**6 227 461**
Total assets	**28 312 994**	**(3 741)**	**(92 744)**	**28 216 509**

	31.12.2017	Impact of IFRS 9	Impact of IFRS 15	01.01.2018
EQUITY AND LIABILITIES				
Equity				
Equity attributable to shareholders of the parent				
Share capital	588 018	-	-	588 018
Share premium	3 632 464	-	-	3 632 464
Revaluation reserve - measurement of financial instruments	741	-	-	741
Other equity	(27 101)	-	-	(27 101)
Revaluation reserve - measurement of hedging instruments	25 967	-	-	25 967
Retained earnings	8 858 130	(3 741)	395 382	9 249 771
	13 078 219	**(3 741)**	**395 382**	**13 469 860**
Non-controlling interests	921 450			921 450
Equity	**13 999 669**	**(3 741)**	**395 382**	**14 391 310**
LIABILITIES				
Non-current liabilities				
Credit facilites, loans and debt securities	7 720 091	-	-	7 720 091
Trade and other payables	57 579	-	(20 989)	36 590
Liabilities arising from contracts with customers	-	-	23 959	23 959
Finance lease liabilities	1 651	-	-	1 651
Accounting for income from subsidies, connection fees and other	645 443	-	(469 750)	175 693
Deferred income tax provision	245 240	-	-	245 240
Employee benefit liabilities	739 946	-	-	739 946
Financial liabilities at fair value	-	9 875	-	9 875
Financial liabilities at fair value through profit or loss	9 875	(9 875)	-	-
Provisions for other liabilities and other charges	643 187	-	-	643 187
	10 063 012	**-**	**(466 780)**	**9 596 232**
Current liabilities				
Credit facilities, loans and debt securities	539 429	-	-	539 429
Trade and other payables	2 051 385	-	(46 718)	2 004 667
Liabilities arising from contracts with customers	-	-	104 052	104 052
Finance lease liabilities	1 942	-	-	1 942
Accounting for income from subsidies, connection fees and other	92 422	-	(78 680)	13 742
Current income tax liabilities	1 797	-	-	1 797
Employee benefit liabilities	437 943	-	-	437 943
Liabilities concerning the equivalent for rights to free purchase of shares	281	-	-	281
Financial liabilities at fair value	-	41 185	-	41 185
Financial liabilities at fair value through profit or loss	41 185	(41 185)	-	-
Provisions for other liabilities and other charges	1 083 929	-	-	1 083 929
	4 250 313	**-**	**(21 346)**	**4 228 967**
Total liabilities	**14 313 325**	**-**	**(488 126)**	**13 825 199**
Total equity and liabilities	**28 312 994**	**(3 741)**	**(92 744)**	**28 216 509**

Presented below is the impact of IFRS 15 on items in the Group's consolidated financial statements in 2018.

	Reported values as at 31.12.2018	Connection fees and subsidies	Presentation amount	Values without IFRS 15 as at 31.12.2018
ASSETS				
Non-current assets				
Deferred income tax assets	487 272	88 591		575 863
Trade and other receivables	23 257		12 905	36 162
Costs related to the conclusion of agreements	12 905		(12 905)	-
Other items	22 513 840			22 513 840
	23 037 274	**88 591**		**23 125 865**
Current assets				
Trade and other receivables	1 874 505		344 928	2 219 433
Costs related to the conclusion of agreements	16 948		(16 948)	-
Assets arising from contracts with customers	327 980		(327 980)	-
Other items	4 708 918			4 708 918
	6 928 351			**6 928 351**
Total assets	**29 965 625**	**88 591**		**30 054 216**
EQUITY AND LIABILITIES				
Equity				
Retained earnings	9 908 842	(377 681)		9 531 161
Other items	5 140 320			5 140 320
	15 049 162	**(377 681)**		**14 671 481**
Non-current liabilities				
Liabilities arising from contracts with customers	3 312	(3 312)		-
Accounting for income from subsidies, connection fees and other	198 141	449 935		648 076
Other items	9 908 404			9 908 404
	10 109 857	**446 623**		**10 556 480**
Current liabilities				
Trade and other payables	2 534 733		2 046	2 536 779
Liabilities arising from contracts with customers	65 266	(63 220)	(2 046)	-
Accounting for income from subsidies, connection fees and other	11 925	82 869		94 794
Other items	2 194 682			2 194 682
	4 806 606	**19 649**		**4 826 255**
Total equity and liabilities	**29 965 625**	**88 591**		**30 054 216**

	Reported values 12 months ended on 31.12.2018	Connection fees and subsidies	Agency activities	Values without IFRS 15 12 months ended on 31.12.2018
Revenue from sales	12 925 848	16 351	623 480	13 565 679
Excise duty	(253 078)			(253 078)
Net revenue from sales	**12 672 770**	**16 351**	**623 480**	**13 312 601**
Other operating revenue	245 122	5 504		250 626
Purchase of electricity and gas for sales purposes	(4 272 930)		(2 244)	(4 275 174)
Transmission services	(411 712)		(610 585)	(1 022 297)
Other third-party services	(908 949)		(10 651)	(919 600)
Other items	(6 455 600)			(6 455 600)
Profit before tax	**868 701**	**21 855**		**890 556**
Income tax	(149 451)	(4 153)		(153 604)
Net profit for the reporting period	**719 250**	**17 702**		**736 952**

	Reported values 12 months ended on 31.12.2018	Connection fees and subsidies	Values without IFRS 15 12 months ended on 31.12.2018
Cash flows from operating activities			
Net profit for the reporting period	719 250	17 702	736 952
Adjustments:			
Income tax in profit or loss	149 451	4 153	153 604
Other items	1 501 923		1 501 923
	1 651 374	**4 153**	**1 655 527**
Paid income tax	(35 173)		(35 173)
Changes in working capital:			
Trade and other payables	621 663	(7 407)	614 256
Accounting for income from subsidies, connection fees and other	20 673	(14 448)	6 225
Other items	(542 548)		(542 548)
	99 788	**(21 855)**	**77 933**
Net cash flows from operating activities	**2 435 239**		**2 435 239**

5. Group structure - list of the Group's subsidiaries and 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 Serwis Sp. z o.o.** Lipno, Gronówko 30	subsidiary	100	100
8.	**ENEA Centrum Sp. z o.o.** Poznań, ul. Górecka 1	subsidiary	100	100
9.	**ENEA Pomiary Sp. z o.o.** Poznań, ul. Strzeszyńska 58	subsidiary	100	100
10.	**ENERGO-TOUR Sp. z o.o. w likwidacji** Poznań, ul Strzeszyńska 58	subsidiary	100[5]	100[5]
11.	**ENEA Innowacje Sp. z o.o.** [9] Warsaw, ul. Wiśniowa 40	subsidiary	100[9]	100
12.	**Lubelski Węgiel BOGDANKA S.A.** Bogdanka, Puchaczów	subsidiary	65,99	65,99
13.	**Annacond Enterprises Sp. z o.o. w likwidacji** [7] Warsaw, ul. Jana Pawła II 12	subsidiary	61	61
14.	**ENEA Ciepło Sp. z o.o.** Białystok, ul. Warszawska 27	subsidiary	95,77[14]	91,14[1]
15.	**ENEA Ciepło Serwis Sp. z o.o.** Białystok, ul. Starosielce 2/1	subsidiary	100[13]	100[1]
16.	**Polimex – Mostostal S.A.** [17] Warsaw, al. Jana Pawła II 12	associate	16,48	16,48
17.	**Polska Grupa Górnicza S.A.** Katowice, ul. Powstańców 30	jointly controlled entity	7.66[10]	5,81
18.	**Elektrownia Ostrołęka Sp. z o.o.** [6] Ostrołęka, ul. Elektryczna 3	jointly controlled entity	50[11]	23,79
19.	**ENEA Bioenergia Sp. z o.o.** Połaniec, ul. Zawada 26	indirect subsidiary	100[4]	100[4]
20.	**Centralny System Wymiany Informacji Sp. z o.o. w likwidacji** [16] Poznań, ul. Strzeszyńska 58	jointly controlled entity	20[3]	20[3]
21.	**Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o.** Oborniki, ul. Wybudowanie 56	indirect subsidiary	99,93[1]	99,93[1]
22.	**Miejska Energetyka Cieplna Piła Sp. z o.o.** Piła, ul. Kaczorska 20	indirect subsidiary	71,11[1]	71,11[1]
23.	**EkoTRANS Bogdanka Sp. z o.o.** Bogdanka, Puchaczów	indirect subsidiary	65,99[2]	65,99[2]
24.	**RG Bogdanka Sp. z o.o.** Bogdanka, Puchaczów	indirect subsidiary	65,99[2]	65,99[2]
25.	**MR Bogdanka Sp. z o.o.** Bogdanka, Puchaczów	indirect subsidiary	65,99[2]	65,99[2]
26.	**Łęczyńska Energetyka Sp. z o.o.** Bogdanka, Puchaczów	indirect subsidiary	58,53[2]	58,53[2]
27.	**ElectroMobility Poland S.A.** Warsaw, ul. Mysia 2	associate	25[8]	25
28.	**ENEA Badanie i Rozwój Sp. z o.o.** Świerże Górne, al. Józefa Zielińskiego 1	indirect subsidiary	100[1, 15]	100[1]

[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 consolidated 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.

6. Segment reporting

The Group presents segment information in accordance with IFRS 8 Operating Segments. Operating segments correspond to the reporting segments and are not aggregated. The Group's activities are managed in operating segments that are distinct in terms of products and services. ENEA Group reports four operating segments:

- trade - the purchase and sale of electricity,
- distribution - electricity distribution and transmission services,

- generation - the generation of electricity from conventional and renewable sources, generation of industrial heat,
- mining - the production and sale of coal, companies providing support services to mines,

and other activities - maintenance and modernisation of road lighting equipment, transport services, repair and construction services.

Segment revenue is revenue generated from sales to external customers and transactions with other segments that can be directly attributed to the given segment. In 2018, within the mining segment, external customers whose share in the Group's external sales exceeded 10% included Grupa Azoty Zakłady Azotowe "Puławy" (44.8%) and Energa Elektrownie Ostrołęka S.A. (21.9%). Segment costs include the cost of sales to external customers and costs of transactions with other segments within the Group that result from the operating activities of a given segment and can be directly attributed to the given segment.

Market prices are applied to inter-segment transactions, which makes it possible for units to generate margins sufficient to independently operate on the market.

In analysing segment results, the Group especially focuses on EBITDA. EBITDA is defined as operating profit (calculated as result before tax adjusted by the share of results of associates and jointly controlled entities, finance income, dividend income and finance costs) plus amortisation and impairment of non-financial non-current assets.

Rules for determining segment results and segment assets and liabilities are consistent with the accounting rules used in preparing consolidated financial statements.

Information on geographic segments

The Group's activities in 2018 and 2017 were in one geographic segment, i.e. in Poland, and all of its assets were located in Poland.

Segment results:

(a) Segment results for the period from 1 January to 31 December 2018 are as follows:

	Trade	Distribution	Generation	Mining	Other activity	Exclusions	Total
Net revenue from sales	7 105 909	2 692 047	2 476 629	238 591	159 594	-	12 672 770
Inter-segment sales	1 863 079	35 844	4 694 517	1 518 082	443 910	(8 555 432)	-
Total net revenue from sales	**8 968 988**	**2 727 891**	**7 171 146**	**1 756 673**	**603 504**	**(8 555 432)**	**12 672 770**
Total costs	(9 045 970)	(2 153 026)	(6 672 342)	(1 651 225)	(583 994)	8 536 561	(11 569 996)
Segment result	**(76 982)**	**574 865**	**498 804**	**105 448**	**19 510**	**(18 871)**	**1 102 774**
Amortisation	(666)	(532 103)	(540 592)	(364 272)	(52 842)		
Impairment losses on non-financial non-current assets	-	(4 280)	170 734	-	-		
Segment result - EBITDA	**(76 316)**	**1 111 248**	**868 662**	**469 720**	**72 352**		
% of net revenue from sales	**(0,9%)**	**40,7%**	**12,1%**	**26,7%**	**12,0%**		
Unallocated costs at Group level (administration expenses)							(65 688)
Operating profit							**1 037 086**
Finance costs							(302 980)
Finance income							78 743
Dividend income							430
Share of profit of associates and jointly controlled entities							55 422
Income tax							(149 451)
Net profit							**719 250**
Share of profit attributable to non-controlling interests							32 511

Segment results:

(b) Segment results for the period from 1 January to 31 December 2017 are as follows:

	Trade	Distribution	Generation	Mining	Other activity	Exclusions	Total
Net revenue from sales	5 225 380	3 244 006	2 313 604	462 194	160 505	-	11 405 689
Inter-segment sales	750 533	36 230	2 265 191	1 318 126	427 339	(4 797 419)	-
Total net revenue from sales	**5 975 913**	**3 280 236**	**4 578 795**	**1 780 320**	**587 844**	**(4 797 419)**	**11 405 689**
Total costs	(5 799 100)	(2 704 065)	(4 150 335)	(1 429 636)	(580 291)	4 786 345	(9 877 082)
Segment result	**176 813**	**576 171**	**428 460**	**350 684**	**7 553**	**(11 074)**	**1 528 607**
Amortisation	(955)	(497 188)	(306 877)	(357 015)	(43 731)		
Impairment losses on non-financial non-current assets	-	-	-	(1 284)	-		
Segment result - EBITDA	**177 768**	**1 073 359**	**735 337**	**708 983**	**51 284**		
% of net revenue from sales	**3,0 %**	**32,7 %**	**16,1 %**	**39,8 %**	**8,7 %**		
Gain on bargain purchase							11 953
Unallocated costs at Group level (administration expenses)							(52 830)
Operating profit							**1 487 730**
Finance costs							(170 689)
Finance income							139 718
Dividend income							526
Share of profit of associates and jointly controlled entities							9 282
Income tax							(301 676)
Net profit							**1 164 891**
Share of profit attributable to non-controlling interests							94 723

Other information concerning segments as at 31 December 2018 is as follows:

	Trade	Distribution	Generation	Mining	Other activity	Exclusions	Total
Property, plant and equipment	15 306	8 854 779	9 439 189	2 821 637	367 219	(481 699)	21 016 431
Trade and other receivables	1 295 030	269 419	707 484	204 260	128 519	(707 658)	1 897 054
Costs related to the conclusion of agreements	29 853	-	-	-	-	-	29 853
Assets arising from contracts with customers	126 462	210 907	228	-	1 700	(11 317)	327 980
Total	1 466 651	9 335 105	10 146 901	3 025 897	497 438	(1 200 674)	23 271 318
ASSETS excluded from segments							6 694 307
- including property, plant and equipment							10 962
- including trade and other receivables							708
TOTAL: ASSETS							**29 965 625**
Trade and other payables	286 220	459 218	950 997	294 088	279 347	(547 302)	1 722 568
Liabilities arising from contracts with customers	171 673	66 707	-	517	1 354	(171 673)	68 578
Total	457 893	525 925	950 997	294 605	280 701	(718 975)	1 791 146
Equity and liabilities excluded from segments							28 174 479
- including trade and other payables							879 650
TOTAL: EQUITY AND LIABILITIES							**29 965 625**
<u>for the 12-month period ending 31 December 2018</u>							
Investment expenditures on property, plant and equipment and intangible assets	1 547	1 000 449	437 613	462 803	54 201	(171)	1 956 442
Investment expenditures on property, plant and equipment and intangible assets excluded from segments							-
Amortisation	666	532 103	540 592	364 272	52 842	(13 869)	1 476 606
Amortisation excluded from segments							1 061
Recognition/(reversal/usage) of impairment losses on receivables	(3 306)	3 600	11 974	(2 408)	(181)	(690)	8 989
Recognition/(reversal) of impairment losses on non-financial non-current assets	-	4 280	(170 734)	-	-	-	(166 454)

Other information concerning segments as at 31 December 2017 is as follows:

	Trade	Distribution	Generation	Mining	Other activity	Exclusions	Total
Property, plant and equipment	15 552	8 389 251	9 370 558	2 747 876	343 008	(460 228)	20 406 017
Trade and other receivables	1 004 500	515 632	654 299	209 966	107 015	(570 208)	1 921 204
Total	1 020 052	8 904 883	10 024 857	2 957 842	450 023	(1 030 436)	22 327 221
ASSETS excluded from segments							5 985 773
- including property, plant and equipment							10 850
- including trade and other receivables							13 093
TOTAL: ASSETS							**28 312 994**
Trade and other payables	332 284	454 598	1 040 323	278 978	369 194	(547 076)	1 928 301
Equity and liabilities excluded from segments							26 384 693
- including trade and other payables							180 663
TOTAL: EQUITY AND LIABILITIES							**28 312 994**
for the 12-month period ending 31 December 2017							
Investment expenditures on property, plant and equipment and intangible assets	215	1 022 408	1 114 148	373 073	55 530	(19 302)	2 546 072
Investment expenditures on property, plant and equipment and intangible assets excluded from segments							-
Amortisation	955	497 188	306 877	357 015	43 731	(12 622)	1 193 144
Amortisation excluded from segments							1 396
Recognition/(reversal/usage) of impairment losses on receivables	8 724	13 740	563	581	24	-	23 632
Recognition/(reversal) of impairment losses on non-financial non-current assets	-	-	-	1 284	-	-	1 284

7. Impairment tests on non-current assets

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, in the second quarter of 2018 the Group updated impairment tests conducted in previous years for the wind energy area and estimated the impact of a decrease in tax burden on the usable value of wind farms.

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 property, plant and equipment in areas involved in the generation of electricity. Based on these tests, no asset impairment was identified in the tested areas.

Based on analysis, impairment losses worth a total of PLN 170 734 thousand on non-financial non-current assets at CGU Water and CGU Wind were reversed. The reversal increased the Group's net result by PLN 138 295 thousand. No need for further recognition of impairment or reversal of impairment was identified at CGUs Elektrownie Systemowe Kozienice and Połaniec and CGUs Biogas, Białystok and Zielony Blok.

Presented below are the results of these impairment tests:

CGU [PLN 000s]	Recoverable value	Book value
CGU Elektrownie Systemowe Kozienice – ENEA Wytwarzanie's generating assets at Świerże Górne	7 670 378	7 651 323
CGU Białystok – the generating assets of ENEA Ciepło and ENEA Ciepło Serwis at the Białystok location	712 020	708 762
CGU Wind – ENEA Wytwarzanie's wind-based generating assets	510 662	374 922
CGU Hydro – ENEA Wytwarzanie's hydro-based generating assets	310 990	203 812
CGU Biogas – ENEA Wytwarzanie's biogas-based generating assets	3 269	2 981
CGU Elektrownie Systemowe Połaniec – ENEA Elektrownia Połaniec generating assets (coal-based sources)	615 625	613 448
CGU Zielony Blok – ENEA Elektrownia Połaniec generating assets (biomass unit)	259 090	258 999

The recoverable value of each CGU was estimated on the basis of useful value using the discounted cash flows approach based on financial projections.

