Energa Finance AB (publ)

Annual report 2016-01-01--2016-12-31

(CID. 556898-6862)

Address: c/o AB 1909 Corporate Services
Norrlandsgatan 18
111 43 Stockholm (Domicile and head office)
Sweden (country of registration)

Management report

Business

The business of the company is financial activities, mainly by issuing bonds or other financial instruments to institutional and private investors, onlending the borrowed funds to companies within the Energa group.
The business activities will however be limited to such business activities that do not require authorisation from the Finance Supervisory Authority or any other authority. The reporting currency is EUR.

In November 2012 a program for issuance of medium term bonds up to a value of EUR 1 000 000 000 was established. In March 2013 the first tranche of EUR 500 000 000 of this programme was issued. The bonds are guaranteed by the parent company and the funds were on-lent to the parent company (EUR 499 000 000).

The financial year

The company has not issued any new loans during the year of reporting.

Expected future development

It is assumed that the future activities of the company will be unchanged, however additional bond issue can take place in 2017.

Risks and uncertainties

Market risk
The loans granted to the parent company that consitute the main assets of the company are financed by bond loans in the same currencies and with the same interest and repayment terms. Bearing this in mind the company is not exposed to any material market risk. The interest on the loan to the parent company is fixed (3,45%) as is the interest on the bond loan (3,25%). Both loans are denominated in EUR and are due for repayment in March 2020 (the loan to the parent company is due for repayment somewhat before the bond loan).

Liquidity risks
The interest payments on the bond loan are made in March each year. The interest payments from the parent company occurs semi-annually in September and March (before the interest on the bond loan is payable). Bearing in mind the size of the equity and available cash balances the company will, with considerable margin, be able to finance the above-mentioned interest payments. Other obligations are not material.

Credit risk
Energa SA is the company's only borrower and also guarantor of all the Company's obligations that follow from the bond issues. The financial situation of Energa SA is good for which reason the credit risk of the company is deemed to be low. The liquid funds of the company are held by Nordea, Sweden.

Currency risk
The functional currency of the company is EUR. Since all material assets and liabilites are denominated in this currency the currency exposure is insignificant.

Corporate governance report

All financial reports that are prepared by the Company are checked for accuracy by the parent company and the Board of Directors.

Public reports are in addition audited by the elected auditors. In view of the limited activities and low number of transactions the Board of Directors considers the control system described above to be appropriate.

Proposal for appropriation of retained earnings

The following amounts in euro are to the disposal of the General Meeting of Shareholders :

Retained earnings	437 816
Net income	192 004
	629 819

The Board of Directors proposes that the earnings are appropriated as follows

Carried forward	629 819
	629 819

For further information please refer to the accompanying profit and loss statement, balance sheet and notes.

Profit and loss statement

Amounts in EUR	Note	2016	2015
Other external expenses	6	-165 739	-236 640
Income before financial items		**-165 739**	**-236 640**
Interest income from parent company		17 195 236	17 197 134
Other interest income and similar income		20 267	24 061
Interest expense and similar expenses		-16 722 907	-16 724 233
Income before appropriations		**326 856**	**260 322**
Appr. to profit equalization reserve		-81 237	-66 494
Income before taxes		**245 620**	**193 829**
Taxes on current income	7	-53 616	-43 886
Net income		**192 004**	**149 943**

Net income is the same as comprehensive income

Balance sheet

Amounts in EUR	Note	2016-12-31	2015-12-31
Assets			
Long term assets			
Loan to the parent company	4	499 000 000	499 000 000
Current assets			
Current tax receivable		3 010	10 146
Accrued interest income, parent company	4	4 469 188	4 536 617
Prepaid expenses		6 911	7 061
Total current assets		4 479 108	4 553 825
Cash and banks		*28 583 238*	*27 760 406*
Total assets		**532 062 347**	**535 868 056**
Equity and liabilities			
Equity			
Restricted equity			
Share capital (20 000 000 shares)		20 000 000	20 000 000
Retained earnings			
Earnings carried forward		437 816	287 873
Current profit		192 004	149 943
		629 820	437 817
Total equity		20 629 820	20 437 817
Untaxed reserves			
Profit equalization reserve		264 723	183 486
Liabilities			
Long term borrowings			
Bonds	4,5	496 641 558	496 641 558
Short term liabilities			
Value added tax		18 698	18 947
Accrued interest expenses	4,5	14 417 420	13 946 808
Accrued expenses		90 128	85 616
Total short-term liabilities		14 526 246	14 051 371
Total liabilities		511 167 804	510 692 929
Total equity and liabilities		**532 062 347**	**531 314 231**

