ENEA Group

ENEA GROUP

CONSOLIDATED FINANCIAL STATEMENTS

for the financial year ended 31 December 2019

in compliance with EU IFRS

TABLE OF CONTENTS

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union, and are 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	**Jarosław Ołowski**	....
Member of the Management Board	**Zbigniew Piętka**	....

Prepared by: Robert Kiereta ....

Head of Consolidated Reporting

Poznań, 4 June 2020

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2019	31 December 2018
Revenue from sales	8	15 867 593	12 925 848
Excise duty		(71 295)	(253 078)
Net revenue from sales		**15 796 298**	**12 672 770**
Compensations		597 278	-
Revenue from operating leases and sub-leases		7 722	-
Revenue from sales and other income		**16 401 298**	**12 672 770**
Other operating revenue	10	320 076	245 122
Change in provision for onerous contracts		10 415	(78 981)
Amortisation/depreciation	9	(1 548 268)	(1 477 667)
Employee benefit costs	9	(1 904 022)	(1 711 414)
Use of materials and raw materials and value of goods sold	9	(3 333 521)	(2 560 489)
Purchase of electricity and gas for sales purposes	9	(6 090 506)	(4 272 930)
Transmission services	9	(447 154)	(411 712)
Other third-party services	9	(925 799)	(908 949)
Taxes and fees	9	(414 439)	(411 184)
Loss on change, sale and liquidation of property, plant and equipment and right-of-use assets		(57 585)	(45 244)
(Impairment loss)/reversal of impairment loss on non-financial non-current assets		(5 521)	166 454
Other operating costs	10	(148 454)	(168 690)
Operating profit		**1 856 520**	**1 037 086**
Finance costs	11	(441 858)	(302 980)
Finance income	11	64 121	78 743
Dividend income		201	430
Impairment of financial assets measured at amortised cost		(65 771)	-
Share of results of associates and jointly controlled entities		(482 165)	55 422
Impairment of investments in jointly controlled entities		(59 777)	-
Profit before tax		**871 271**	**868 701**
Income tax	12	(330 574)	(149 451)
Net profit for the reporting period		**540 697**	**719 250**
Other comprehensive income			
Subject to reclassification to profit or loss:			
- measurement of hedging instruments		(1 645)	(51 840)
- income tax		313	9 849
Not subject to reclassification to profit or loss:			
- restatement of defined benefit plan		(85 281)	(36 385)
- measurement of financial instruments		-	(17 036)
- income tax		16 203	6 913
Net other comprehensive income		**(70 410)**	**(88 499)**
Comprehensive income for the reporting period		**470 287**	**630 751**
Including net profit:			
attributable to shareholders of the Parent		423 205	686 739
attributable to non-controlling interests		117 492	32 511
Including comprehensive income:			
attributable to shareholders of the Parent		354 521	600 044
attributable to non-controlling interests		115 766	30 707
Net profit attributable to shareholders of the parent		423 205	686 739
Weighted average number of ordinary shares		441 442 578	441 442 578
Net profit attributable to the Parent's shareholders, per share (in PLN per share)	**13**	**0.96**	**1.56**
Diluted profit per share (in PLN per share)		**0.96**	**1.56**

The consolidated statement of comprehensive income should by analysed in conjunction with the additional information and explanations, which constitute an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2019	As at 31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	14	21 470 804	21 027 393
Perpetual usufruct of land	16	-	105 141
Right-of-use assets	16	719 948	-
Intangible assets	15	379 024	435 712
Investment properties	17	23 109	25 864
Investments in associates and jointly controlled entities	18	373 016	734 268
Deferred income tax assets	12	569 369	487 272
Financial assets measured at fair value	35	40 172	49 442
Debt financial assets at amortised cost	36	48 649	7 741
Trade and other receivables	22	20 862	23 257
Costs related to the conclusion of agreements		12 749	12 905
Finance lease and sublease receivables	23.1	319	-
Funds in the Mine Decommissioning Fund		133 998	128 279
Total non-current assets		**23 792 019**	**23 037 274**
Current assets			
CO_2 emission allowances	19	1 375 128	586 236
Inventories	20	1 376 295	1 264 870
Trade and other receivables	22	2 123 567	1 874 505
Costs related to the conclusion of agreements		12 646	16 948
Assets arising from contracts with customers	24	330 447	327 980
Finance lease and sublease receivables	23.1	950	-
Current income tax receivables		59 746	93 659
Financial assets measured at fair value	35	7 056	112 536
Debt financial assets at amortised cost	36	3 576	234
Other short-term investments		477	545
Cash and cash equivalents	25	3 761 947	2 650 838
Total current assets		**9 051 835**	**6 928 351**
TOTAL ASSETS		**32 843 854**	**29 965 625**