The following forecast periods were used for testing the CGUs:

- CGU Elektrownie Systemowe Kozienice – until 2041,
- CGU Białystok – until 2041,
- CGU Wind:
  - wind farm Darżyno until 2037,
  - wind farm Bardy until 2036,
  - wind farm Baczyna until 2041,
- CGU Hydro – until 2041,
- CGU Biogas – until 2023,
- CGU Elektrownie Systemowe Połaniec – until 2034,
- CGU Zielony Blok – until 2042.

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, property rights, 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 property rights 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.

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

Impact of change in discount rate (input value 6.73%)

Change in assumptions	-0.5pp	Output value	+0.5pp
Change in recoverable value	**755 996**	**10 103 475**	**(660 825)**

Impact of change in inflation from 2020 (input value 2.5%)

Change in assumptions	-0.5pp	Output value	+0.5pp
Change in recoverable value	**(546 424)**	**10 103 475**	**592 817**

Impact of changes in electricity prices

Change in assumptions	-1.0pp	Output value	+1.0pp
Change in recoverable value	**(849 995)**	**10 103 475**	**844 255**

Impact of change in price of CO_2 emission allowances

Change in assumptions	-1.0pp	Output value	+1.0pp
Change in recoverable value	**238 314**	**10 103 475**	**(238 601)**

8. Property, plant and equipment

(a) 2018

	Land	Buildings and structures	including excavations	Technical equipment and machinery	Means of transport	Other tangible assets	Tangible assets under construction	Total
As at 01.01.2018								
Gross value at the beginning of period	112 985	15 602 003	1 324 716	13 758 808	308 360	623 044	1 033 520	31 438 720
Depreciation value at the beginning of period	-	(4 910 650)	(297 194)	(3 967 977)	(124 488)	(387 915)	(2 656)	(9 393 686)
Impairment at the beginning of period	(2 205)	(538 838)	-	(1 059 405)	(3 556)	(4 942)	(19 221)	(1 628 167)
Net value at the beginning of period	**110 780**	**10 152 515**	**1 027 522**	**8 731 426**	**180 316**	**230 187**	**1 011 643**	**20 416 867**
Changes in the 12 months to 31.12.2018								
Transfers	2 121	889 125	206 621	531 651	47 227	79 904	(1 597 692)	(47 664)
Purchase	-	2 380	-	11 943	3 856	2 671	1 902 521	1 923 371
Disposal (initial value)	(3)	(211)	-	(833)	(8 630)	(29 969)	-	(39 646)
Disposal (depreciation)	-	83	-	792	6 826	28 570	-	36 271
Amortisation	-	(692 067)	(188 505)	(658 046)	(29 820)	(47 932)	-	(1 427 865)
Impairment (-)	746	70 891	-	99 383	76	72	580	171 748
Discontinued investments	-	-	-	-	-	-	(2)	(2)
Transfer to available-for-sale non-current assets (gross value)	-	-	-	-	(1 651)	-	-	(1 651)
Transfer to available-for-sale non-current assets (redemption)	-	-	-	-	1 465	-	-	1 465
Liquidation (initial value)	(2)	(123 825)	(66 249)	(127 054)	(3 781)	28 149	-	(226 513)
Liquidation (depreciation)	-	83 597	39 485	116 445	5 249	(26 724)	-	178 567
Other	(315)	7 462	-	21 492	(1 207)	(29 093)	(2 108)	(3 769)
Other (depreciation)	-	4 378	-	6 529	646	34 661	-	46 214
As at 31.12.2018								
Gross value at the end of period	114 786	16 376 934	1 465 088	14 196 007	344 174	674 706	1 336 239	33 042 846
Depreciation	-	(5 514 659)	(446 214)	(4 502 257)	(140 122)	(399 340)	(2 656)	(10 559 034)
Impairment	(1 459)	(467 947)	-	(960 022)	(3 480)	(4 870)	(18 641)	(1 456 419)
Net value at the end of period	**113 327**	**10 394 328**	**1 018 874**	**8 733 728**	**200 572**	**270 496**	**1 314 942**	**21 027 393**

No collateral is established on property, plant and equipment assets. External financing costs capitalised in 2018 were negligible.

(b) 2017

	Land	Buildings and structures	including excavations	Technical equipment and machinery	Means of transport	Other tangible assets	Tangible assets under construction	Total
As at 01.01.2017								
Gross value at the beginning of period	96 978	12 880 119	1 160 361	9 011 746	276 944	582 553	5 580 530	28 428 870
Depreciation value at the beginning of period	-	(4 416 822)	(189 522)	(3 519 775)	(102 715)	(374 377)	(2 656)	(8 416 345)
Impairment at the beginning of period	(2 205)	(327 155)	-	(558 513)	(1 092)	(2 709)	(738 353)	(1 630 027)
Net value at the beginning of period	**94 773**	**8 136 142**	**970 839**	**4 933 458**	**173 137**	**205 467**	**4 839 521**	**18 382 498**
Changes in the 12 months to 31.12.2017								
Transfers	2 809	2 628 264	237 332	4 299 022	34 904	68 411	(7 079 115)	(45 705)
Purchase	-	1 567	-	2 720	558	1 605	2 494 187	2 500 637
Accounting for purchase of subsidiaries	13 543	226 129	-	473 445	44	1 240	40 696	755 097
Disposal (initial value)	(19)	(721)	-	(30)	(3 948)	(48)	-	(4 766)
Disposal (depreciation)	-	482	-	30	3 753	14	-	4 279
Amortisation	-	(611 749)	(170 118)	(473 991)	(26 208)	(44 303)	-	(1 156 251)
Impairment (-)	-	(211 683)	-	(500 892)	(2 464)	(2 233)	719 132	1 860
Liquidation (initial value)	(444)	(140 384)	(72 977)	(26 595)	(729)	(32 792)	-	(200 944)
Liquidation (depreciation)	-	117 553	62 446	25 321	719	31 322	-	174 915
Other	118	7 029	-	(1 500)	587	2 075	(2 778)	5 531
Other (depreciation)	-	(114)	-	438	(37)	(571)	-	(284)
As at 31.12.2017								
Gross value at the end of period	112 985	15 602 003	1 324 716	13 758 808	308 360	623 044	1 033 520	31 438 720
Depreciation	-	(4 910 650)	(297 194)	(3 967 977)	(124 488)	(387 915)	(2 656)	(9 393 686)
Impairment	(2 205)	(538 838)	-	(1 059 405)	(3 556)	(4 942)	(19 221)	(1 628 167)
Net value at the end of period	**110 780**	**10 152 515**	**1 027 522**	**8 731 426**	**180 316**	**230 187**	**1 011 643**	**20 416 867**

No collateral is established on property, plant and equipment assets.

Finance leases

As lessee, the Group uses the following property, plant and equipment items under lease contracts:

	31.12.2018			31.12.2017		
	Initial value	**Depreciation**	**Net book value**	**Initial value**	**Depreciation**	**Net book value**
Means of transport	10 935	(3 837)	7 098	5 549	(1 991)	3 558
Total	**10 935**	**(3 837)**	**7 098**	**5 549**	**(1 991)**	**3 558**

9. Perpetual usufruct of land

	31.12.2018	31.12.2017
Gross value at the beginning of period	**124 036**	**92 593**
Transfers	406	581
Purchase	307	-
Accounting for purchase of subsidiaries	-	31 952
Disposal (initial value)	-	(10)
Liquidation (initial value)	(80)	(1 300)
Other	309	220
Gross value at the end of period	**124 978**	**124 036**
Depreciation value at the beginning of period	**(6 560)**	**(5 789)**
Disposal (depreciation)	-	4
Amortisation	(1 373)	(1 278)
Liquidation (depreciation)	1	132
Other (depreciation)	-	371
Depreciation value at the end of period	**(7 932)**	**(6 560)**
Impairment at the beginning of period	(11 905)	(11 905)
Impairment at the end of period	(11 905)	(11 905)
Net value at the beginning of period	**105 571**	**74 899**
Net value at the end of period	**105 141**	**105 571**

10. Intangible assets

(a) 2018

As at 01.01.2018	Costs of development work	Goodwill	Computer software, licences	Right to establish easement	Client relations	Geological information	Total
Gross value at the beginning of period	6 376	229 323	566 375	61 343	16 000	40 856	920 273
Depreciation value at the beginning of period	(1 372)	-	(243 655)	(5 607)	(16 000)	(814)	(267 448)
Impairment at the beginning of period	-	(227 517)	(6 249)	(811)	-	-	(234 577)
Net value at the beginning of period	**5 004**	**1 806**	**316 471**	**54 925**	**-**	**40 042**	**418 248**
Changes in the 12 months to 31.12.2018							
Transfers	-	-	34 579	-	-	-	34 579
Purchase	289	-	22 757	10 025	-	-	33 071
Amortisation	(1 122)	-	(45 631)	(2 490)	-	(892)	(50 135)
Impairment	-	-	48	712	-	-	760
Liquidation (initial value)	(77)	-	(34 885)	(32)	(16 000)	-	(50 994)
Liquidation (depreciation)	77	-	34 000	-	16 000	-	50 077
Other	-	-	(158)	97	-	-	(61)
Other (depreciation)	-	-	165	1	-	1	167
As at 31.12.2018							
Gross value at the end of period	6 588	229 323	588 668	71 433	-	40 856	936 868
Depreciation	(2 417)	-	(255 121)	(8 096)	-	(1 705)	(267 339)
Impairment	-	(227 517)	(6 201)	(99)	-	-	(233 817)
Net value at the end of period	**4 171**	**1 806**	**327 346**	**63 238**	**-**	**39 151**	**435 712**

No collateral is established on intangible assets. No intangible assets were produced internally in 2018.

(b) 2017

As at 01.01.2017

	Costs of development work	Goodwill	Computer software, licences	Right to establish easement	Client relations	Geological information	Total
Gross value at the beginning of period	4 595	229 323	499 523	45 957	16 000	40 826	836 224
Depreciation value at the beginning of period	(830)	-	(210 144)	(3 587)	(16 000)	(656)	(231 217)
Impairment at the beginning of period	-	(227 517)	(6 041)	(811)	-	-	(234 369)
Net value at the beginning of period	**3 765**	**1 806**	**283 338**	**41 559**	**-**	**40 170**	**370 638**
Changes in the 12 months to 31.12.2017							
Transfers	-	-	35 806	-	-	-	35 806
Purchase	1 781	-	28 625	14 999	-	30	45 435
Accounting for purchase of subsidiaries	-	-	5 467	-	-	-	5 467
Amortisation	(542)	-	(36 551)	(2 022)	-	(158)	(39 273)
Impairment	-	-	(208)	-	-	-	(208)
Liquidation (initial value)	-	-	(3 046)	(54)	-	-	(3 100)
Liquidation (depreciation)	-	-	3 040	3	-	-	3 043
Other	-	-	-	441	-	-	441
Other (depreciation)	-	-	-	(1)	-	-	(1)
As at 31.12.2017							
Gross value at the end of period	6 376	229 323	566 375	61 343	16 000	40 856	920 273
Depreciation	(1 372)	-	(243 655)	(5 607)	(16 000)	(814)	(267 448)
Impairment	-	(227 517)	(6 249)	(811)	-	-	(234 577)
Net value at the end of period	**5 004**	**1 806**	**316 471**	**54 925**	**-**	**40 042**	**418 248**

No collateral is established on intangible assets.

11. Goodwill

Goodwill	For the period ended 31.12.2018	For the period ended 31.12.2017
As at the beginning of period	1 806	1 806
Impairment losses recognised during the year	-	-
As at the end of period	**1 806**	**1 806**

As at 31 December 2018 and 31 December 2017, goodwill covered goodwill at Miejska Energetyka Cieplna Piła Sp. z o.o.

12. Investment properties

	31.12.2018	31.12.2017
Gross value at the beginning of period	**32 945**	**33 402**
Purchase	334	-
Disposal (initial value)	-	(457)
Liquidations (initial value)	(509)	-
Gross value at the end of period	**32 770**	**32 945**
Depreciation value at the beginning of period	**(5 191)**	**(4 508)**
Disposal (depreciation)	-	355
Amortisation	(1 047)	(1 038)
Liquidations (depreciation)	16	-
Depreciation value at the end of period	**(6 222)**	**(5 191)**
Impairment at the beginning of period	(773)	(874)
Impairment (-)	89	101
Impairment at the end of period	**(684)**	**(773)**
Net value at the beginning of period	**26 981**	**28 020**
Net value at the end of period	**25 864**	**26 981**

No collateral is established on investment properties.

Presented below are revenue and costs related to investment properties:

	31.12.2018	31.12.2017
Income from investment properties	4 625	5 239
Operating costs related to income-generating investment properties	(4 036)	(4 606)

The Group classifies office buildings and other premises as investment properties.

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

13. Investments in associates and jointly controlled entities

	31.12.2018	31.12.2017
As at the beginning of period	355 152	2 518
Change in the change in net assets	55 422	9 282
Purchase of investments	323 694	344 562
Other changes	-	(1 210)
As at the reporting date	**734 268**	**355 152**

	31.12.2018	31.12.2017
Polska Grupa Górnicza S.A.	351 461	210 000
Elektrownia Ostrołęka Sp. z o.o.	268 832	52 335
Polimex - Mostostal S.A.	98 981	90 967
ElectroMobility Poland S.A.	14 994	1 850
	734 268	**355 152**

The following table shows key financial data concerning associates and jointly controlled entities consolidated using the equity approach:

31.12.2018	Stake	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Net result	Elimination of unrealised gains/losses	Share of profit of associates and jointly controlled entities
Elektrownia Ostrołęka Sp. z o.o.	50.00%	95 005	473 083	**568 088**	24 011	20 573	**44 584**	4 149	(5 017)	-	(2 197)
Polimex - Mostostal S.A.	16.48%	1 222 581	712 957	**1 935 538**	840 158	538 027	**1 378 185**	1 556 170	72 018	(8 825)	8 014
Polska Grupa Górnicza S.A.	7.66%	3 030 488	9 026 951	**12 057 439**	3 801 041	4 511 080	**8 312 121**	8 918 722	530 244	11 873	51 461
ElectroMobility Poland S.A.	25.00%	52 464	9 223	**61 687**	1 711	-	**1 711**	298	(7 340)	-	(1 856)
		4 400 538	**10 222 214**	**14 622 752**	**4 666 921**	**5 069 680**	**9 736 601**	**10 479 339**	**589 905**	**3 048**	**55 422**

The Group made a consolidation adjustment concerning margins on sales in transactions between the Group and Polimex - Mostostal S.A. and Polska Grupa Górnicza S.A.

31.12.2017	Stake	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Net result	Elimination of unrealised losses	Share of profit of associates and jointly controlled entities
Elektrownia Ostrołęka S.A.	23.79%	25 832	214 212	**240 044**	32 821	703	**33 524**	1 201	(1 661)	-	(395)
Polimex - Mostostal S.A.	16.48%	1 586 019	654 262	**2 240 281**	973 960	809 979	**1 783 939**	2 077 245	64 619	(322)	10 327
ElectroMobility Poland S.A.	25.00%	7 382	241	**7 623**	223	-	**223**	151	(2 600)	-	(650)
		1 619 233	**868 715**	**2 487 948**	**1 007 004**	**810 682**	**1 817 686**	**2 078 597**	**60 358**	**(322)**	**9 282**

As at 31.12.2018	Polimex Mostostal S.A.	Polska Grupa Górnicza S.A.	Elektrownia Ostrołęka Sp. z o.o.	ElectroMobility Poland S.A.
Non-current assets	712 957	9 026 951	473 083	9 223
Current assets	1 222 581	3 030 488	95 005	52 464
Non-current liabilities	538 027	4 511 080	20 573	-
Current liabilities	840 158	3 801 041	24 011	1 711
Net assets	**557 353**	**3 745 318**	**523 504**	**59 976**
Share in votes	16.48%	7.66%	50.00%	25%
Share in net assets	**91 852**	**286 891**	**261 752**	**14 994**
Goodwill	15 954	52 697	7 080	-
Elimination of unrealised gains/losses	(8 825)	11 873	-	-
Equity-accounted investments	**98 981**	**351 461**	**268 832**	**14 994**

As at 31.12.2017	Polimex Mostostal S.A.	Polska Grupa Górnicza S.A.	Elektrownia Ostrołęka Sp. z o.o.	ElectroMobility Poland S.A.
Non-current assets	654 262	8 600 774	214 212	241
Current assets	1 586 019	1 879 009	25 832	7 382
Non-current liabilities	809 979	4 168 218	703	-
Current liabilities	973 960	3 407 357	32 821	223
Other differences	(1 165)	-	13 468	-
Net assets	**455 177**	**2 904 208**	**219 988**	**7 400**
Share in votes	16.48%	5.81%	23.79%	25%
Share in net assets	**75 013**	**168 734**	**52 335**	**1 850**
Goodwill	15 954	41 266	-	-
Equity-accounted investments	**90 967**	**210 000**	**52 335**	**1 850**

13.1. Performance of investment agreement with Energa S.A. and Elektrownia Ostrołęka Sp. z o.o. concerning the construction and operation of a power unit at Elektrownia Ostrołęka Sp. z o.o.

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 SPV 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 (NTP) 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.
Following 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 at 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 issue 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 issue 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.