REPORT OF CHANGES IN EQUITY

Amounts in EUR	*Share capital (note 7)*	*Retained earnings and comp. Income*	*Total equity*
Opening balance 2015-01-01	20 000 000	287 873	20 287 873
Comprehenseive income		149 943	149 943
Closing balance 2015-12-31	20 000 000	437 816	20 437 816
Opening balance 2016-01-01	20 000 000	437 816	20 437 816
Comprehenseive income		192 004	192 004
Clsoing balance 2016-12-31	20 000 000	629 820	20 629 820

CASH FLOW STATEMENT

Amounts in EUR	2016	2015
Operating activities		
Interest and other payments from the parent company	17 262 666	17 215 500
Interest on bank deposits	7 056	23 704
Interest payments re. bond loans	-16 250 000	-16 250 000
Tax payments	-64 313	-124 639
Payments to suppliers	-132 809	-138 867
Cash flow from operating activities	**822 599**	**725 698**
Net increase of cash	**822 599**	**725 698**
Cash at the beginning of the period	27 760 406	27 035 127
Effect on foreign exchange in cash	232	-419
Cash at the end of the period	**28 583 238**	**27 760 406**

NOTES

Note 1 General information

Additoinal information is available in the Management Report which is part of the annual report and on the the cover page.

Note 2 Basis for preparation of the report

The annual report is prepared in accordance with the Annual Accounts Act (1995:1554) and recommendation number 2 from the Financial Reporting Council (RFR 2) ; Reporting for legal entities. RFR 2 obligates the company to apply International Financial Reporting Standards (IFRS) as adopted by the European Union, to the extent this is possible within the framework of the Annual Accounts Act. (1995:1554) and the Security Act (1967:531) and taking into account the the bearing of accounting and taxation. The recommendation indicates which exceptions and additions that are needed in relation to IFRS.

The Annual report is based on the assumption of going concern during a forseeable future.

The functional currency is EUR which also is the reporting currency.

Note 3 Important accounting principles.

New and revised standards – applicable 1 january 2016:

None of the new applicable IFRSs or IFRIC interpretations effective for the financial year starting 1 January 2016 have any material impact on the annual report of Energa Finance AB.

Standards, amendments and interpretations to existing standards taking effect in 2016, or later, and which are deemed to have an impact on the financial statements

At the time of preparing the consolidated financial statements as at 31 December 2015, a number of standards and interpretations which are to take effect in 2017. None of these is expected to have a significant effect on the annual financial statements of the Energa Finance AB, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. Energa Finance AB together with the Energa Group is currently assessing IFRS 9's full impact.

IFRS 16 "Leases"

IFRS 16 Leases requires the lessee to recognise assets and liabilities related to all lease agreements, with the exception of agreements with a term of 12 months or shorter and/or lease agreements of non-material amounts. IFRS 16 replaces IAS 17 and related interpretations. The Standard is applicable from 2019.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the annual report of Energa Finance AB.

Segment reporting

Energa Finance AB has defined only one reporting segment which relates to the Bond issued and the loan to the parent company. The company does not have any other business or reporting segments.

The segment is reported accoridng to the same accounting principles as for the Company.

Foreign currency

Transactions in other currencies than EUR have been valued at the exchange rate which prevailed on the day of transaction. All assets and liabilities denominated in other currencies than EUR have, as at the reporting date, been valued using the exchange rate prevailing on the reporting date according to Oanda.
The following rates have been used :

	2016-12-31	2015-12-31
	EUR	EUR
1 SEK =	0,1044	0,10904
1 PLN =	0,23558	0,23558

Valuation of assets and liabilites

Assets and liabilites are reported at aquision cost and nominal value respectively if nothing else is stated.

The loans granted to the parent company and the bond loans have been reported in accordance with the effective interest method which means that the difference between discounted (recorded) value and the nominal values of the parent company loan and the bond loan are amortized over the term of the respective loans. These amortizations are included in reported interest income/expenses which for this reason reflect the effective interest of the respective loans.

Long term assets and liabilities mainly consist of amounts that are expected to be recovered or paid more than 12 months subsequent to the balance sheet date. Current assets and liabilities mainly consist of amounts that are expected to be recovered or paid within 12 months from the balance sheet date.

A financial asset or liability is recorded in the balance sheet when the company becomes a party in accordance with the agreed terms of the instrument. A receivable is recorded when the company has performed and there is an contractual obligation for the other party to pay, even if an invoice has not been issued. A liability is recorded when the other party has performed and there is a contractual obligation to pay even if an invoice has not yet been received.

A financial asset is removed from the balance sheet when the rights of an agreement are realized, looses its validity or the company lose control over them. A financial liability is removed from the balance sheet when the contractual obligations have been fullfilled or has been cancelled in some other way.

The financial instruments of the company mainly consist of loans to the parent company, bank deposits and issued bonds. These instruments are initially recorded at cost net of transaction expenses.

The loans and the bonds are recorded at accrued cost in accordance with the effective interest method. Interest income and expenses are recorded by using the effective interest method. The effective interest is the interest which discounts the estimated cash flow during the term of a financial instrument to the bookvalue of the financial asset or liability. The calculation includes all fees that have been paid or received by the contractual parties such us transaction expenses and all over and below pari values.

At the time of each reporting the company considers if there are objective evidence of any need for revaluation of the loans. Objective evidence are observable conditions that have an adverse effect of the possibility to recover the cost. If any objective evidence of this is observed future expected cash flows are discounted by the original effective interest. If this present value is lower than the recorded value, a write-down is recorded in the profit- and loss statement.

Income tax

Reported income taxes include taxes that are to be paid or received relating to the reported period and adjustments regarding earlier periods. Tax-liabilities/receivables are valued at the amounts, that, in the opinion of the company are expected to be paid to or received from the tax office. Taxable income can differ from income before taxes as reported in the profit and loss statement as this income excludes revenues and expenses that are taxable or deductible in other periods and it also excludes revenues and expenses that permanently are non-taxable or deductible.
In accordance with RFR2 no deferred tax liability relating to the company's untaxed reserves is reported.

Cash flow statement

The statement has been prepared by using the direct method.

Share capital

Reported share capital corresponds to registered nominal value.

Estimation of fair value

Fair value of the loans granted to the parent company and of the bond loans have been calculated based on listed value on the Luxembourg stock exchange according to Bloomberg as at the reporting date.

For other assets and liabilities it is the opinion of the company that the reported values constitue the best possible estimate of fair value, since these assets and liabilities are short-term and have high liquidity.

Estimations and assumptions

In preparing the report the company has made estimates and assumptions. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis and recognized prospectively.
No estimations and assumptions which could result in material adjustements in reported values in the next reporting period was made during 2015.

Parent company

The company is subisidiaryof Energa SA, domiciled in Gdansk, Poland with CID 0000271591.
The parent company prepares consolidated accounts and is the ultimate parent company.
Consolidated accounts are available in English on the homepage of Energa SA, www.ir.energa.pl.

Transactions with associated companies

	2016	2015
Transactions		
Interest payments from parent company	17 262 666	17 215 500
Balance sheet items		
Loans, parent company	499 000 000	499 000 000
Accrued interest income, parent company	4 469 188	4 536 617
Profit-and loss items		
Interest income, parent company	17 195 236	17 197 134

Note 2 Financial assts and liabilities - specified per

	Reported value		Real value
	2016-12-31		2016-12-31
	Loans and receivables	Other debts	
Loans, parent company	499 000 000		533 730 969
Accrued interest income, parent company	4 469 188		-
Cash and banks	28 583 238		-
Total	532 052 426		533 730 969
Bond loans		496 641 558	544 250 000
Accrued interest expense		14 417 420	
Accounts payable		0	-
Total		511 058 979	544 250 000

	Reported value		Real value
	2015-12-31		2015-12-31
	Loans and receivables	Other debts	
Loans	499 000 000		537 289 033
Accrued interest income	4 536 617		-
Cash and banks	27 760 406		-
Total	531 297 023		537 289 033
Bond loans		496 641 558	531 730 000
Accrued interest expense		13 946 808	
Accounts payable		0	-
Total		510 588 366	531 730 000

Book values are reasonable approximations of real values in the cases where no real values are reported for financial instruments above since the their terms are short. The information above that relates to Loans and Bond Loans belongs to level 2 in the real-value hiearachy and have been valued to the latest market value noted on the Luxembourg stock exchanges. The Loans are valued at the same value since the parent company guarantees the Loan.