	Elektrownia Ostrołęka Sp. z o.o.
Purchase price (together with recapitalisations)	271 425
Share in net assets	264 345
Goodwill arising from the stake held	**7 080**

13.2. Re-capitalisation of 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.

Joint control was assumed on 22 December 2017. The purchase price for Polska Grupa Górnicza S.A., allocated with the application of fair value measurement for Polska Grupa Górnicza S.A.'s assets as at 31 January 2018 (purchase of the third tranche), is as follows:

	Polska Grupa Górnicza S.A.
Purchase price	300 000
Share in the fair value of acquired net assets	247 303
Goodwill arising from the stake held	**52 697**

14. Non-controlling interests

(a) 2018

Name of subsidiary	Miejska Energetyka Cieplna Piła Sp. z o.o.	Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Obornikach	Annacond Enterprises Sp. z o.o. w likwidacji	ENEA Ciepło Sp. z o.o.	Grupa Kapitałowa Lubelski Wegiel Bogdanka S.A.	**Total non-controlling interests**
Non-controlling interests (in %)	**28.89%**	**0.07%**	**39.00%**	**4.23%**	**34.01%**	
Non-current assets	85 182	13 252	-	707 287	3 067 609	
Current assets	42 017	3 996	69	158 543	469 687	
Non-current liabilities	(15 535)	(2 829)	(4 040)	(143 359)	(439 560)	
Current liabilities	(16 054)	(2 807)	(780)	(140 732)	(446 246)	
Net assets	**95 610**	**11 612**	**(4 751)**	**581 739**	**2 651 490**	
Book value of non-controlling interests	**27 622**	**8**	**(1 853)**	**24 608**	**901 772**	**952 157**
Revenue from sales	62 613	6 475	-	259 542	1 756 673	
Net profit/(loss) for the reporting period	5 436	(226)	(653)	17 044	88 967	
Total comprehensive income	5 405	(226)	(653)	16 355	83 760	
Profit/(loss) attributable to non-controlling interests	**1 712**	**-**	**(283)**	**721**	**30 361**	**32 511**
Comprehensive income attributable to non-controlling interests	**1 703**	**-**	**(283)**	**692**	**28 595**	**30 707**
Net cash flows from operating activities	1 562	(1 183)	(497)	(169)	459 390	
Net cash flows from investing activities	(8 627)	(1 658)	-	(31 940)	(418 748)	
Net cash flows from financing activities	1 531	2 816	488	(8 398)	(304 777)	
Net cash flows	**(5 534)**	**(25)**	**(9)**	**(40 507)**	**(264 135)**	

The main economic activity of Miejska Energetyka Cieplna Piła Sp. z o.o., Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. and ENEA Ciepło Sp. z o.o. is the production of thermal heat and distribution of heat, while LWB's main economic activities are hard coal mining and sales. No dividend was paid to non-controlling interests in 2018.

(b) 2017

Name of subsidiary	Miejska Energetyka Cieplna Piła Sp. z o.o.	Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Obornikach	Annacond Enterprises Sp. z o.o.	ENEA Ciepło Sp. z o.o.	Grupa Kapitałowa Lubelski Wegiel Bogdanka S.A.	**Total non-controlling interests**
Non-controlling interests (in %)	**28.89%**	**0.07%**	**39.00%**	**8.86%**	**34.01%**	
Non-current assets	82 138	12 716	0	280 501	2 988 101	
Current assets	40 904	3 785	312	93 619	730 224	
Non-current liabilities	(14 518)	(1 815)	(4 335)	(47 147)	(406 561)	
Current liabilities	(18 807)	(2 945)	(2)	(57 039)	(744 352)	
Net assets	**89 717**	**11 741**	**(4 025)**	**269 934**	**2 567 412**	
Book value of non-controlling interests	**25 919**	**8**	**(1 570)**	**23 916**	**873 177**	**921 450**
Revenue from sales	59 235	6 411	-	245 261	1 780 320	
Net profit/(loss) for the reporting period	10 278	(191)	(1 157)	18 569	265 696	
Total comprehensive income	10 370	(191)	(1 157)	18 771	241 361	
Profit/(loss) attributable to non-controlling interests	**3 015**	**0**	**(480)**	**1 645**	**90 543**	**94 723**
Comprehensive income attributable to non-controlling interests	**3 015**	**0**	**(480)**	**1 645**	**82 310**	**86 490**
Net cash flows from operating activities	17 636	2 012	(374)	42 097	616 936	
Net cash flows from investing activities	(3 901)	(1 667)	-	(18 655)	(374 874)	
Net cash flows from financing activities	(1 204)	(462)	387	(6 991)	(342 643)	
Net cash flows	**12 531**	**(117)**	**13**	**16 451**	**(100 581)**	
Paid dividend attributable to non-controlling interests	**-**	**-**	**-**	**-**	**(456)**	

15. Debt financial assets at amortised cost

	31.12.2018	31.12.2017*
Current debt financial assets at amortised cost		
Loans granted	234	-
Current debt financial assets at amortised cost	**234**	**-**
Non-current debt financial assets at amortised cost		
Loans granted	7 741	-
Non-current debt financial assets at amortised cost	**7 741**	**-**
TOTAL	**7 975**	**-**

* as at 31 December 2017, debt securities at amortised cost did not exist; data restatement as at 1 January 2018 is presented in note 4.

No impairment allowances for expected credit losses are presented in these consolidated financial statements aside from impairment presented in note 17 concerning assets arising from contracts with customers and trade and other receivables constituting financial instruments.

16. Financial assets

The following table presents only items that are financial assets.

	31.12.2018	31.12.2017
Trade receivables	10 307	9 843
Available-for-sale non-current financial assets (shares in unrelated entities)	-	40 698
Non-current financial assets at fair value through profit or loss	-	33 364
Derivative instruments	-	29 553
Non-current financial assets at fair value	49 442	-
Non-current financial assets at amortised cost	7 741	-
Funds in the Mine Decommissioning Fund	128 279	121 806
Total non-current financial assets	**195 769**	**235 264**
Trade receivables	1 191 620	1 524 150
Current financial assets held to maturity	-	478
Current financial assets at fair value through profit or loss	-	49 329
Assets arising from contracts with customers	327 980	-
Current financial assets at fair value	112 536	-
Current financial assets at amortised cost	234	-
Other short-term investments	545	-
Cash and cash equivalents	2 650 838	2 687 126
Total current financial assets	**4 283 753**	**4 261 083**
Total	**4 479 522**	**4 496 347**

17. Trade and other receivables

	31.12.2018	31.12.2017
Current trade and other receivables		
Finance lease receivables	759	24
Trade receivables	1 352 963	1 417 979
Tax (excluding income tax) and other benefit receivables	95 258	114 125
Other receivables	407 749	230 389
Advances	171 044	35 499
Accrued receivables for uninvoiced sales	-*	249 224
Prepaid property insurance	8 834	9 443
	2 036 607	2 056 683
Minus: impairment of receivables	(162 102)	(153 115)
Net current trade and other receivables	**1 874 505**	**1 903 568**

* presentation change resulting from IFRS 15, described in note 4.

Non-current trade and other receivables	31.12.2018	31.12.2017
Finance lease receivables	1 103	46
Non-current trade receivables	9 206	6 857
Other receivables	12 950	23 826
	23 259	30 729
Minus: impairment of receivables	(2)	-
Net non-current trade and other receivables	**23 257**	**30 729**

Impairment of trade and other receivables:

	31.12.2018	31.12.2017
Impairment at the beginning of period	153 115	129 483
Adjustment due to implementation of IFRS 9	4 619	-
As at the beginning of period, adjusted	**157 734**	**129 483**
Purchase of subsidiaries	-	5 537
Created	26 492	45 263
Reversed	(2 068)	(6 834)
Used	(20 054)	(20 334)
Impairment at the end of period	**162 104**	**153 115**

Impairment losses are mainly created on trade receivables. Impairment of other receivables is negligible.

Analysis of the age structure of trade and other receivables constituting financial instruments:

	31.12.2018		
	Nominal value	**Impairment**	**Book value**
Current	1 070 741	(15 266)	1 055 475
Overdue	293 290	(146 838)	146 452
0-30 days	96 941	(392)	96 549
31-90 days	15 714	(1 511)	14 203
91-180 days	17 380	(12 316)	5 064
over 180 days	163 255	(132 619)	30 636
Total	**1 364 031**	**(162 104)**	**1 201 927**
Assets arising from contracts with customers	**328 280**	**(300)**	**327 980**

	31.12.2017		
	Nominal value	**Impairment**	**Book value**
Current	1 416 579	(20 264)	1 396 315
Overdue	270 529	(132 851)	137 678
0-30 days	81 060	(193)	80 867
31-90 days	18 264	(706)	17 558
91-180 days	8 894	(3 061)	5 833
over 180 days	162 311	(128 891)	33 420
Total	**1 687 108**	**(153 115)**	**1 533 993**

18. Assets and liabilities arising from contracts with customers

	Assets arising from contracts with customers*	**Liabilities arising from contracts with customers***
As at the beginning of period, adjusted	**245 026**	**128 011**
Revenue recognised in a period that was taken into account in the opening balance for liabilities arising from contracts with customers	-	(62 845)
Non-invoiced receivables	87 777	-
Increase due to prepayments	-	3 412
Transfer from contract assets to receivables	(4 523)	-
Impairment	(300)	-
As at the end of period	**327 980**	**68 578**

* as at 31 December 2017, assets and liabilities arising from contracts with customers did not exist; data restatement as at 1 January 2018 is presented in note 4.

The balance of assets arising from contracts with customers mainly covers uninvoiced electricity sales, while the balance of liabilities arising from contracts with customers covers advances received from connection fees.

19. Limits and collateral established on the Group's assets and other collateral

Item	Name of entity	Title of collateral	Type of collateral	Entity for which collateral is established	Debt as at 31.12.2018	Debt as at 31.12.2017	Term of collateral
1.	**Enea Serwis**	Collateral for claims arising from contract to purchase products and services using Fleet Cards	Blank promissory note	**PKN Orlen S.A.**	-	252	unlimited duration
2.	**Enea Serwis**	Collateral for contract to issue contract guarantees	Blank promissory note	**WUPRINŻ S.A.**	14	14	12 August 2020
3.	**Enea Serwis**	Collateral for contract to issue contract guarantees	Blank promissory note	**ARDAGH Glass**	-	157	11 August 2018
4.	**Enea Serwis**	Collateral for contract to issue contract guarantees	Blank promissory note	**PGL Lasy Państwowe**	31	31	12 August 2020
5.	**Enea Serwis**	Collateral for contract to issue contract guarantees	Blank promissory note	**STRABAG Sp. z o.o.**	30	30	12 August 2020
6.	**Enea Serwis**	Collateral for contract to issue contract guarantees	Blank promissory note	**STRABAG Sp. z o.o.**	30	30	12 August 2020
7.	**Enea Serwis**	Collateral for contract to issue contract guarantees	Blank promissory note	**STRABAG Sp. z o.o.**	25	-	12 August 2020
8.	**Enea Serwis**	Collateral for contract to issue contract guarantees	Blank promissory note	**STRABAG Sp. z o.o.**	25	-	12 August 2020
9.	**PEC Oborniki**	Collateral for loan	Blank promissory note, assignment of receivables	**Voivodship Fund for Environmental Protection and Water Management (WFOŚiGW)**	1 307	1 562	20 June 2023
10.	**PEC Oborniki**	Collateral for loan	Blank promissory note, assignment of receivables	**Voivodship Fund for Environmental Protection and Water Management (WFOŚiGW)**	1 310	-	20 September 2018
11.	**PEC Oborniki**	Collateral for loan	Blank promissory note, assignment of receivables	**Voivodship Fund for Environmental Protection and Water Management (WFOŚiGW)**	-	151	20 March 2018
12.	**Enea Wytwarzanie**	Collateral for loan	Blank promissory note	**National Fund for Environmental Protection and Water Management (NFOŚiGW)**	-	3 564	30 September 2018
13.	**Enea Ciepło (in 2017 Enea Wytwarzanie)**	Collateral for loan	Blank promissory note	**National Fund for Environmental Protection and Water Management (NFOŚiGW)**	55 486	53 536	20 December 2026
14.	**Enea Ciepło**	Collateral for credit facility	Blank promissory note	**PKO BP S.A.**	3 040	3 909	30 June 2024

Item	Name of entity	Title of collateral	Type of collateral	Entity for which collateral is established	Debt as at 31.12.2018	Debt as at 31.12.2017	Term of collateral
15.	**Enea Ciepło**	Collateral for credit facility	Blank promissory note	**ING Bank Śląski S.A.**	2 869	4 819	12 November 2026
16.	**LW Bogdanka**	Collateral for loan	Blank promissory note, assignment of receivables	**Voivodship Fund for Environmental Protection and Water Management (WFOŚiGW)**	17 141	20 208	31 July 2024
17.	**LW Bogdanka**	Collateral for bond issue programme agreement	Assignment of receivables, declaration on submission for enforcement	**Pekao S.A.**	-	300 000	31 December 2021
18.	**MEC Piła**	Collateral for loans	Blank promissory note, assignment of receivables	**Voivodship Fund for Environmental Protection and Water Management (WFOŚiGW)**	6 723	5 208	20 June 2023
19.	**Enea Elektrownia Połaniec**	Transfer of EUA as collateral	transfer of EUA ownership pursuant to contract (non-cash collateral)	**IRGIT**	-	-	until revoked

Aside from the constraints described in the table above, restrictions on cash are described in note 23.

20. CO_2 emission allowances

As at the beginning of period	**31.12.2018**	**31.12.2017**
Gross value	595 533	417 073
Net book value	595 533	417 073
Changes in 12-month period		
Purchase	516 810	531 535
Purchase of subsidiaries	-	108 657
Redemption of allowances	(497 255)	(364 640)
Sale	(22 228)	(97 092)
Other changes	(6 624)	-
As at the end of period		
Gross value	586 236	595 533
Net book value	**586 236**	**595 533**

21. Inventories

	31.12.2018	**31.12.2017**
Materials	769 319	573 051
Semi-finished products and production in progress	609	632
Finished products	18 612	10 452
Energy origin certificates	516 180	257 471
Goods	13 760	11 471
Gross value of inventory	**1 318 480**	**853 077**
Impairment of inventory	(53 610)	(6 890)
Net value of inventory	**1 264 870**	**846 187**

The Group mines coal, which is then partially used in production and partially sold outside the Group. It is not possible to reliably specify which part of coal is sold, therefore the entire inventory is presented in the above table as 'Materials.'

In the 12 months of 2018, impairment of inventory increased by PLN 46 720 thousand.

No collateral is established on inventory.

22. Energy origin certificates

	31.12.2018	31.12.2017
Net value at the beginning of period	**257 046**	**161 459**
Purchase of subsidiaries	-	48 672
In-house manufacture	188 597	126 680
Purchase	461 543	152 690
Depreciation	(376 813)	(190 736)
Sale	(14 489)	(43 522)
Change in impairment	373	1 803
Other changes	(124)	-
Net value at the end of period	**516 133**	**257 046**

23. Cash and cash equivalents

	31.12.2018	31.12.2017
Cash on hand and at bank account	**1 069 639**	**563 217**
- Cash on hand	24	32
- Cash at bank account	1 069 615	563 185
Other cash	**1 581 199**	**2 123 909**
- Cash in transit	1 131	33
- Deposits	1 143 636	2 088 904
- Other	436 432	34 972
Total cash and cash equivalents	**2 650 838**	**2 687 126**
Cash recognised in the statement of cash flows	**2 650 838**	**2 687 126**
including restricted cash	588 632	99 244

No collateral is established on cash.

As at 31 December 2018, restricted cash amounted to PLN 588 632 thousand (as at 31 December 2017: PLN 99 244 thousand). This mainly included cash in deposits for electricity and CO_2 emission allowance transactions (mainly cash constituting collateral for settlements with clearing-house IRGiT).

24. Financial assets measured at fair value

	31.12.2018	31.12.2017*
Call options (non-current assets)	12 116	-
Non-current derivative contracts at fair value through profit or loss	2 000	-
Current derivative contracts at fair value through profit or loss	112 536	-
Equity instruments at fair value through other comprehensive income	15 866	-
Interests at fair value through profit or loss	19 460	-
Financial assets measured at fair value	**161 978**	**-**

* as at 31 December 2017, financial assets at fair value did not exist; data restatement as at 1 January 2018 is presented in note 4.

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 book value of the options as at 31 December 2018 amounted to PLN 12 116 thousand (at 31 December 2017: PLN 23 836 thousand).

Moreover, financial assets at fair value include the measurement of derivative contracts for the purchase of electricity and gas and concerning property rights, unused for the Group's own purposes worth PLN 114 536 thousand (as at 31 December 2017: PLN 58 857 thousand). The nominal value of contracts for the purchase and sale of electricity, gas and property rights maturing in 2019-2020, presented as financial assets and liabilities at fair value, amounts to PLN 2 607 417 thousand.

25. Equity

As at 31.12.2018

Share series	Number of shares	Nominal value per 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**		
Total share capital			**441 443**
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			3 632 464
Retained earnings			9 908 842
Revaluation reserve - measurement of hedging instruments			(16 024)
Revaluation reserve - measurement of financial instruments			(16 295)
Other equity			-
Non-controlling interests			952 157
Total equity			**15 049 162**

*Share capital was fully paid-up.

As at 31.12.2017

Share series	Number of shares	Nominal value per 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**		
Total share capital			**441 443**
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			3 632 464
Retained earnings			8 858 130
Revaluation reserve - measurement of hedging instruments			25 967
Revaluation reserve - measurement of financial instruments			741
Other equity			(27 101)
Non-controlling interests			921 450
TOTAL EQUITY			**13 999 669**

On 30 September 2013, LWB's Supervisory Board adopted a resolution on the Management Options Programme Rules for 2013-2017. The resolution was adopted pursuant to resolution 26 of the company's ordinary general meeting of 4 July 2013 on the issue of 1 360 540 registered subscription warrants series A, with pre-emptive rights excluded, a conditional share capital increase for LWB by an amount of no more than PLN 6 802 700 through the issue of no more than 1 360 540 ordinary bearer shares series D, with a nominal value of PLN 5 each, with pre-emptive rights excluded. The programme was valued using the Black-Scholes-Merton model as at the award date at PLN 23 657 thousand. The valuation model used a number of assumptions:

- the options award date (valuation date) was 30 September 2013 for each of the tranches,
- the present price used for calculations was the forecast share price of Lubelski Węgiel Bogdanka S.A. as at 30 September 2013,
- the options' life was calculated using a maturity in the middle of the range set by the first and last potential option exercise date,
- a risk free rate equal to the half-yearly average of weekly prices of 5-year treasury bonds was used,
- share price volatility was calculated on the basis of annual rates of return on Lubelski Węgiel Bogdanka S.A. in continuous quoting over a 4-year listing period of the Parent,
- a zero rate of dividend was applied due to the Programme's provisions, according to which the dividend paid out by Lubelski Węgiel Bogdanka S.A. will be reduced by the option exercise price.

As at 31 December 2018, the number of options awarded throughout the Programme was 1 143 863, and the entire value of the Management Options Programme was PLN 3 839 thousand (PLN 3 839 thousand as at 31 December 2017). Within this pool, the number of rights (for 2013-2014) to exercise the above options was 335 199.
The programme's total cost recognised as 'retained earnings' as at 31 December 2018 was PLN 3 839 thousand (PLN 3 839 thousand as at 31 December 2017). In the third quarter of 2018, agreements were executed between the company and all of the Programme's beneficiaries (persons who might potentially be awarded options) based on which contracts concerning participation in the programme were terminated. Each beneficiary received PLN 1 in compensation. Execution of these agreements marks the end of the Management Options Programme.

An irrevocable proposal to purchase the remaining stake in ENEA Ciepło Sp. z o.o. expired in 2018. Given this, the Group does not recognise in these consolidated financial statements a PLN 27 101 thousand liability corresponding to other capital.

26. Trade and other payables

	31.12.2018	31.12.2017
Non-current trade and other payables		
Liabilities concerning purchase of licences for geological information and concessions	39 159	42 675
Other	28 326	14 904
Non-current trade and other payables	**67 485**	**57 579**
Current trade and other payables		
Trade payables	873 902	904 946
Advances received for supplies, works and services	5 070	14 959
Tax (excluding income tax) and similar liabilities	129 797	177 916
Liabilities concerning purchase of tangible and intangible assets	589 494	696 641
Dividend liabilities	4	27
Special funds	227	587
Liabilities concerning deposits for futures transactions for CO_2 emission allowances	851 157	139 198
Liabilities concerning option to purchase remaining stakes in subsidiaries	-	27 101
Other	85 082	90 010
Current trade and other payables	**2 534 733**	**2 051 385**
	2 602 218	**2 108 964**

27. Credit facilities, loans and debt securities

	31.12.2018	31.12.2017
Bank credit	2 054 465	2 207 341
Loans	69 127	69 959
Outstanding	5 850 121	5 442 791
Long-term	**7 973 713**	**7 720 091**
Bank credit	160 138	102 365
Loans	12 546	12 741
Outstanding	183 156	424 323
Short-term	**355 840**	**539 429**
Total	**8 329 553**	**8 259 520**

Credit facilities and loans

Presented below is a list of the Group's credit facilities and loans.

No.	Company	Lender	Contract date	Total contract amount	Liability at 31 December 2018	Liability at 31 December 2017	Contract period
1.	ENEA S.A.	EIB	18 October 2012 and 19 June 2013 (A and B)	1 425 000	1 264 369	1 357 174	31 December 2030
2.	ENEA S.A.	EIB	29 May 2015 (C)	946 000	941 833	946 000	30 September 2032
3.	ENEA S.A.	PKO BP	28 January 2014, Annex 1 of 25 January 2017	300 000	-	-	31 December 2019
4.	ENEA S.A.	Pekao S.A.	28 January 2014, Annex 1 of 25 January 2017	150 000	-	-	31 December 2019
5.	ENEA Wytwarzanie Sp. z o.o.	NFOŚiG	6 June 2012	17 850	-	3 564	30 September 2018
6.	ENEA Ciepło Sp. z o.o.	NFOŚiG	22 December 2015	60 075	55 192	52 017	20 December 2026
7.	LWB	mBank	16 December 2016, Annex 1 of 30 November 2018	100 000	-	-	29 November 2019
8.	Other	-	-	-	33 391	35 847	-
	TOTAL			**2 998 925**	**2 294 785**	**2 394 602**	
	Transaction costs and effect of measurement using effective interest rate				1 491	(2 196)	
	TOTAL			**2 998 925**	**2 296 276**	**2 392 406**	

Presented below is a short description of ENEA Group's significant credit and loan agreements:

ENEA S.A.

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.

ENEA Wytwarzanie Sp. z o.o.

Loan from the National Fund for Environmental Protection and Water Management (NFOŚiGW) - agreement executed on 6 June 2012 for the period from 1 October 2013 to 30 September 2018 The loan amounted to PLN 17 850 thousand and interest was WIBOR 3M+50 basis points. The loan was fully repaid.

ENEA Wytwarzanie Sp. z o.o. and ENEA Ciepło Sp. z o.o.

Loan from NFOŚiGW - agreement executed on 22 December 2015 for the period from 1 April 2016 to 20 December 2026, with a PLN 60 075 thousand limit. The loan has annual interest based on WIBOR 3M of no less than 2%. A grace period is in effect until 29 September 2018. The loan was transferred (together with an organised part of enterprise) to ENEA Ciepło Sp. z o.o. on 30 November 2018.
The total loan-related debt of ENEA Ciepło Sp. z o.o. as at 31 December 2018 amounted to PLN 55 192 thousand (at 31 December 2017: PLN 52 017 thousand).

Lubelski Węgiel Bogdanka S.A.

On 16 December 2016, the company executed a current account credit facility agreement with mBank for up to PLN 100 000 thousand. The credit facility has a variable interest rate. The credit facility was to be fully repaid by 30 November 2018, but Annex 1, executed on 30 November 2018, extended the repayment deadline to 29 November 2019. The credit facility remained unused as of the reporting date.

Bond issue programmes

Presented below is a list of bonds issued by ENEA S.A. and Lubelski Węgiel Bogdanka S.A.

No.	Bond issue programme name	Programme start date	Programme amount	Value of outstanding bonds at 31 December 2018	Value of outstanding bonds at 31 December 2017	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. (ENEA S.A.)	21 June 2012	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 (ENEA S.A.)	15 May 2014	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. (ENEA S.A.)	30 June 2014	5 000 000	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 (ENEA S.A.)	3 December 2015	700 000	685 000	150 000	Buy-back in tranches, last tranche due in September 2027
5.	Bond issue programme agreement with Bank PEKAO S.A. (LWB)	23 September 2013	300 000	-	301 911	Buy-back in tranches, last tranche due in December 2018
6.	Bond issue programme agreement with Bank PEKAO S.A. and BGK (LWB)	30 June 2014	300 000	-	-	Buy-back in March 2017
	TOTAL		**10 300 000**	**6 065 000**	**5 911 911**	
	Transaction costs and effect of measurement using effective interest rate			(31 723)	(44 797)	
	TOTAL		**10 300 000**	**6 033 277**	**5 867 114**	

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

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.

Lubelski Węgiel Bogdanka S.A. – as at 31 December 2018**,** the company did not have financial liabilities related to bonds. The previous balance resulting from the Programme Agreement executed by the company on 23 September 2013 with Bank Polska Kasa Opieki S.A. was fully settled. Under the Agreement, 3000 bonds with par value of PLN 300 000 thousand were issued, with a buy-back deadline of 31 December 2018. On 30 March 2018 LWB bought back 750 bonds worth PLN 100 thousand each and PLN 75 000 thousand in total. Another 750 bonds worth PLN 75 000 thousand in total were bought back on 2 July 2018. Another 750 bonds worth PLN 75 000 thousand in total were bought back on 1 October 2018. The last 750 bonds with par value of PLN 75 000 thousand were bought back on 31 December 2018.

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.

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 ENEA S.A. 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 consolidated financial statements were prepared and in the course of 2018 the Group did not breach any credit agreement provisions such as would require early re-payment of long-term debt.

28. Accounting for income from subsidies, connection fees and other

	31.12.2018	31.12.2017
Long-term		
Accounting for deferred revenue - grants	133 689	196 334
Accounting for revenue from connection fees	-	401 514
Accounting for deferred revenue - road lighting modernisation services	64 452	47 595
	198 141	**645 443**
Short-term		
Accounting for deferred revenue - grants	9 713	13 864
Accounting for revenue from connection fees	-	17 129
Advances received for connection fees	-	59 125
Accounting for deferred revenue - road lighting modernisation services	2 212	1 125
Construction contracts - measurement	-	1 179
	11 925	**92 422**

Schedule for accounting for deferred revenue

	31.12.2018	31.12.2017
Up to one year	11 925	92 422
From one to five years	50 468	134 426
Over five years	147 673	511 017
	210 066	**737 865**

The decline in book value in this item was mainly caused by changes in accounting rules due to adoption of IFRS 15. These changes are described in notes 55.5, 55.27 and 55.28.

The item 'deferred revenue concerning grants' includes mainly EU grants and grants from the NFOŚiGW for the development of electricity and heating infrastructure.

29. Financial instruments

29.1. Financial risk management rules

The Group'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 Group's exposure to each of the aforementioned types of risk and describes the objectives and policies with regard to managing risk and capital.
The Parent's Management Board is responsible for setting out the risk management framework and rules.

Managing financial risk at the Group 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. The Group 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 Group.

29.2. Credit risk

Credit risk is risk associated with the Group incurring financial losses as a result of a client or counterparty that is a party to a financial instrument failing to meet its contract liabilities.
Credit risk is associated with a potential inability to collect receivables from counterparties. The key factors having impact on credit risk in the Group'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 the Group'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 Group's end customers is also subject to monitoring. The size of the Group'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 Group does not use additional collateral relating solely to concentration. The use of collateral is dependent each time on the counterparty's financial standing.

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 Group 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 the Group's exposure to credit risk:

	Book value	**Maximum exposure to credit risk**	**Book value**
	31.12.2018		**31.12.2017**
Current and non-current financial assets held to maturity	-	-	478
Current and non-current financial assets at fair value through profit or loss	-	-	82 693
Financial assets measured at fair value (without shares and equity instruments through other comprehensive income)	126 652	126 652	-
Debt financial assets at amortised cost	7 975	7 975	-
Other short-term investments	545	545	
Assets arising from contracts with customers	327 980	327 980	-
Trade receivables	1 201 927	1 201 927	1 533 993
Derivative instruments	-	-	29 553
Cash and cash equivalents	2 650 838	2 650 838	2 687 126
Funds in Mine Decommissioning Fund	128 279	128 279	121 806
Credit risk	**4 444 196**	**4 444 196**	**4 455 649**

At the Group, credit risk relating to receivables is different in various market segments in which the Group operates:

- electricity sales to retail clients and distribution services - there is a significant number of past-due receivables in this segment. Although these do not constitute a significant threat to the Group'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 and distribution services - the amounts of overdue 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 also cooperates in this area with specialised external entities, which support the Group in hard debt collection activities. The Group 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 Group does not estimate an internal rating for this entity. In selecting banking counterparties, the Group 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 the Group'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, the Group works with six financial institutions on a day-to-day basis.

The Group diversifies credit risk concerning cash. As at 31 December 2018, cash was allocated at three banks as follows: bank A 32.5%, bank B 25.4%, bank C 14%.

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 Group 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 Group's "Methodology for determining expected credit losses for non-current debt assets and similar items."

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

	As at 01.01.2018	Gains/losses recognised in financial result due to balance sheet measurement or modification	Interest income/costs	Impairment - expected credit losses	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	83 559	(11 720)	-	-	-	55 373	127 212
financial assets voluntarily measured at fair value through profit or loss,	12 930	(4 030)	-	-	-	10 000	18 900
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	12 978	(32)	234	-	-	(5 205)	7 975
- trade receivables	1 271 370	-	-	(4 370)	-	(65 073)	1 201 927
- assets arising from contracts with customers	245 026	-	-	(300)	-	83 254	327 980
- cash and cash equivalents	2 687 126	-	8 778	-	-	(45 066)	2 650 838
- funds in Mine Decommissioning Fund	121 806	-	1 800	-	-	4 673	128 279
- other short-term investments	478	-	-	-	-	67	545
Financial liabilities at fair value through profit or loss:							
- financial liabilities mandatorily measured at fair value through profit or loss	(51 060)	-	-	-	-	(59 607)	(110 667)
Derivative instruments used in hedge accounting	-	-	-	-	(19 727)	(2 496)	(22 223)
Financial liabilities at amortised cost:							
- credit, loans and debt securities	(8 259 520)	(17 894)	(3 969)	-	-	(48 170)	(8 329 553)
- trade and other payables	(1 915 502)	-	-	-	-	(551 622)	(2 467 124)
Finance lease liabilities	(3 593)	-	-	-	-	(3 047)	(6 640)
Total	**(5 737 947)**	**(33 676)**	**(446)**	**(4 670)**	**(59 027)**	**(620 919)**	**(6 456 685)**

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	**2 650 838**
from AAA to BBB- (investment grade)	2 650 838
Funds in Mine Decommissioning Fund	**128 279**
from AAA to BBB- (investment grade)	128 279
Loans granted	**7 975**
from AAA to BBB- (investment grade)	7 975
Deposits with maturities over 3 months	**545**
from AAA to BBB- (investment grade)	545
Total gross value	**2 787 637**
Cash and cash equivalents	2 650 838
Funds in Mine Decommissioning Fund	128 279
Loans granted	7 975
Other short-term investments	545
Total balance sheet value	**2 787 637**

29.3. Financial liquidity risk

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

The aim of the Group'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 Group 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, the Group also performs scenario analyses and develops solutions ensuring that liquidity risk is maintained at an acceptable level. The Group allocated excess funds to current assets in the form of fixed-term deposits. In order to ensure the stability of financing sources, the Group 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.
Continuous risk management in the aforementioned areas and the Group's market and financial position show that financial liquidity risk is at a minimal level.

The Group manages liquidity risk also by maintaining open and unused credit lines, which amounted to PLN 550 000 thousand as at 31 December 2018.

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

31.12.2018

	Trade and other payables	Finance lease liabilities	Bank credit and bonds	Loans	Financial liabilities at fair value	Total
Book value	2 467 124	6 640	8 247 880	81 673	132 890	10 936 207
Non-discounted contractual cash flows	(2 478 683)	(7 099)	(9 148 749)	(90 021)	(140 351)	(11 864 903)
up to 6 months	(2 423 113)	(1 633)	(256 873)	(7 200)	(114 538)	(2 803 357)
6-12 months	(4 849)	(1 623)	(269 787)	(7 205)	(5 586)	(289 050)
1-2 years	(5 120)	(2 610)	(2 376 945)	(14 086)	(10 787)	(2 409 548)
2-5 years	(14 387)	(1 233)	(4 017 776)	(37 329)	(9 440)	(4 080 165)
Over 5 years	(31 214)	-	(2 227 368)	(24 201)	-	(2 282 783)

31.12.2017

	Trade and other payables	Finance lease liabilities	Bank credit and bonds	Loans	Financial liabilities at fair value through profit or loss	Total
Book value	1 915 502	3 593	8 176 820	82 700	51 060	10 229 675
Non-discounted contractual cash flows	(1 927 205)	(3 705)	(9 236 314)	(87 295)	(51 060)	(11 305 579)
up to 6 months	(1 865 502)	(1 042)	(352 434)	(5 789)	(40 019)	(2 264 786)
6-12 months	(6 914)	(975)	(356 023)	(7 844)	(1 166)	(372 922)
1-2 years	(5 792)	(1 688)	(454 453)	(19 855)	(9 875)	(491 663)
2-5 years	(14 825)	-	(5 757 905)	(48 824)	-	(5 821 554)
Over 5 years	(34 172)	-	(2 315 499)	(4 983)	-	(2 354 654)

29.4. Commodity risk

Commodity risk is related to changes in the Group'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. 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 Group's commodity risk is the fact that by acting as an energy enterprise operating as ex-officio seller the Group is required to submit electricity price tariffs for approval for the tariff group G. The Group 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 Group in the tariff period has a limited ability to transfer adverse changes in costs onto the end recipients of electricity. The Group 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 uses management rules specified in the Group'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).

29.5. Currency risk

The following table shows the Group's exposure to currency risk.

31.12.2018	Book value	including value in EUR expressed in functional currency (PLN)	Impact of EUR exchange risk on financial result		Total impact of currency exchange risk on financial result	
			+1%	-1%	+1%	-1%
Financial assets						
Cash and cash equivalents	2 650 838	778 352	**7 784**	**(7 784)**	7 784	(7 784)
Funds in Mine Decommissioning Fund	128 279	-	-	-	-	-
Trade receivables	1 201 927	1 333	**13**	**(13)**	13	(13)
Assets arising from contracts with customers	327 980	-	-	-	-	-
Financial assets at fair value	161 978	-	-	-	-	-
Debt financial assets at amortised cost	7 975	-	-	-	-	-
Other short-term investments	545	-	-	-	-	-
Financial liabilities						
Credit facilities, loans and debt securities	(8 329 553)	-	-	-	-	-
Trade and other payables	(2 467 124)	(1 859)	**(19)**	**19**	(19)	19
Finance lease liabilities	(6 640)	-	-	-	-	-
Financial liabilities at fair value	(132 890)	-	-	-	-	-
Impact on result before tax			**7 778**	**(7 778)**	**7 778**	**(7 778)**
19% tax					(1 478)	1 478
Impact on result after tax					**6 300**	**(6 300)**

31.12.2017	Book value	including value in EUR expressed in functional currency (PLN)	Impact of EUR exchange risk on financial result		including value in USD expressed in functional currency (PLN)	Impact of USD exchange risk on financial result		Total impact of currency exchange risk on financial result	
			+1%	-1%		+1%	-1%	+1%	-1%
Financial assets									
Cash and cash equivalents	2 687 126	181 803	**1 818**	**(1 818)**	-	-	-	1 818	(1 818)
Funds in Mine Decommissioning Fund	121 806	-	-	-	-	-	-	-	-
Trade receivables	1 533 993	11 983	**120**	**(120)**	-	-	-	120	(120)
Available-for-sale financial assets	40 698	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	82 693	-	-	-	-	-	-	-	-
Financial assets held to maturity	478	-	-	-	-	-	-	-	-
Financial liabilities									
Credit facilities, loans and debt securities	(8 259 520)	-	-	-	-	-	-	-	-
Trade and other payables	(1 915 502)	(105 155)	**(1 052)**	**1 052**	(2)	-	-	(1 052)	1 052
Finance lease liabilities	(3 593)	-	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss	(51 060)								
Impact on result before tax			**886**	**(886)**		-	-	**886**	**(886)**
19% tax								(168)	168
Impact on result after tax								**718**	**(718)**

Currency risk is associated with potential changes in the Group's cash flows as a result of volatility in currencies in which these amounts are denominated.
ENEA Group is especially exposed to currency risk resulting from the need to purchase CO2 emission allowances, certain investment expenditures and contracts for provision of services by counterparties, the prices/costs of which are denominated in EUR.
Currency risk is mainly hedged using currency forwards. The aim of hedging currency risk is to ensure a specific value in PLN of future flows and especially expenditures - incurred in connection with purchases of CO2 emission allowances or investment works.
Hedging is performed on the basis of "ENEA Group's currency risk and interest rate risk management policy."

In order to secure maximum effectiveness of hedging, FX forwards are executed for periods and amounts that correspond to currency exposure. This results in an economic link between the underlying items 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 adjustment of payment deadlines through annexes to contracts with counterparties.
In accordance with the aforementioned 'ENEA Group's currency risk and interest rate risk management policy,' hedging is each time based on a hedging strategy dedicated to the specific exposure and approved by the Risk Committee.
In accordance with its rules, the Group hedges all of its currency exposure that it considers as material, i.e. which exceeds the exposure limit, which is set by the Risk Committee at the equivalent of EUR 600 thousand in reference to a single Group company.

Lubelski Węgiel Bogdanka S.A. executes certain transactions in foreign currencies. There is foreign exchange risk in connection with this. LWB is mainly exposed to changes in EURPLN and USDPLN exchange rates. No significant currency transactions were executed in 2018. Such transactions were executed in previous years in connection with purchases of specialised equipment and machinery, although the company expects that such transactions might take place in the near future given the need to modernise its machine park.
LWB manages exchange risk in accordance with approved rules using FX forwards. LWB uses cash flow hedges. The aim of LWB's hedging activities against EURPLN and USDPLN exchange rate risk is to ensure a specific level in PLN of future expenditures in EUR and USD such as are incurred in connection with investment works, and to ensure a specific level of future inflows in USD such as will be received in connection with sales.