Note 3 Maturity structure financial liabilities - non discounted cash flows and risk information

2016-12-31	Bond loand	Accrued interest expenses	Accounts payable
Total	565 000 000	14 417 420	0
< 1 month	-	0	0
1-3 months	16 250 000	14 417 420	0
3 months - 1 year	-	0	0
1-5 years	548 750 000	0	0
> 5 years	0	0	0
2015-12-31			
Total	581 250 000	13 946 808	-
< 1 month	-	0	-
1-3 months	16 250 000	13 946 808	0
3 months - 1 year	-	0	0
1-5 years	65 000 000	0	0
> 5 years	500 000 000	0	0

For additional risk-information on financial instruments please see the Managment report, "Risks and uncertainties".

Note 4 Audit expenses

	2016	2015
Audit work, PWC	13 515	0
Audit work KPMG		7 088

Note 5 Reconciliation of effective tax

	2016 (%)	2016	2015 (%)	2015
Income before tax		245 620		193 829
Current tax rate	22,00%		22,00%	
Non-deductible expenses		36		
Non-taxable income		0		
Imputed interest on		0		
profit equalisation reserve		184		
Currency effects		-640		
Tax relating to prior years		0		
Reported effective tax	20,88%	53 616	20,88%	43 886

Note 6 Proposal for appropriation of retained earnings

		2016-12-31	2015-12-31
To the disposal of the Annual General Meeting in euro			
Retained earnings		437 816	287 873
Net income		192 004	149 943
		629 819	437 817
The Board of Directors proposes that retained profits are appropriated in the following way.			
Carried forward	EUR	629 819	437 816

Note 7 Pledged assets and contingent liabilities

	2016-12-31	2015-12-31
Pledged assets	None	None
Contingent liabilities	None	None

Note 8 Shares and share capital

The shares of the company have no nominal values and are fully paid. The number of shares at time of incorporation of the company was 6 000. There have been three issues of new shares in 2013 when an additional 19 994 000 shares have been subscribed by the parent company. All shares are of the same class and have a quote value of EUR 1.

Note 9 Managing financial risk

Market risk
The loans granted to the parent company that consitute the main assets of the company are financed by bond loans in the same currencies and with the same interest and repayment terms. Bearing this in mind the company is not exposed to any material market risk. The interest on the loan to the parent company is fixed (3,45%) as is the interest on the bond loan (3,255). Both loans are denominated in EUR and are due for repayment in March 2020 (the loan to the parent company is due for repayment somewhat before the bond loan).

Liquidity risks
The interest payments on the bond loan are made in March each year. The interest payments from the parent company occurs semi-annually in September and March (before the interest on the bond loan is payable). Bearing in mind the size of the equity and available cash balances the company will, with considerable margin, be able to finance the above-mentioned interest payments. Other obligations are not material.

Credit risk
Energa SA is the company's only borrower and also guarantor of all the Company's obligations that follow from the bond issues. The financial situation of Energa SA is good for which reason the credit risk of the company is deemed to be low. The liquid funds of the company are held by Nordea, Sweden.

Currency risk
The functional currency of the company is EUR. Since all material assets and liabilites are denominated in this currency the currency exposure is insignificant.

The Board of Directors confirms that the annual report has been prepared in accordance with generally accepted accounting principles give a true and fair view of the income and net worth and that the Management report gives a true and fair overview of the business, income and net worth and describes material risks and uncertainties which confronts the company.

Stockholm

Marcin Binias

Jaroslaw Goncerz
Chairman

Magnus Sundström
Managing director

Our audit report was issued 2017-
PricewaterhouseCoopers AB

Sussanne Sundvall
Authorized auditor