29.6. Interest rate risk

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

Given the Group's financing arrangement model, interest rate risk is identified and managed (quantified, mitigated) by the Parent. Interest rate hedging is performed on the basis of "ENEA Group's currency risk and interest rate risk management policy."

In accordance with the aforementioned policy, given the specific nature of interest rate exposure, it is only possible, 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 Parent's Risk Committee and Management Board.

As at the reporting date, 31 December 2018, the Group had credit and bond liabilities of PLN 8 329 846 thousand. The aforementioned debt has been hedged in 63.8% using IRSs.

The following table shows the Group's sensitivity to changes in interest rates by presenting financial assets and liabilities by variable-rate and fixed-rate:

	31.12.2018	31.12.2017
Fixed-rate instruments		
Financial assets	3 991 684	3 529 685
Financial liabilities	(2 773 787)	(2 004 802)
Impact of IRS hedge	(5 315 000)	(5 442 520)
Total	**(4 097 103)**	**(3 917 637)**
Variable-rate instruments		
Financial assets	325 860	813 718
Financial liabilities	(8 029 530)	(8 173 813)
Impact of IRS hedge	5 315 000	5 442 520
Total	**(2 388 670)**	**(1 917 575)**

The Group's fixed-rate financial assets include cash invested in bank deposits. Fixed-rate financial assets include trade receivables that are based on a fixed rate of penalty interest in case of overdue payment.

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

	31.12.2018		31.12.2017	
	Weighted average interest rate (%)	**Book value**	**Weighted average interest rate (%)**	**Book value**
Financial assets held to maturity	-	-	1,30	478
Financial assets at fair value through profit or loss	-	-	-	-
Funds in the Mine Decommissioning Fund	1,41	128 279	1,50	121 806
Cash and cash equivalents	1,44	197 514	1,42	691 434
Other short-term investments	1,41	67	-	-
Finance lease liabilities	5,00	(1 128)	4,75	(2 055)
Bank credit	2,36	(1 968 644)	2,30	(1 179 163)
Loans	3,65	(26 481)	2,57	(82 700)
Outstanding	3,18	(6 033 277)	3,32	(1 467 375)
Total		**(7 703 670)**		**(1 917 575)**

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 Group's financial result in reference to variable-rate instruments.

	Book value 31.12.2018	Impact of interest rate risk on financial result (12-month period)		Book value 31.12.2017	Impact of interest rate risk on financial result (12-month period)	
		+1pp	-1pp		+1pp	-1pp
Financial assets						
Cash	197 514	1 975	(1 975)	691 434	6 914	(6 914)
Funds in Mine Decommissioning Fund	128 279	1 283	(1 283)	121 806	1 218	(1 218)
Other short-term investments	67	1	(1)	-	-	-
Financial assets held to maturity	-	-	-	478	5	(5)
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Impact on result before tax		3 259	(3 259)		8 137	(8 137)
19% tax		(619)	619		(1 546)	1 546
Impact on result after tax		**2 640**	**(2 640)**		**6 591**	**(6 591)**
Financial liabilities						
Credit facilities, loans and debt securities	(8 028 402)	(80 284)	80 284	(2 729 238)	(27 292)	27 292
Finance lease liabilities	(1 128)	(11)	11	(2 055)	(21)	21
Derivative instruments	(22 176)	-	-	-	-	-
Impact on result before tax		**(80 295)**	**80 295**		**(27 313)**	**27 313**
19% tax		15 256	(15 256)		5 189	(5 189)
Impact on result after tax		**(65 039)**	**65 039**		**(22 124)**	**22 124**
Total		**(62 400)**	**62 400**		**(15 533)**	**15 533**

29.7. Management of financing sources

The Group'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 Group and its subsidiaries. Activities undertaken in this area intend to ensure the Group'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. The Group monitors the effectiveness and stability of its capital using the debt ratio and return on capital ratios. The Group aims to increase capital effectiveness while retaining it at a safe level. The Group describes the above-mentioned indicators in the Management Board Report on ENEA S.A.'s and ENEA Group's Activities in 2018.

29.8. Fair value

The following table contains a comparison of fair values and book values:

	31.12.2018		**31.12.2017**	
	Book value	**Fair value**	**Book value**	**Fair value**
Available-for-sale non-current financial assets (shares in unrelated entities)	-	-	40 698	40 698
Non-current financial assets at fair value through profit or loss	-	-	33 364	33 364
Derivative instruments	-	-	29 553	29 553
Current financial assets held to maturity	-	-	478	478
Current financial assets at fair value through profit or loss	-	-	49 329	49 329
Non-current financial assets at fair value	49 442	49 442	-	-
Non-current debt financial assets at amortised cost	7 741	(*)	-	-
Current financial assets at fair value	112 536	112 536	-	-
Current debt financial assets at amortised cost	234	(*)	-	-
Other short-term investments	545	(*)	-	-
Trade receivables	1 201 927	(*)	1 533 993	(*)
Assets arising from contracts with customers	327 980	(*)	-	-
Cash and cash equivalents	2 650 838	(*)	2 687 126	(*)
Funds in Mine Decommissioning Fund	128 279	(*)	121 806	(*)
Credit facilities, loans and debt securities	8 329 553	8 400 938	8 259 520	8 338 192
Finance lease liabilities	6 640	(*)	3 593	(*)
Trade and other payables	2 467 124	(*)	1 915 502	(*)
Financial liabilities measured at fair value through profit or loss	-	-	51 060	51 060
Financial liabilities measured at fair value	132 890	132 890	-	-

(*) - 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 Group 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,
- forward contracts for the purchase of electricity and gas and property rights.

Non-current debt financial assets at amortised cost cover loans maturing in over one year. Current debt financial assets at amortised cost cover loans maturing in less than one year. The item ‘other short-term investments’ includes deposits with maturity over 3 months.

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 Group recognises its stake in PGE EJ1 at level 3 (note 51).

No transfers between the levels were made in 2018.

	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
Call options (at fair value through profit or loss)	-	12 116	-	12 116
Other derivative instruments at fair value through profit or loss	-	114 536	-	114 536
Interests at fair value through profit or loss	18 375	-	1 085	19 460
Total	**18 375**	**126 652**	**16 951**	**161 978**
Financial liabilities at fair value				
Derivative instruments at fair value through profit or loss	-	(110 667)	-	(110 667)
Derivative instruments used in hedge accounting (e.g. interest rate swaps)	-	(22 223)	-	(22 223)
Credit facilities, loans and debt securities	-	(8 400 938)	-	(8 400 938)
Total	**-**	**(8 533 828)**	**-**	**(8 533 828)**

	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				
Forward contracts	-	58 857	-	58 857
Call options	-	23 836	-	23 836
Available-for-sale financial assets				
Unquoted equity instruments	-	-	1 391	1 391
Total	**-**	**112 246**	**1 391**	**113 637**
Financial liabilities at fair value through profit or loss				
Forward contracts	-	(51 060)	-	(51 060)
Total	**-**	**(51 060)**	**-**	**(51 060)**

29.9. 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 hedging 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	(41 991)
- related to interest rate hedges	(41 991)
Accumulated other comprehensive income related to the effective part of cash flow hedges as at 31 December 2018, recognised in hedging reserve	**(16 024)**
- related to interest rate hedges	(16 024)

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.

30. Finance lease liabilities

	31.12.2018	31.12.2017
Under one year	2 994	1 942
From one to five years	3 646	1 651
Value of present leasing payments	**6 640**	**3 593**

Passenger vehicles are the main object of leases.

31. Financial liabilities measured at fair value

	31.12.2018	31.12.2017*
Derivative contracts at fair value through profit or loss	110 667	-
Derivative instruments used in hedge accounting	22 223	-
Total	**132 890**	**-**

* as at 31 December 2017, financial assets at fair value did not exist; data restatement as at 1 January 2018 is presented in note 4.

32. Deferred income tax

Changes in deferred income tax assets and provision (after offsetting assets and provision at Group level) are as follows:

	Value as at 31.12.2018	Value as at 31.12.2017
Deferred income tax assets	1 446 030	1 525 469
Offset of deferred income tax assets and provision	(958 758)	(1 023 524)
Deferred income tax assets after offset	**487 272**	**501 945**
Deferred income tax provision	1 326 365	1 268 764
Offset of deferred income tax assets and provision	(958 758)	(1 023 524)
Deferred income tax provision after offset	**367 607**	**245 240**

Deferred income tax assets as at 31 December 2018 to be realised within 12 months amounted to PLN 788 246 thousand, while those over 12 months PLN 657 784 thousand.

Deferred income tax provision as at 31 December 2018 to be realised within 12 months amounted to PLN 414 216 thousand, while those over 12 months PLN 912 149 thousand.

Change in deferred income tax assets and liabilities during the year (before offset):

Deferred income tax assets:

	Employee benefit liabilities	Accounting for revenue from connection fees	Provision for the cost of energy origin certificates	Subsidies	Provision for storage, rehabilitation and CO2 emission allowance purchases	Taxable costs after end of settlement period	Fair-value measurement of tangible and intangible assets	Impairment of non-financial tangible assets*	Other	Total
As at the beginning of year	**210 226**	**82 319**	**50 972**	**14 480**	**60 925**	**109 615**	**130 553**	**313 007**	**218 183**	**1 190 280**
Purchase of subsidiaries	4 341	-	127	-	-	-	192 744	73 999	22 844	294 055
Charge/(addition) to profit or loss	(32 856)	(3 837)	(1 980)	(1 040)	(2 218)	13 014	15 100	-	43 178	29 361
Charge/(addition) to other comprehensive income	9 554	-	-	-	-	(48)	-	-	2 267	11 773
As at 31.12.2017 using the 19% rate	**191 265**	**78 482**	**49 119**	**13 440**	**58 707**	**122 581**	**338 397**	**387 006**	**286 472**	**1 525 469**
As at the beginning of year	**191 265**	**78 482**	**49 119**	**13 440**	**58 707**	**122 581**	**338 397**	**387 006**	**286 472**	**1 525 469**
Adjustment due to implementation of IFRS 9 and 15	-	(78 482)	-	(13 440)	-	-	-	-	56	(91 866)
As at the beginning of year, adjusted	**191 265**	**-**	**49 119**	**-**	**58 707**	**122 581**	**338 397**	**387 006**	**286 528**	**1 433 603**
Charge/(addition) to profit or loss	4 343	-	8 152	-	58 978	(19 035)	(180 676)	(33 607)	158 924	(2 921)
Charge/(addition) to other comprehensive income	6 997	-	-	-	-	(2)	-	-	8 353	15 348
As at 31.12.2018 using the 19% rate	**202 605**	**-**	**57 271**	**-**	**117 685**	**103 544**	**157 721**	**353 399**	**453 805**	**1 446 030**

* including property, plant and equipment, other intangible assets and perpetual usufruct of land.
As at 31 December 2018, tax losses to be settled in future periods amounted to PLN 9 980 thousand.

Deferred income tax provision:

	Taxable income after end of settlement period	Recorded, uninvoiced sales	Differences between balance sheet value and tax value of tangible assets*	Net provision for mine liquidation	Other	Total
As at the beginning of year	**127 274**	**49 319**	**732 059**	**8 878**	**61 291**	**978 821**
Purchase of subsidiaries	-	-	6 411	-	144 708	151 119
Charge/(addition) to profit or loss	12 339	(2 227)	90 714	1 202	37 006	139 034
Charge/(addition) to other comprehensive income	-	-	-	-	(210)	(210)
As at 31.12.2017 using the 19% rate	**139 613**	**47 092**	**829 184**	**10 080**	**242 795**	**1 268 764**
As at the beginning of year	**139 613**	**47 092**	**829 184**	**10 080**	**242 795**	**1 268 764**
Charge/(addition) to profit or loss	(16 923)	384	72 568	317	2 669	59 015
Charge/(addition) to other comprehensive income	-	-	-	-	(1 414)	(1 414)
As at 31.12.2018 using the 19% rate	**122 690**	**47 476**	**901 752**	**10 397**	**244 050**	**1 326 365**

* The differences stem from fair-value measurement of tangible assets and differences in amortisation rates.

The Group does not have unrecognised deferred tax assets and provisions.

33. Employee benefit liabilities

	31.12.2018	31.12.2017
Defined benefit plans		
Retirement and disability severance payments		
long-term part	156 507	149 048
short-term part	29 399	24 936
	185 906	**173 984**
Right to rebates in purchasing energy after retirement		
long-term part	240 746	214 029
short-term part	9 508	9 428
	250 254	**223 457**
Contribution to Company Social Benefits Fund for retired employees		
long-term part	71 993	67 584
short-term part	1 759	1 678
	73 752	**69 262**
Death allowance		
long-term part	19 508	3 910
short-term part	1 940	361
	21 448	**4 271**
Total defined benefit plans		
long-term part	**488 754**	**434 571**
short-term part	**42 606**	**36 403**
	531 360	**470 974**
Total other long-term employee benefits		
Longevity bonus		
long-term part	326 015	304 757
short-term part	38 362	34 595
	364 377	**339 352**
Remuneration and other liabilities		
long-term part	-	618
short-term part	337 385	357 803
	337 385	**358 421**
Provision for Voluntary Leave Programme		
long-term part	-	-
short-term part	1 665	9 142
	1 665	**9 142**
Total employee benefit liabilities		
long-term part	**814 769**	**739 946**
short-term part	**420 018**	**437 943**
	1 234 787	**1 177 889**

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

- longevity bonus payments,
- pension benefit payments,
- right to discounts in purchasing electricity,
- contributions to Company Social Benefit Fund (ZFŚS)

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 above benefits are financed entirely by the Group.

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 Group employee individually, as at 31 December 2018 (taking the employee's gender into account), from the following areas:

- age
- employment at the Group,
- 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 Group'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),
- 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. (as at 31 December 2017: 27.56% in 2019, 6.0% in 2020, 5.2% in 2021, 5.4% in 2022, 5.6% in 2023-2029, 5.2% in the remaining years of the forecast),
- mortality and life expectancy rates were taken from Life Expectancy Tables 2017, published by Statistics Poland; it was assumed that the Group's staff corresponds to the average for Poland in terms of mortality,
- 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 Group meet the conditions for exercising the right to early retirement,

- long-term annual pay growth rate of 2.5% (as at 31 December 2017: 2.0% in 2018, 2.2% in 2019, 2.5% in subsequent years),
- 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),
- growth in the value of electricity subsidy paid out as discount for 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 subsequent years (as at 31 December 2017: 0.2% in 2018, 1.8% in 2019, 0.6% in 2020, 4.7% in 2021-2025, 4.8% in 2026, 2.5% in subsequent 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.

2018

Changes in the 12 months to 31.12.2018	**Retirement and disability severance payments**	**Right to discounted electricity after retirement**	**Contributions to Company Social Benefit Fund for retired employees**	**Death allowance**	**Total**
As at 01.01.2018	**173 984**	**223 457**	**69 262**	**4 271**	**470 974**
Costs recognised in profit or loss, including:	**14 222**	**11 308**	**4 195**	**18 014**	**47 739**
cost of present employment	9 333	4 335	1 998	1 427	17 093
cost of future employment	33	-	-	15 954	15 987
cost of interest	4 856	6 973	2 197	633	14 659
Costs recognised in other comprehensive income, including:	**10 504**	**24 290**	**1 855**	**(264)**	**36 385**
net actuarial gains/losses arising from change in financial assumptions	2 347	23 135	584	79	26 145
net actuarial gains/losses arising from adjustment of demographic assumptions	(253)	(1 270)	(530)	(298)	(2 351)
net actuarial gains/losses arising from ex-post adjustment of assumptions	8 410	2 425	1 801	(45)	12 591
Reduced liabilities concerning payout of benefits (negative value)	**(12 804)**	**(8 801)**	**(1 560)**	**(573)**	**(23 738)**
Total changes	**11 922**	**26 797**	**4 490**	**17 177**	**60 386**
As at 31.12.2018	**185 906**	**250 254**	**73 752**	**21 448**	**531 360**

2017

Changes in the 12 months to 31.12.2017	**Retirement and disability severance payments**	**Right to discounted electricity after retirement**	**Contributions to Company Social Benefit Fund for retired employees**	**Coal subsidies after retirement**	**Death allowance**	**Total**
As at 01.01.2017	**155 005**	**202 740**	**62 256**	**114 876**	**2 727**	**537 604**
Liabilities assumed in mergers of economic units	**11 167**	**-**	**2 423**	**-**	**1 332**	**14 922**
Costs recognised in profit or loss, including:	**18 418**	**10 242**	**3 978**	**(139 662)**	**656**	**(106 368)**
cost of present employment	7 013	4 218	1 991	2 733	394	16 349
cost of future employment	6 917	-	-	(145 564)	127	(138 520)
cost of interest	4 488	6 024	1 987	3 169	135	15 803
Costs recognised in other comprehensive income, including:	**4 087**	**18 911**	**2 058**	**28 632**	**(325)**	**53 363**
net actuarial gains/losses arising from change in financial assumptions	(1 622)	5 646	(3 116)	25 467	(8)	26 367
net actuarial gains/losses arising from adjustment of demographic assumptions	809	3 565	1 499	1 641	(27)	7 487
net actuarial gains/losses arising from ex-post adjustment of assumptions	4 900	9 700	3 675	1 524	(290)	19 509
Reduced liabilities concerning payout of benefits (negative value)	**(14 693)**	**(8 436)**	**(1 453)**	**(3 846)**	**(119)**	**(28 547)**
Total changes	**18 979**	**20 717**	**7 006**	**(114 876)**	**1 544**	**(66 630)**
As at 31.12.2017	**173 984**	**223 457**	**69 262**	**-**	**4 271**	**470 974**

Sensitivity analysis for defined benefit plans

Defined benefit plans:	Impact of changes in actuarial assumptions on level of defined benefit plan liabilities	
	+1pp	-1pp
Discount rate	(61 797)	77 019
Expected remuneration growth rate	30 650	(25 715)
Average growth in the value of cash equivalent for subsidised electricity purchases	40 900	(33 053)

Maturity of defined benefit plan liabilities

Weighted average period of defined benefit programme liabilities (in years)	31.12.2018	31.12.2017
Retirement and disability severance payments	13,5	13,8
Death allowance	11,3	12,1
Right to discounted electricity after retirement	15,5	15,3
Contribution to Company Social Benefits Fund for retired employees	17,7	17,9

Other long-term employee benefits - longevity awards

	31.12.2018	31.12.2017
Value at the beginning of period	**339 352**	**331 559**
Changes in the 12 months to the end of the reporting period		
Costs recognised in current-period profit/loss, including:	**59 688**	**47 426**
- cost of present employment	23 997	24 015
- cost of future employment	171	-
- net actuarial (gains)/losses arising from ex-post adjustment of assumptions	24 081	15 003
- net actuarial (gains)/losses arising from adjustment of demographic assumptions	(528)	2 085
- net actuarial (gains)/losses arising from change in financial assumptions	2 014	(3 170)
- cost of interest	9 953	9 493
Reduction of liabilities concerning benefits paid	**(34 663)**	**(39 633)**
Total changes	**25 025**	**7 793**
Value at the end of period	**364 377**	**339 352**

34. Provisions for liabilities and other charges

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

	31.12.2018	31.12.2017
Long-term	657 112	643 187
Short-term	1 306 597	1 083 929
As at the balance sheet date	**1 963 709**	**1 727 116**

Change in provisions for liabilities and other charges

for the period ended 31 December 2018

	Provision for non-contractual use of land	Provision for other claims	Provision for landfill site reclamation	Provision for energy origin certificates	Provision for CO2 emission allowance purchases	Mine closure	Other	Total
As at the beginning of period	**200 830**	**132 918**	**59 712**	**265 553**	**487 359**	**105 441**	**475 303**	**1 727 116**
Reversal of discount and change of discount rate	(378)	-	2 431	-	-	3 437	-	5 490
Increase in existing provisions	16 417	38 084	16 048	297 064	572 142	3 688	122 323	1 065 766
Use of provisions	(33 120)	(1 887)	-	(255 671)	(487 890)	-	(20 313)	(798 881)
Reversal of unused provision	(1 011)	(2 452)	(12 072)	(28)	(13 898)	-	(6 321)	(35 782)
As at the end of period	**182 738**	**166 663**	**66 119**	**306 918**	**557 713**	**112 566**	**570 992**	**1 963 709**

for the period ended 31 December 2017

	Provision for non-contractual use of land	Provision for other claims	Provision for landfill site reclamation	Provision for energy origin certificates	Provision for CO2 emission allowance purchases	Mine closure	Other	Total
As at the beginning of period	**203 291**	**41 347**	**49 893**	**275 162**	**285 184**	**110 188**	**460 141**	**1 425 206**
Purchase of subsidiaries	-	-	7 397	1 937	120 191	-	4 823	134 348
Reversal of discount and change of discount rate	(477)	-	(668)	-	-	3 526	-	2 381
Increase in existing provisions	6 180	103 509	3 090	231 929	447 843	-	31 642	824 193
Use of provisions	(479)	(642)	-	(243 390)	(362 106)	-	(10 820)	(617 437)
Reversal of unused provision	(7 685)	(11 296)	-	(85)	(3 753)	(8 273)	(10 483)	(41 575)
As at the end of period	**200 830**	**132 918**	**59 712**	**265 553**	**487 359**	**105 441**	**475 303**	**1 727 116**

Provisions for liabilities are measured at justified, reliably estimated values. Specific provisions are established for losses related to court cases against the Group. 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 notes 50.3, 50.5, 50.6, 50.7 and 50.8.

Provisions for liabilities and other charges mainly include:

Provision for non-contractual use of land

Provision for claims from property owners for non-contractual use of land.
The provision for non-contractual use of land is estimated using the stages and weights approach, i.e. the likelihood of losing the dispute and the necessity to satisfy the claim. The size of awarded compensation for non-contractual use of land might be significant for the Group given the number of properties in question however the Group is unable to estimate the maximum compensation amount. ENEA Group, in connection with establishing transmission corridors, has estimated and taken into account in the provision also compensation for non-contractual use of land on which its grid assets (power lines) are situated such as were not subject to any claims as of the reporting date. There is a high uncertainty around when this provision will be used.

Provision for other claims

This item includes provisions for claims that are unrelated to the non-contractual use of land. It is not possible to estimate the deadline for outflow of economic benefits on account of the rest of the provisions.
In 2018, ENEA S.A. 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 (detailed information in note 50.8).

Provision for landfill site reclamation

After filling or closing a slag and ash landfill site, the Group is required to rehabilitate the land. Given the fact that the Group has large unfilled landfill sites, it is expected that the rehabilitation obligation will arise in 2060. Future estimated costs of landfill rehabilitation were discounted to present value using a 3.22% discount rate (3.26% as at 31 December 2017).
The provision as at 31 December 2018 amounted to PLN 66 119 thousand (as at 31 December 2017: PLN 59 712 thousand),

Provision for CO_2 emission allowance purchases

The provision for CO_2 emission allowance purchases as at 31 December 2018 amounted to PLN 557 713 thousand (as at 31 December 2017: PLN 487 359 thousand). This provision will be used in 2019.

Provision for mine closure

The Group creates a provision for the costs of mine closure that it is required to incur by law. The key assumptions

used in determining the mine closure costs include mine life-cycle, expected inflation and long-term discount rates. The amount of mine closure costs as at 31 December 2018 was: PLN 112 566 thousand (as at 31 December 2017: PLN 105 441 thousand).

Other provisions

Other provisions mainly concern:

- wind farm Skoczykłody: PLN 129 000 thousand (as at 31 December 2017: PLN 129 000 thousand) (note 52),
- potential liabilities related to grid assets resulting from differences in the interpretation of regulations PLN 160 171 thousand (as at 31 December 2017: PLN 147 609 thousand),
- costs to use forest land managed by State Forests PLN 115 008 thousand (as at 31 December 2017: PLN 113 547 thousand),
- onerous contracts PLN 78 981 thousand (as at 31 December 2017: PLN 0 thousand),
- property tax at Lubelski Węgiel Bogdanka S.A. PLN 41 431 thousand (as at 31 December 2017: PLN 42 353 thousand),
- ZUS claims concerning accident insurance contributions at Lubelski Węgiel Bogdanka S.A. PLN 22 658 thousand (as at 31 December 2017: PLN 21 340 thousand),
- rectification of mining damages PLN 3 184 thousand (as at 31 December 2017: PLN 4 434 thousand),

35. Net revenue from sales

	31.12.2018	31.12.2017
Revenue from the sale of electricity	9 060 134	6 932 940
Revenue from the sale of distribution services	2 660 785	3 215 618
Revenue from the sale of goods and materials	92 466	87 199
Revenue from the sale of other products and services	167 647	177 139
Revenue from origin certificates	4 432	12 937
Revenue from the sale of CO2 emission allowances	27 584	77 315
Revenue from the sale of industrial heat	359 444	347 871
Revenue from the sale of coal	194 118	409 408
Revenue from the sale of gas	106 160	145 262
Total net revenue from sales	**12 672 770**	**11 405 689**

The Group mainly classifies revenue by type of product/service. The key revenue groups are revenue from the sale of electricity (ENEA S.A., ENEA Wytwarzanie, ENEA Trading and ENEA Elektrownia Połaniec) and revenue from the sale of distribution services (ENEA Operator).

Sale of electricity: The Group recognises revenue when an obligation to provide a consideration by providing 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. Sales to the clearing-house Izba Rozliczeniowa Giełd Towarowych S.A. and the TGE power exchange also take place.

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

Payment deadlines for invoices concerning electricity sales to the clearing-house IRGiT are 1-3 days from delivery and invoice issue. For sales to TGE, payment deadlines are governed by TGE's regulations.

Sale of distribution services: In the case of distribution services sales, ENEA Operator charges a fee that contains separate components: grid fee (variable component), quality fee, grid fee (fixed component), instalment fee, transition fee and renewables fee.

In the case of the quality fee, transition fee and renewables fee, ENEA Operator serves, as a rule, as entity collecting fees and providing this consideration to other market participants, e.g. to Polskie Sieci Elektroenergetyczne S.A. (PSE). These fees (quality fee, transition fee, renewables fee) constitute quasi-taxes collected on behalf of other entities. ENEA Operator acts as agent collecting fees for other energy market participants, including PSE. In consequence, revenue from the sale of distribution services is decreased by the amount of renewables fee, quality fee and transition fee collected. Costs related to the procurement of transmission services and costs related to invoices for renewables support and support for producers are subject to adjustment.

Presented below is revenue from sales, divided into categories that reflect how economic factors influence the amount, payment deadline and uncertainty of revenue and cash flows.

	31.12.2018	**31.12.2017**
Revenue from continuous services	11 827 079	10 293 820
Revenue from services provided at specified time	845 691	1 111 869
Total	**12 672 770**	**11 405 689**

36. Costs by nature

	31.12.2018	**31.12.2017**
Amortisation	**(1 477 667)**	**(1 194 540)**
Employee benefit costs	**(1 711 414)**	**(1 470 644)**
- remuneration	(1 252 640)	(1 022 024)
- social insurance and other benefits	(458 774)	(448 620)
Use of materials and raw materials and value of goods and materials sold	**(2 560 489)**	**(1 728 771)**
- use of materials and energy	(2 429 106)	(1 500 129)
- value of goods and materials sold	(131 383)	(228 642)
Value of purchased electricity and gas for sales purposes	**(4 272 930)**	**(3 169 673)**
Third-party services	**(1 320 661)**	**(1 872 894)**
- transmission services	(411 712)	(1 057 151)
- other third-party services	(908 949)	(815 743)
Taxes and fees	**(411 184)**	**(376 542)**
Total costs by nature	**(11 754 345)**	**(9 813 064)**

37. Employee benefit costs

	31.12.2018	31.12.2017
Wage costs	**(1 252 640)**	**(1 022 024)**
- present wages	(1 189 599)	(936 721)
- longevity bonuses	(40 276)	(29 708)
- retirement and disability severance payments	(959)	(10 383)
- other	(21 806)	(45 212)
Cost of social insurance and other benefits	**(458 774)**	**(448 620)**
- social security contributions (ZUS)	(251 003)	(239 905)
- contributions to Company Social Benefit Fund (ZFŚS)	(47 087)	(45 560)
- other social benefits	(94 115)	(82 260)
- other post-employment benefits	(126)	-
- other	(66 443)	(80 895)
Total	**(1 711 414)**	**(1 470 644)**

The costs of longevity awards and retirement/disability severance payments as presented in the above note are actual costs.

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

Under to a social agreement executed on 10 August 2007 between ENEA Wytwarzanie S.A. (currently |ENEA Wytwarzanie Sp. z o.o.) and the trade unions at ENEA Wytwarzanie S.A. (currently ENEA Wytwarzanie Sp. z o.o.), employment guarantees were extended on the date the agreement went into force by another 11 years, i.e. until 30 January 2019.

38. Other operating revenue and costs

Other operating revenue

	31.12.2018	31.12.2017
Release of provisions for compensation claims	15 591	9 716
Release of other provisions	14 247	15 641
Cost reimbursement by insurance company	28 769	8 765
Settlement of income due to subsidies and connection fees	8 082	13 316
Liquidated damages, fines, penalties	58 782	18 977
Reversal of allowances	6 221	4 566
Tangible assets received free of charge	33 423	17 960
Profit on a bargain purchase	-	11 953
Other operating revenue	80 007	40 896
Total	**245 122**	**141 790**

Other operating costs

	31.12.2018	31.12.2017
Recognition of provision for compensation claims	(654)	(7 956)
Recognition of other provisions	(54 973)	(104 667)
Impairment of receivables	(13 773)	(24 367)
Write-off of impaired receivables	(17 880)	(28 592)
Impairment of inventory	(11 981)	(2 038)
Costs of court proceedings	(15 641)	(11 129)
Trade union costs	(1 775)	(1 603)
Compensation for non-contractual use of land	(1 866)	(1 490)
Other operating costs	(50 147)	(40 029)
Total	**(168 690)**	**(221 871)**

39. Finance income

	31.12.2018	31.12.2017
Interest income	**36 112**	**28 277**
- bank accounts and deposits	35 781	27 815
- other loans and receivables	331	462
Exchange differences	**7 371**	**-**
Changes in fair value of financial instruments	**22 276**	**27 754**
Measurement of contracts to purchase CO2	**-**	**79 267**
Other finance income	**12 984**	**4 420**
Total	**78 743**	**139 718**

40. Finance costs

	31.12.2018	31.12.2017
Interest costs	**(203 254)**	**(96 651)**
- cost of interest on loans and credit	(47 512)	(36 826)
- cost of interest on bonds	(143 789)	(44 980)
- cost of financial leasing	(231)	(160)
- other interest	(11 722)	(14 685)
Exchange differences	**(223)**	**(28 134)**
Cost of discount concerning employee benefits and provisions	**(29 078)**	**(28 282)**
Changes in fair value of financial instruments	**(69 632)**	**(15 892)**
Cost of unused bonds	**-**	**(89)**
Other finance costs	**(793)**	**(1 641)**
Total	**(302 980)**	**(170 689)**

41. Income tax

	31.12.2018	31.12.2017
current tax	(87 515)	(192 003)
deferred tax	(61 936)	(109 673)
Income tax	**(149 451)**	**(301 676)**

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

	31.12.2018	31.12.2017
Profit before tax	868 701	1 466 567
Tax calculated using the 19% rate	(165 053)	(278 648)
Non-deductible costs (permanent differences * 19%)	(18 526)	(45 137)
Non-taxable revenue (permanent differences * 19%)	27 165	3 629
Other * 19%	6 963	18 480
Decrease of financial result due to income tax	**(149 451)**	**(301 676)**

42. 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 consolidated 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.

43. Profit per share

	31.12.2018	31.12.2017
Net profit attributable to shareholders of the Parent	686 739	1 070 168
Weighted average number of ordinary shares	441 442 578	441 442 578
Net profit per share (in PLN per share)	**1.56**	**2.42**
Diluted profit per share (in PLN per share)	**1.56**	**2.42**

44. Explanatory notes for the consolidated statement of cash flows

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

	31.12.2018	31.12.2017
Changes in CO2 emission allowances on balance sheet	**9 297**	**(178 460)**
- Purchase Price Allocation	(2 746)	-
- purchase of subsidiaries	-	105 187
Changes in CO2 emission allowances in cash flow statement	**6 551**	**(73 273)**
Change in inventory on the balance sheet	**(418 683)**	**(397 246)**
- adjustment of depreciation by change in product levels and considerations for own purposes	937	(634)
- material revenue due to liquidation of tangible assets	135	441
- depreciation of re-usable materials	-	(1 023)
- purchase of subsidiaries	-	219 783
Change in inventory in the cash flow statement	**(417 611)**	**(178 679)**
Change in trade and other receivables on balance sheet	**(321 298)**	**(79 119)**
- VAT and income tax offset	(70 118)	9 674
- presentation adjustment of receivables and liabilities	16 532	-
- transaction costs	1 623	-
- loans	(12 978)	8 571
- CIT receivables	4 593	7 599
- bond programmes	210	(36 058)
- IFRS amendment	(6 007)	-
- purchase of subsidiaries	-	50 389
- receivables related to sale of energy produced prior to transfer of investment into assets	-	25 630
- Other	757	395
Change in trade and other receivables in cash flow statement	**(386 686)**	**(12 919)**
Change in trade and other payables on balance sheet	**561 832**	**918 991**
- investment commitments	116 253	(389 125)
- presentation adjustment of receivables and liabilities	(17 447)	-
- interest charged and not paid	(172)	-
- CIT liabilities	(4 959)	(8 073)
- expiry of options	27 101	-
- IFRS amendment	(60 304)	-
- purchase of subsidiaries	-	(46 688)
- adjustment of investment commitments by charged VAT	(1 816)	3 860
- offset of liabilities with excess CIT paid	2 465	10 187
- acquisition income/costs	(2 777)	(11 827)

- estimates concerning equity investments	-	4 622
- bond programmes	1 253	388
- Other	234	843
Change in trade and other payables in cash flow statement	**621 663**	**483 178**
Change in employee benefit liabilities on balance sheet	**56 898**	**(31 204)**
- actuarial gains/losses recognised in other comprehensive income	(36 385)	(55 742)
- purchase of subsidiaries	-	(32 988)
- Other	468	-
Change in employee benefit liabilities in cash flow statement	**20 981**	**(119 934)**
Accounting for income from subsidies, connection fees and other on balance sheet	**(527 799)**	**(6 317)**
- IFRS amendment	548 431	-
- measurement of loan	-	(1 519)
- Other	41	-
Accounting for income from subsidies, connection fees and other on balance sheet	**20 673**	**(7 836)**
Change in available-for-sale non-current assets and related liabilities on balance sheet	**-**	**4 330**
- elimination of non-cash change	-	(4 330)
Change in available-for-sale non-current assets and related liabilities in cash flow statement	**-**	**-**
Change in other provisions for liabilities and other charges on balance sheet	**236 593**	**301 910**
- elimination of change in provision for Mine Closure Fund	(2 414)	9 139
- adjustment of CO2 emission allowances	-	(23 274)
- purchase of subsidiaries	-	(130 186)
- Other	38	-
Change in other provisions for liabilities and other charges in cash flow statement	**234 217**	**157 589**

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

Reconciliation of bank credit and loans

	31.12.2018	31.12.2017
As at the beginning of period	**2 392 406**	**1 693 359**
Credit facilities and loans received	11 229	781 602
Repayment of credit and loans	(111 354)	(80 237)
Measurement and transaction costs	3 995	(2 318)
As at the end of period	**2 296 276**	**2 392 406**

Reconciliation of bonds	**31.12.2018**	**31.12.2017**
As at the beginning of period	**5 867 114**	**5 031 187**
Bond buy-back	(395 000)	(340 000)
Bond issuance	550 000	1 199 000
Measurement and transaction costs	11 163	(23 073)
As at the end of period	**6 033 277**	**5 867 114**

45. Related-party transactions

Group companies execute transactions with the following related parties:

- Group companies - these transactions are eliminated at the consolidation stage;
- Transactions between the Group and members of the Group's corporate authorities, which should be divided into two categories:
  - resulting from being appointed as Supervisory Board members,
  - resulting from other civil-law contracts.
- Transactions with the State Treasury's subsidiaries.

Transactions with members of the Group's corporate authorities:

Item	Company's Management Board		Company's 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

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 amounts of these provisions are 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
Company's Management Board				
Supervisory Board	16	-	(5)	**11**
TOTAL	**16**	**-**	**(5)**	**11**

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

Members of the Group's governing bodies and their close relatives did not execute significant transactions having an impact on the Group's results and financial situation.

The Group also executes commercial transactions with state and local administration units and entities owned by Poland's State Treasury.

The subject of these transactions is mainly as follows:

- purchases of coal, electricity, property rights resulting from energy origin certificates as regards renewable energy and energy produced in cogeneration with heat, transmission and distribution services that the Group provides to the State Treasury's subsidiaries,
- sale of electricity, distribution services, connection to the grid and other associated fees, as well as coal, that the Group provides for both state and local administration authorities (sale to end customers) and to the State Treasury's subsidiaries (wholesale and retail sale - to end customers).

These transactions are executed on market terms, which do not differ from the terms applied in transactions with other entities. The Group does not keep records that would make it possible to aggregate the amounts of all transactions executed with all state institutions and the State Treasury's subsidiaries. Among State Treasury subsidiaries ENEA Group's largest counterparty-customer is KGHM Polska Miedź S.A., with net sales in 2018 reaching PLN 167 262 thousand (2017: Polskie Sieci Elektroenergetyczne with sales of PLN 250 330 thousand), the largest supplier-counterparty is Polskie Sieci Elektroenergetyczne, with net purchases of PLN 1 536 868 thousand (2017: also Polskie Sieci Elektroenergetyczne - purchases of PLN 1 159 053 thousand).

The Group's sales to jointly controlled entities amounted to PLN 109 763 thousand and to associates PLN 2 376 thousand. Purchases from jointly controlled entities amounted to PLN 494 518 thousand, while from associates PLN

10 896 thousand. Receivables from jointly controlled entities as at 31 December 2018 amounted to PLN 44 122 thousand and from associates PLN 12 thousand. Liabilities towards jointly controlled entities as at 31 December 2018 amounted to PLN 54 891 thousand, while to associates PLN 90 404 thousand.

46. Concession agreements for provision of public services

The Group's activities largely focus on electricity generation, distribution and trade as well as the production and sale of coal.

In accordance with the Energy Law, the URE President is responsible for concessions, regulation of energy enterprises and approval of tariffs.

ENEA S.A. holds concessions for:
- trade of electricity, until 31 December 2025,
- trade of gas fuels, until 31 December 2030.

ENEA Operator Sp. z o.o. holds a concession for economic activities in the area of electricity distribution, valid until 1 July 2030.

ENEA Wytwarzanie Sp. z o.o. holds concessions for:
- concession for generation of electricity, until 31 December 2030,
- concession for generation of heat, until 31 December 2025,
- concession for transmission and distribution of heat, until 31 December 2025,
- concession for trade of electricity, until 31 December 2030,

ENEA Trading Sp. z o.o. holds concessions for:
- trade of electricity, until 31 December 2030,
- trade of gas fuels, until 31 December 2030,
- foreign trade of natural gas, until 31 December 2030.

MEC Piła Sp. z o.o. holds concessions for:
- generation of thermal energy, until 31 December 2025,
- transmission and distribution of heat, until 31 December 2025,
- generation of electricity, until 31 December 2030,

PEC Sp. z o.o., based in Oborniki, holds concessions for:
- generation of thermal energy, until 31 December 2025,
- transmission and distribution of heat, until 31 December 2025,

ENEA Ciepło Sp. z o.o. holds concessions for:

- generation of thermal energy, until 30 September 2028,
- trade of heat, until 30 September 2028,
- transmission and distribution of heat, until 30 September 2028,
- generation of electricity, until 30 November 2028,
- trade of electricity, until 1 September 2028,
- trade of gas fuels, until 10 January 2029.

ENEA Elektrownia Połaniec S.A. holds concessions for:

- generation of electricity, until 1 November 2025,
- trade of electricity, until 31 December 2030,
- generation of heat, until 1 November 2025,
- transmission and distribution of heat, until 1 November 2025.

The mining activities of **Lubelski Węgiel Bogdanka S.A.** as regards commercial mining of hard coal must be in compliance with the Geological and Mining Law. The company holds concessions for:

- mining of hard coal from "Bogdanka" deposit within mining area "Puchaczów V" of 6 April 2009 - for the period through to 31 December 2031,
- mining of hard coal from "Lubelskie Zagłębie Węglowe - obszar K-3" deposit within mining area "Stręczyn" of 17 June 2014 - until 17 July 2046,
- mining of hard coal from "Ostrów" deposit located within municipalities: Ludwin, Łęczna, Ostrów Lubelski, Puchaczów, Sosnowica, Uścimów in the Lubelskie Voivodship of 17 November 2017, for the period through to 31 December 2065.

47. Future liabilities concerning right to perpetual usufruct of land, obtained for free or for a fee, 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.

	31.12.2018	**31.12.2017**
Under one year	7 091	10 011
From one to five years	38 570	30 530
Over five years	471 606	452 257
	517 267	**492 798**

Future liabilities concerning tenancy agreements and operating leases

	31.12.2018	31.12.2017
Under one year	23 084	22 165
From one to five years	41 024	45 346
Over five years	26 603	28 690
	90 711	**96 201**

Costs incurred in the period concerning right to perpetual usufruct of land, tenancy agreements and operating leases

	2018	2017
Right to perpetual use	10 011	5 418
Tenancy agreements and operating leases	22 165	20 402

Operating lease payments recognised in costs

	31.12.2018	31.12.2017
Minimum lease payments	(5 254)	(4 798)
	(5 254)	**(4 798)**

48. Future liabilities resulting from executed contracts as at the reporting date

Contract liabilities related to the purchase of tangible and intangible assets incurred as at the reporting date but not yet recognised in the statement of financial position are as follows:

	31.12.2018	31.12.2017
Purchase of property, plant and equipment	1 118 027	1 138 756
Purchase of intangible assets	33 098	34 029
	1 151 125	**1 172 785**

49. Employment

	12 months ended 31.12.2018	12 months ended 31.12.2017
Blue collar jobs	9 448	9 216
White collar jobs	6 737	6 298
TOTAL	**16 185**	**15 514**

The data contained in the table presents employment in full-time jobs. Management positions are classified as white collar jobs.

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

50.1. 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 Group 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 Group 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 Group 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 Group'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 Group 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 Group 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 Group 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 Group in 2019 applies prices resulting from contracts due to a lack of an approved regulation of the Minister of Energy. The Group expects to adapt to the Act and the Updated Act within the deadlines specified in these regulations. The Group 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 Group 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 Group 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 Group is unable to determine the amount of compensation or state to what degree this will offset the potential losses.

The Group 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 Group 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.

50.2. Sureties and guarantees

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

List of guarantees issued as at 31 December 2018

Guarantee issue date	Guarantee validity	Entity for which the guarantee was issued	Bank - issuer	Guarantee amount in PLN 000s
12.08.2018	12.08.2020	Górecka Projekt Sp. z o.o.	PKO BP S.A.	1 944
13.11.2018	30.01.2020	Olsztyn municipality	PKO BP S.A.	4 462
Total bank guarantees				**6 406**

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	Entity for which the guarantee was issued	Bank - issuer	Guarantee amount in PLN 000s
01.01.2016	11.08.2018	Górecka Projekt Sp. z o.o.	BZ WBK S.A.	1 662
21.12.2016	30.01.2018	Marshal's Office for Zachodniopomorskie Voivodship in Szczecin	BZ WBK S.A.	1 325
Total bank guarantees				**2 987**

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

50.3. Proceedings in progress before courts of general competence

Proceedings initiated by the Group

Proceedings in courts of general competence initiated by ENEA S.A. and ENEA Operator Sp. z o.o. concern receivables related to electricity supplies (electricity cases) and receivables related to other matters - illegal uptake of electricity, grid connections and other specialised services (non-electricity cases).
Proceedings in courts of general competences initiated by ENEA Wytwarzanie Sp. z o.o. mainly concern compensation for damages and contractual penalties from the company's counterparties.

At 31 December 2018, a total of 9 735 cases initiated by the Group were in progress before courts of general competence, worth in aggregate PLN 160 617 thousand (31 December 2017: 16 176 cases worth PLN 219 335 thousand).
The outcome of individual cases is not significant from the viewpoint of the Group's financial result.

Proceedings against the Group

Proceedings against the Group are initiated by both natural persons and legal entities. They concern issues such as: compensation for electricity supply disruptions, illegal uptake of electricity and compensation for the Group's use of properties on which power equipment is located. The Group considers cases related to non-contractual use of properties that are not owned by the Group as especially significant (note 50.6).
There are also claims concerning terminated agreements for the purchase of property rights (note 50.8).

Court proceedings against ENEA Wytwarzanie Sp. z o.o. concern compensation for damages and contractual penalties.
At 31 December 2018, a total of 2 249 cases against the Group were in progress before courts of general competence, worth in aggregate PLN 796 154 thousand (31 December 2017: 2 431 cases worth PLN 680 828 thousand). Provisions related to these court cases are presented in note 34.

50.4. Arbitration proceedings

A proceeding initiated by Mostostal Warszawa S.A. and Acciona Infraestructuras S.A. against Lubelski Węgiel Bogdanka S.A. was conducted before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw under file no. SA 64/15.
This arbitration proceeding was initiated on the basis of a demand for arbitration submitted by the Consortium on 7 April 2015. The Consortium's claim is approx. PLN 16.2 million (this claim includes the amount of a bank guarantee that was allegedly unduly exercised by LWB, interest and costs that the Consortium incurred in connection with LWB using the guarantee).
On 29 September 2017, the Court of Arbitration at the Polish Chamber of Commerce in Warsaw ruled to reject the Consortium's claim against LWB in its entirety. This ruling ended proceedings at the Court of Arbitration. In October

2017, LWB filed a motion with the Court of Appeals in Lublin to acknowledge the arbitration ruling. At the same time, at the end of November 2017 the Consortium filed a motion with the Court of Arbitration to rescind its ruling.
On 20 September 2016, LWB initiated a proceeding against the Consortium before the District Court in Lublin to establish (negatively) a lack of requirement for LWB to satisfy the Consortium's claims resulting from a contract to expand its mechanical coal processing facility. At the end of the year, the parties mutually requested that the Court refers them for mediation and agreed on a mediator. After mediation, on 29 March 2018 the parties signed a settlement that conclusively resolved all disputes between LWB and the Consortium. The settlement outcome ultimately proved to be positive for LWB.

50.5. Other court proceedings

A proceeding involving LWB is in progress at the District Court in Lublin with regard to claims by the Polish Social Insurance Institution (ZUS) concerning accident contributions and the appropriateness of re-classifying workplace accidents and rescinding a penalty imposed on the company as a result of an inspection by ZUS's Lublin office. In order to cover potential claims in this regard, LWB has established a provision amounting to PLN 22 658 thousand.
An appeal hearing took place on 21 November 2017, during which the Court of Appeals in Lublin examined ZUS's appeal of a ruling issued on 7 February 2017. The Court of Appeals ruled to reject ZUS's appeal. This ruling is not final as of this moment. On 15 January 2018 the Court of Appeals drafted a justification for its ruling. On 12 March 2018 a cassation appeal from ZUS was received by the Court of Appeals in Lublin. The appropriateness of accepting the appeal for examination by the Supreme Court will be examined at the beginning of 2019 at the earliest. If the Supreme Court rules to accept the cassation appeal, LWB's Management Board believes that this dispute will not be resolved sooner than the end of 2019.
According to LWB's Management Board, given the complex nature of the case, there is a significant risk of an outflow of economic benefits until the final ruling is issued.

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.

On 29 June 2018 the President of the Energy Regulatory Office (URE) initiated an administrative proceeding regarding submission to the URE President of applications for issue of origin certificates for years 2010-2018. No provision was created for this matter in these consolidated financial statements.

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.

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

Risk associated with the legal status of properties used by the Group results from the fact that the Group 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 Group might be obligated to incur the costs of non-contractual use of property.

Rulings in these cases are significant because they have a considerable impact on the Group's approach to people raising pre-trial claims concerning equipment located on their properties in the past as well as the way in which the legal status of such equipment is addressed in the case of new investments.

The loss of assets in this case is highly unlikely. Having an unclear legal status for properties where power equipment is located does not constitute a risk for the Group of losing such assets, rather it gives rise to the threat of additional costs related to demands for compensation for the non-contractual use of land, rent, costs related to transmission easements and, exceptionally, in individual cases, demands related to a change in the object's location (return of land to original condition). The Group recognises adequate provisions.

The provision also applies to compensation for the non-contractual use by the Group of properties on which the Group's grid assets (power lines) are located, in connection with transmission corridors or transmission easements being established for the Group.

As at 31 December 2018 the Group had a provision for claims concerning non-contractual use of land amounting to PLN 182 738 thousand.

50.7. 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.

50.8. 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 voidance 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.

As a rule, the Agreements were 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 34.

51. 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 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 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.

52. Agreement to purchase Eco-Power Sp. z o.o.

Fen Wind Farm B.V., based in Amsterdam, and Wento Holdings S.a.r.l., based in Luxembourg, ("Claimants") initiated a lawsuit against Enea Wytwarzanie Sp. z o.o. concerning the execution of an agreement to sell shares of Eco-Power Sp. z o.o. to Enea Wytwarzanie Sp. z o.o. for a price that includes a base amount, which is PLN 286 500 000.00. ENEA Wytwarzanie Sp. z o.o. sees no grounds for this lawsuit and in its response (and a further preparatory letter of 7 January 2017) motioned to dismiss the lawsuit in its entirety and to recover the costs of the proceeding from the Claimants. Based on an estimate of the value of Eco-Power Sp. z o.o. shares, the Group created a PLN 129 million provision - its value depending on the difference between the price that includes the base amount, which is PLN 286 500 000.00 and the value estimated using ENEA S.A.'s model.

The first hearing took place on 10 April 2017 and subsequent hearings were held on 15 and 29 May, 20, 22 and 24 November 2017 and 5 January, 18 May and 7 September 2018. In the hearings, the Court questioned most of the witnesses called up.

53. Reorganisation of companies in district heating area

As part of this project, ENEA Wytwarzanie Sp. z o.o. was divided by transferring the CHP plant Białystok to Enea Ciepło Sp. z o.o., while ENEA S.A. purchased shares of Enea Ciepło Sp. z o.o. and Enea Ciepło Serwis Sp. z o.o. from ENEA Wytwarzanie Sp. z o.o.

Given the above, 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.

On 26 October 2018, agreements to sell shares of Enea Ciepło Sp. z o.o. and Enea Ciepło Serwis Sp. z o.o. were executed between ENEA S.A. and ENEA Wytwarzanie Sp. z o.o., with conditions precedent. The aforementioned conditions precedent were met on 5 November 2018.

On 30 November 2018, the division of ENEA Wytwarzanie Sp. z o.o. was registered in Enea Ciepło Sp. z o.o.'s entry at the National Court Register (transfer of CHP plant Białystok to ENEA Wytwarzanie Sp. z o.o.) as was the acquisition of the divided assets by Enea Ciepło Sp. z o.o., along with an associated capital increase at ENEA Ciepło Sp. z o.o. and entry of ENEA S.A. as the owner of newly-created shares of Enea Ciepło Sp. z o.o., created as a result of the share capital increase.

Taking into account the shares of Enea Ciepło Sp. z o.o. acquired from Enea Wytwarzanie Sp. z o.o. on 5 November 2018 pursuant to a sale agreement of 26 October 2018 and the newly-created shares issued to ENEA S.A. in connection with the share capital increase at Enea Ciepło Sp. z o.o., ENEA S.A. currently holds a 95.77% stake in Enea Ciepło Sp. z o.o.'s share capital.

At the same time, from 5 November 2018 ENEA S.A. is a 100% owner of ENEA Ciepło Serwis Sp. z o.o.

54. 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 Group is currently analysis this document.

55. Description of significant accounting rules

Described below are the key accounting rules used in preparing these consolidated 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.

55.1. Basis for preparation

The consolidated 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").

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

55.2. Consolidation rules

(a) Subsidiaries

A subsidiary is a company under the control of another company. The definition of control results directly from IFRS 10. An investor controls a company in which it has invested if and only if the investor has all of the following elements:

a) power over the investee,

b) exposure, or rights, to variable returns from its involvement with the investee,

c) the ability to use its power over the investee to affect the amount of the investor's returns.

Subsidiaries are fully consolidated from the date on which control over them is obtained by the Group. They are deconsolidated on the date control ceases.

As regards acquisitions of companies that are not under joint control, the cost of the acquisition is determined as the fair value of acquired assets, issued equity instruments and liabilities incurred or assumed as at the exchange date. Identifiable acquired assets and liabilities and conditional liabilities from a merger are initially measured at fair value as of the acquisition date, regardless of the size of non-controlling interests.

The Group measures non-controlling interests proportionately to its share of the fair value of acquired net assets. In subsequent periods, the value of non-controlling interests covers the initially recognised value adjusted by changes in the subsidiary's equity in proportion to the stake held. Comprehensive income is allocated to non-controlling interests even if this creates a negative value for these interests. Goodwill is determined in accordance with the accounting policy (note 55.7(a)).

In the case of a negative value, the Group reviews the fair values of each component of acquired net assets. If as

a result of such a review the value continues to be negative, it is immediately recognised in the present period profit or loss.

Transactions, settlements and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also subject to elimination unless the transaction provides evidence for impairment of the given asset. The accounting rules applied by subsidiaries were adjusted wherever necessary to ensure compliance with the Group's accounting rules.

(b) Associates and jointly controlled entities

Associates are all entities in respect of which the Group exerts significant influence but does not have control, which typically means holding 20-50% of voting rights. Investments in associates are accounted for using the equity method and initially recognised at cost. The excess of purchase price over fair value of an associate's identifiable net assets as at the acquisition date is recognised as goodwill. Goodwill is included in the investment's balance sheet value, while goodwill impairment is measured for the entire value of the investment. Any excess of the Group's stake in the fair value of identifiable net assets, liabilities and conditional liabilities over the acquisition cost after revaluation is immediately recognised in current-period profit or loss.

Jointly controlled entities are all entities in respect of which the Group exercises, through contractual arrangements, control jointly with other entities. Investments in jointly controlled entities are accounted for using the equity method identically as investments in associates.

The Group's share of the financial results of associates and/or jointly controlled entities from the acquisition date is recognised in current-period profit or loss, while its share in changes in other comprehensive income generated from the acquisition date - in other comprehensive income. The balance sheet value of an investment is adjusted by total changes in equity from the acquisition date. If the Group's share of the losses of an associate or a jointly controlled entity is equal to or greater than the Group's stake in this associate or jointly controlled entity, including any potential unsecured receivables, the Group ceases to recognise further losses, unless it assumed the given associate's or jointly controlled entity's obligations or made a payment on its behalf.

Unrealised gains on transactions between the Group and its associates or jointly controlled entities are eliminated proportionately to the Group's stake in associates or jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides provides evidence of impairment for the given asset. The accounting rules applied by associates or jointly controlled entities are adjusted as necessary to ensure consistency with the Group's accounting rules.

55.3. Mergers and acquisitions

Mergers and acquisitions of entities that are not under joint control are accounted for using the equity method, as described in point 55.2(a).

55.4. Transactions in foreign currencies and measurement of foreign-currency positions

(a) Functional currency and presentation currency

Items in the financial statements of individual Group entities are measured in the main currency of the economic setting in which the entity operates (in the functional currency). Consolidated financial statements are presented in PLN, which is the functional and presentation currency for all of the Group's entities. 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 as regards interest concerning tangible assets under construction are recognised as expenditures on tangible assets under construction.

55.5. Property, plant and equipment

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

Subsequent expenditures are included in the book value of a given tangible asset or are recognised as a separate asset (wherever appropriate) only if it is likely that this item will bring economic benefits to the Group and the item's cost can be reliably measured. 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, 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.

Mine closure costs initially recognised in the value of tangible assets are subject to depreciation using the same method as the tangible assets they concern, starting from the moment a given tangible asset is put into service, over a period specified in the closure plan for a group of facilities within the expected mine closure schedule.

Land is not subject to depreciation. Other tangible assets are depreciated on a straight-line basis throughout the period of use or using the natural method based on the longwall length (in the case of operational excavations). The base for calculating depreciation constitutes the initial value less final value, if significant. Each significant part of a property, plant and equipment item with a different period of use is depreciated separately.

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

• buildings and structures	10 – 80 years
including power grids	33 years
• structures (operational excavations)	natural method depreciation using longwall length
• technical equipment and machinery	2 – 50 years
• means of transport	3 – 30 years
• other property, plant and equipment	3 – 25 years

The end values and periods of use of property, plant and equipment are verified 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 a component of assets is made available for sale or derecognised from the statement of financial position.

Within its activities, the Group receives tangible assets for free, which are initially measured at fair value. The Group recognises these as property, plant and equipment and their value (connections, removal of obstacles) is recognised by the Group on a one-off basis in other operating revenue when it is received (except for the receipt of lighting infrastructure in exchange for services - in which case they are accounted for over time).

Gains and losses on disposing property, plant and equipment, which constitute a difference between the proceeds from sale and the balance sheet value of the item being sold, are recognised in current-period profit or loss.

55.6. Right to perpetual usufruct of land

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 Group 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).

55.7 Intangible assets

(a) Goodwill

Goodwill arising on acquisition results from an excess, on the acquisition date, of the sum of payments, non-controlling interests and the fair value of previously held interests in the acquired entities over the net fair value of identifiable assets, liabilities and conditional liabilities of the acquired entity as at the acquisition date.

In the case of a negative value, the Group reviews the fair values of each component of acquired net assets. If as a result of such a review the value continues to be negative, it is immediately recognised in the present period profit or loss.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less impairment.

For impairment testing purposes, goodwill is allocated to the Group's specific cash generating units that should receive the synergy benefits from the merger. The cash generating units to which goodwill is allocated are tested for impairment once a year or more frequently, if it can be reliably expected that impairment has occurred. If the recoverable value of a cash generating unit is smaller than its balance sheet value, an impairment loss is allocated first to reduce the balance sheet value of the goodwill allocated to this cash generating unit and subsequently to this unit's other assets proportionately to the balance sheet value of specific assets in this unit. An impairment loss on goodwill is irreversible.

(b) Geological information

Purchased geological information is recognised in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources, in an amount resulting from the agreement executed with the Ministry of the Environment. This is not subject to amortisation until a mining concession is received. Subsequently, capitalised costs are amortised throughout the term of the mining concession.

(c) Fees

Fees for mining usufruct for hard coal mining areas within the "Bogdanka" deposit are capitalised in the amount of such fees. Capitalised costs are amortised throughout the expected period of mining usufruct (note 46).

(d) Other intangible assets

Other 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 accumulated impairment.

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

- for licences and computer software 2 – 10 years,
- for working station licences and software and anti-virus software 2 – 10 years,
- for geological information over the mining concession period (note 46),
- for other intangible assets 2 – 40 years.

Each year, the Group 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.

55.8. 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 accumulated 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.

55.9. External financing costs

The costs of external financing that can be directly attributed, i.e. costs that could be avoided if an expenditure to purchase, build or manufacture an asset was not incurred, are capitalised as part of the purchase price or cost to manufacture such an asset. Other external financing costs are recognised as a cost in the period in which they are incurred.
The capitalisation of external financing costs begins at the later of the two dates: commencement of investment or commencement of financing. Capitalisation ends when all substantial works are completed.

55.10. Leases

A lease contract in which generally all of the risk and benefits are for the Group 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 current-period profit or loss throughout the lease term so that a fixed interest rate is maintained for each period for the outstanding portion of the liability. 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.

55.11. 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). Cash generating units are never larger than operating segments.
All impairment losses are recognised in profit or loss. Impairment losses may be reversed in subsequent periods (except for goodwill) 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 55.13.

55.12. Investment properties

Investment properties are maintained in order to generate income from rent, growth in value or both. The Group 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.

55.13. Financial assets

Rules in effect from 1 January 2018:

The Group 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 Group 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 Group classified financial instruments into the following categories: financial assets at fair value through profit or loss, loans and receivables, financial assets held to maturity and 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 expected 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 Group 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) Financial assets held to maturity

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

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

Financial assets held to maturity are measured at amortised cost using the effective interest rate approach.
If there is evidence 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 Group 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 Group 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 Group 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 Group determines 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 Group 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.

55.14. Hedge accounting and derivative instruments

Rules in effect from 1 January 2018:

Derivative instruments that are used by the Group 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 Group 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 Group 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 Group 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 Group 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 Group'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 Group 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 Group re-balances the hedging relationship.

The Group 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 Group 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 Group:

- 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 Group:

- 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 Group:

- 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 Group 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 Group 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 Group 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.

Rules in effect until 31 December 2017:

Derivative instruments that are used by the Group 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 Group applies hedge accounting.
The Group 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 Group 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 Group'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 Group:

- 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 Group 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 Group 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 Group:

- 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 Group 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 Group 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 Group 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 Group 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.

55.15. CO_2 emission allowances

CO_2 emission allowances purchase for trading purposes are recognised as assets in a separate item and initially

measured at purchase price and subsequently at each balance sheet date at purchase price or realisable net sales price, depending on which of these two amounts is lower.

CO_2 emission allowances classified as commodities are inventoried using the FIFO method or the weighted average purchase price method.

CO_2 emission allowances received for free under the National Allowance Allocation Plan and additional CO_2 emission allowances purchased for redemption, i.e. to comply with the obligation to settle CO2 emissions, are recognised in a separate item of assets. Emission allowances received for free under the National Allowance Allocation Plan are recognised at zero value.

CO_2 emission allowances received for free for a given financial year that are not allocated to the Group's allowance registry and the precise quantity of which is unknown are recognised if they meet the definition of assets. In this case, the Company's Management Board specifies the most reliable quantity of CO_2 emissions that the Group would receive, which is then recognised in the statement of financial position at nominal value, i.e. zero. Recognition takes place at the date on which the planned quantity of CO_2 emission allowances is approved. It is permissible to adjust the estimated quantity of CO_2 emission allowances recognised in the registry as at the reporting date using more recent information received by the Group from personnel responsible for implementing investments notified to the National Investment Plan. Additional CO_2 emission allowances purchased for redemption are recognised at purchase price less impairment.

A registry for CO_2 emission allowances is maintained separately for each installation in the following groups of rights:

a. CER green

b. EUA free and purchased

The FIFO approach or the weighted average purchase price approach is applied to the above groups.
When CO2 emission allowances are actually granted, which were initially recognised based on an estimate, their number is prospectively adjusted in compliance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

If the actual number of CO2 emission allowances granted for a given reporting period is specified in the next reporting period, the difference (excess/shortage) between the estimate and the actual number of allowances for the given reporting period should be recognised as an adjustment of allowances granted for the next reporting period.
Due to CO_2 emissions, which accompany the electricity generation process, the Group is required to settle such emissions by presenting a specific quantity of CO_2 emission allowances for redemption. The costs associates with meeting the aforementioned requirement are recognised in the accounts systematically throughout the annual reporting period, proportionately to the level of actual and planned electricity output.

The costs associated with compliance with the aforementioned obligation are recognised in the accounts systematically throughout the annual reporting period in the form of a provision. A provision under the cost

of primary activity is recognised for estimated CO_2 emissions for each installation.

Redemption of allowances is recognised in allowance groups:

a. CER green

b. EUA free and purchased,

using the FIFO approach, i.e. 'first in, first out,' for each of the installations, or using the weighted average purchase price approach.

Revenue from sales and the value of sold CO_2 emission allowances sold are recognised in operating revenue or costs, respectively.

The value of sold allowances is determined using the FIFO approach or the weighted average purchase price approach in each allowance group:

a. CER green

b. EUA free and purchased.

The exchange of allowances with different economic parameters (e.g. EUA/CER) is reflected as two transactions:

a. disposal (sale),

b. purchase.

Gains/(losses) on disposal (sale) are recognised as income or cost in profit or loss or in operating activities under the item 'Gain/(loss) on measurement of derivatives' in the case of companies for which trade of financial instruments constitutes the core activity.

If an exchange of allowances takes place without a cash settlement, the Group determines the gain or loss on the disposal of allowances as the difference between the initial value of newly acquired allowances (rights) and the book (accounting) value of the sold (transferred) allowances.

For every exchange contract, the Group assesses whether the acquired right is subject to IFRS requirements for financial instruments. If an acquired right is subject to financial instrument regulations (IFRS 9), then the initial value is determined on the basis of its fair (market) value at the contract date. If a right acquired by way of exchange is not subject to IFRS 9, then the initial value is determined on the basis of the fair (market) value of the transferred allowances.

55.16. Inventories

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.

Distribution of inventory is established as follows:

- using the weighted average purchase price approach, or

- using the detailed identification approach for actual prices (costs) of such assets that concern strictly defined undertakings, regardless of the date or purchase or manufacture, or
- using the FIFO approach.

The Group'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.

Origin certificates for energy produced internally are recognised when such energy is produced (or as of the date on which award of such certificates became likely), unless there is justified uncertainty as to their award by the URE President. Origin certificates for energy produced internally are measured as follows:

- in accordance with the rules for determining certificate sales prices resulting from contracts executed by the Company - this applies to certificates that are covered by contracts,
- based on market quotes for certificates from the last day of the month in which the relevant energy volumes were generated - this applies to other certificates that are not covered by sales contracts executed by the Company,
- in an amount resulting from the substitute fees for certificates that are not quoted on the market.

In a situation where the value of origin certificates recognised in records that are not covered by contracts is higher than the value determined using market prices as of the balance sheet date, the Group recognised an impairment loss on these certificates to their market value.

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

55.17. 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.

55.18. 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.

55.19. Costs related to the conclusion of agreements

Costs related to the conclusion of agreements are costs incurred by the Group in order to conclude an agreement with a customer that would not have been incurred by the Group 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.

55.20. Assets and liabilities arising from contracts with customers

In its statement of financial position, the Group recognises a contract asset that is the Group's right to remuneration in exchange for goods or services that the Group transfers to the customer.

An asset is recognised if the Group satisfies its obligation by transferring goods or services to the customer before the customer pays or before the payment deadline.

In its statement of financial position, the Group recognises contract liabilities that are an obligation for the Group to provide goods or services to customers in exchange for which the Group has received remuneration (or upon which the amount of remuneration depends) from customers.

If the customer paid the remuneration or the Group 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 Group treats the contract as a contract liability when payment is made or becomes due (depending on which is sooner).

55.21. Share capital

The Group's share capital is the share capital of the parent entity, recognised in the amount specified and entered in the court register, adjusted appropriately by the effects of hyperinflation and accounting for the effects of divisions, mergers and acquisitions. A share capital increase that is paid up as of the end of the reporting period but is awaiting registration at the National Court Register is also presented as share capital.

55.22. Financial liabilities, including credit facilities, loans and debt securities

Rules in effect from 1 January 2018:

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 Group 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 concerning credit, loans and debt securities 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.

55.23. 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 determined using income tax rates in effect for the year in which the tax obligation arises.

55.24. Employee benefits

The Group offers the following types of employee benefits:

A. Short-term employee benefits

The Group 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 Group 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 Group 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 a disability pension after employment, 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 Group 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 Group to the Company Social Benefit Fund for retirees covered by social services

A contribution by the Group 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 1-4 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 the Group include longevity bonuses. The amount of these bonuses depends on seniority and the employee's remuneration. Actuarial methods are used to estimate this liability. 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 Group is obligated to pay contributions for employees' social insurance when they are due. The Group is not required, either legally or customarily, to make future social insurance contributions. The Group recognises the cost of present-period contributions 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 Group 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 Group'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 Group covers the cost of contributions to the Employee Pension Programme from present-period profit or loss as employee benefit cost.

E. Share-based payments

The fair value of awarded options to purchase shares accounted for as equity instruments is recognised as costs of remuneration in correspondence with an increase in equity. Fair value is determined as of the options award date and is recognised over the period until employees unconditionally obtain the right to exercise such options (given the fact that it is impossible to directly determine the fair value of employee benefits, their value is determined using the fair value of awarded equity instruments). The amount recognised in costs is adjusted in order to reflect the actual number of awarded options for which employment conditions and non-market conditions for acquiring such entitlements are met.

55.25. Provisions

Provisions are created when the Group 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 Group 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 Group's grid assets on properties for which the Group 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 Group 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 the energy efficiency certificates held but not redeemed at the balance sheet date,
2. second, based on the purchase price resulting from the Group's sale agreements as regards the part of the certificates that the Group 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 Group 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.

Provision for mine closure

A provision for future costs associated with mine closure is recognised in compliance with the requirements stemming from the Geological and Mining Law, pursuant to which a mining enterprise is required to close mines after production ends, in an amount of the expected costs associated with:

- securing or liquidating mining excavations and mine facilities and equipment;
- securing any unused parts of the deposit;
- securing any neighbouring deposits;
- securing excavations adjacent to the mining facility;
- providing the necessary means to protect the environment and rehabilitate land and manage post-mining areas.

The amount of provision is recognised in the present value of expenditures that - it is expected - will be necessary to comply with the obligation. An interest rate before tax is then used, which reflects the present market assessment of the value of money in time and risk associated specifically with the liability. Increase in the provision associated with the passage of time is recognised as interest costs. Changes in the amount of this provision related to updated estimates (inflation rate, expected nominal value of expenditures on liquidation) in reference to the provision for mine closure are recognised as adjustment of the value of non-current assets subject to the closure obligation.

The amount of mine closure costs is calculated by an independent advisory firm using historic data concerning mine closure costs in the hard coal sector in Poland.

55.26. Revenue recognition

Rules in effect from 1 January 2018:

The Group 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 Group as the Group performs,
- the Group'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 Group's performance does not create an asset with an alternative use to the Group and the Group 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 Group 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, industrial heat, natural gas, provision of distribution services). Revenue is recognised when the Group transfers control over a part of the service being provided. The Group 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 Group 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 the provision of service is completed,
- services provided in a continuous manner - the level of revenue depends on time passage (including the sale of lighting services, process support services). Revenue from the sale of services is recognised over time because such services are provided in a continuous manner therefore a certain portion of the consideration is due to be transferred in each moment that the service is being provided. Given the fact that the value of services provided to the customer does not differ in particular settlement periods, the Group recognises revenue from the provision of services based on fixed monthly payments (regardless of usage),
- services provided in a continuous manner - based on the level of work progress (including construction work). A performance obligation is completed over time because as a result of the service an asset is created or enhanced, and the customer exercises control over this asset. Revenue from the provision of service is recognised over time - using the overlay approach - cost approach, based on which the level of contract progress is determined by comparing the amount of costs incurred to perform the contract to the overall costs budgeted in the contract.

Revenue from sales is recognised in the net amount of remuneration when the Group acts as agent, i.e. its performance perform 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 Group's expectations - the Group will be entitled in exchange for the provision of goods or services by another entity. The fee or commission due for the Group may be a net amount that the Group 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.

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

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 55.16.

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.

Revenue from connection fees for tasks completed prior to 31 December 2009 is recognised in deferred revenue and accounted for over time appropriately to the connection depreciation period, which according to present estimates is 35 years. In EU IFRS-compliant financial statements, these fees are recognised as non-current accounting for subsidies and connection fees. At the end of each reporting period, fees up to 1 year are reclassified into current accounting for subsidies and connection fees. Advances for connection fees received by the Group prior to 31 December 2009 and for which the connection was handed over after 1 January 2010 are recognised fully and directly in revenue in compliance with IFRIC 18, introduced as of 1 January 2010 by the International Financial Reporting Interpretations Committee.

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.

55.27. Subsidies

The Group receives subsidies in the form of tangible assets and reimbursement of costs spent on tangible assets. Subsidies are recognised in the statement of financial position as deferred revenue if there is sufficient certainty that they will be received and that the Group will meet the associated conditions. Subsidies received as reimbursement of costs incurred by the Group are systematically recognised as revenue in the statement of profit and loss in the period in which the associated costs are incurred. Subsidies received as reimbursement of investment expenditures incurred by the Group are systematically recognised, proportionately to depreciation charges, as other operating revenue in the statement of profit and loss and other comprehensive income throughout the asset's period of use.

55.28. Connection fees

Rules in effect from 1 January 2018:

Revenue from connection fees is recognised on a one-off basis as revenue when connection works are completed. Connection fees so far settled over time adjusted the beginning balance of retained earnings as of 1 January 2018 and are not subject to further settlement.

Rules in effect until 31 December 2017:

Revenue from connection fees for tasks completed prior to 31 December 2009 is recognised in deferred revenue and accounted for over time appropriately to the connection depreciation period, which according to present estimates is 35 years. These fees are presented as non-current liabilities in financial statements. At the end of each reporting period, fees up to 1 year are reclassified into current liabilities.
Advances for connection fees received by the Group prior to 31 December 2009 and for which the connection was handed over after 1 January 2010 are recognised fully and directly in revenue on a one-off basis.

55.29. Dividend payment

The payment of dividends for shareholders (including minority shareholders in the case of dividends at subsidiaries) is recognised as a liability in the Group's financial statements in the period in which it was approved by the Parent's shareholders.

55.30. 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.

55.31. 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 consolidated 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,
- 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,
- Amendments to IFRS 10 and IAS 28 concerning the sale or contribution of assets between an investor and its associates or joint ventures - the effective date for these regulations has not been set by the International Accounting Standards Board. As at the date on which these consolidated financial statements were prepared, approval of this amendment was deferred by the European Union.

The Group 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. The Group 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 Group 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 Group's assets will increase by approx. PLN 268 227 thousand, and this concerns the right to use assets, while equity and liabilities will increase by approx. PLN 268 227 thousand, and this concerns lease liabilities. The Group 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 (note 47)	607 978
Effect of discount	(259 107)
Other	(80 644)
Total lease liability	**268 227**

Other contracts recognised in the item 'Other' as at 31 December 2018 are low-value or negligible therefore the Group decided not to convert them into finance leases as of 1 January 2019.