The consolidated statement of financial position should by analysed in conjunction with the additional information and explanations, which constitute an integral part of the consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2019	As at 31 December 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		(16 295)	(16 295)
Revaluation reserve - measurement of hedging instruments		(17 356)	(16 024)
Retained earnings		10 268 882	9 908 842
Total equity attributable to shareholders of the parent		**14 455 713**	**14 097 005**
Non-controlling interests	27	1 024 058	952 157
Total equity	**26**	**15 479 771**	**15 049 162**
LIABILITIES			
Non-current liabilities			
Credit facilities, loans and debt securities	30	7 803 113	7 973 713
Trade and other payables	31	119 775	67 485
Liabilities arising from contracts with customers	24	5 023	3 312
Lease liabilities	30	504 324	3 646
Accounting for income from subsidies and road lighting modernisation services	34	227 413	198 141
Deferred income tax provision	12	413 392	367 607
Employee benefit liabilities	32	983 818	814 769
Financial liabilities measured at fair value	35	24 496	24 072
Provisions for other liabilities and other charges	33	774 065	657 112
Total non-current liabilities		**10 855 419**	**10 109 857**
Current liabilities			
Credit facilities, loans and debt securities	30	2 102 911	355 840
Trade and other payables	31	1 913 440	2 534 733
Liabilities arising from contracts with customers	24	110 678	65 266
Lease liabilities	30	27 939	2 994
Accounting for income from subsidies and road lighting modernisation services	34	12 804	11 925
Current income tax liabilities		121 703	134
Employee benefit liabilities	32	466 082	420 018
Liabilities concerning the equivalent for rights to free purchase of shares		281	281
Financial liabilities measured at fair value	35	36 438	108 818
Provisions for other liabilities and other charges	33	1 716 388	1 306 597
Total current liabilities		**6 508 664**	**4 806 606**
Total liabilities		**17 364 083**	**14 916 463**
TOTAL EQUITY AND LIABILITIES		**32 843 854**	**29 965 625**

The consolidated statement of financial position should by analysed in conjunction with the additional information and explanations, which constitute an integral part of the consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to shareholders of the parent									
	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	Non-controlling interests	Total equity
As at 1 January 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 1 January 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 December 2018	441 443	146 575	**588 018**	**3 632 464**	**(16 295)**	**-**	**(16 024)**	**9 908 842**	**952 157**	**15 049 162**
Net profit for the reporting period	-	-	-	-	-	-	-	423 205	117 492	540 697
Net other comprehensive income	-	-	-	-	-	-	(1 332)	(67 352)	(1 726)	(70 410)
Net comprehensive income recognised in the period	**-**	**-**	**-**	**-**	**-**	**-**	**(1 332)**	**355 853**	**115 766**	**470 287**
Dividends	-	-	-	-	-	-	-	-	(8 673)	(8 673)
Buy-out of non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(4 531)	(25 209)	(29 740)
Other	-	-	-	-	-	-	-	8 718	(9 983)	(1 265)
As at 31 December 2019	441 443	146 575	**588 018**	**3 632 464**	**(16 295)**	**-**	**(17 356)**	**10 268 882**	**1 024 058**	**15 479 771**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2019	31 December 2018
Cash flows from operating activities			
Net profit for the reporting period		540 697	719 250
Adjustments:			
Income tax in profit or loss	12	330 574	149 451
Amortisation	9	1 548 268	1 477 667
Loss on change, sale and liquidation of property, plant and equipment and right-of-use assets		57 585	45 244
Impairment loss/(reversal of impairment loss) on non-financial non-current assets		5 521	(166 454)
Loss on sale of financial assets		26 813	33 620
Interest income		(14 961)	(34 617)
Dividend income		(201)	(430)
Interest costs		233 557	215 136
Loss on measurement of financial instruments		39 233	6 673
Impairment of financial assets measured at amortised cost		65 771	-
Share of profit of associates and jointly controlled entities		482 165	(55 422)
Impairment of investments in jointly controlled entities		59 777	-
Other adjustments		(22 587)	(19 494)
Total adjustments		**2 811 515**	**1 651 374**
Paid income tax		(206 925)	(35 173)
Changes in working capital:			
CO_2 emission allowances		(794 428)	6 551
Inventories		(109 992)	(417 611)
Trade and other receivables		(257 095)	(386 686)
Trade and other payables		(481 941)	621 663
Employee benefit liabilities		129 960	20 981
Accounting for income from subsidies and road lighting modernisation services		30 151	20 673
Other provisions for liabilities and charges		482 673	234 217
Total changes in working capital		**(1 000 672)**	**99 788**
Net cash flows from operating activities		**2 144 615**	**2 435 239**
Cash flows from investing activities			
Purchase of non-current property, plant and equipment and intangible assets and right-of-use assets		(2 076 510)	(1 979 024)
Proceeds from sale of non-current property, plant and equipment and intangible assets and right-of-use assets		10 129	1 929
Purchase of financial assets		(29 904)	(173 898)
Proceeds from sale of financial assets		611	165 167
Purchase of subsidiaries		(29 740)	-
Purchase of associates and jointly controlled entities		(181 698)	(325 110)
Received dividends		201	430
Inflows concerning funds at Mine Decommissioning Fund bank account		(5 719)	(6 473)
Received interest		5 648	8 326
Other outflows related to investing activities		(5 836)	(1 474)
Net cash flows from investing activities		**(2 312 818)**	**(2 310 127)**
Cash flows from financing activities			
Credit and loans received		-	11 229
Bond issuance		2 000 000	550 000
Repayment of credit and loans		(166 222)	(111 354)
Bond buy-back		(277 910)	(395 000)
Dividends paid		(8 673)	-
Repayment of lease liabilities		(16 419)	(2 184)
Expenditures concerning future bond issues		(195)	(37)
Interest paid		(249 545)	(216 489)
Other (outflows)/inflows from financing activities		(1 724)	2 435
Net cash flows from financing activities		**1 279 312**	**(161 400)**
Total net cash flows		**1 111 109**	**(36 288)**
Cash at the beginning of reporting period	25	2 650 838	2 687 126
Cash at the end of reporting period	**25**	**3 761 947**	**2 650 838**
including restricted cash		477 382	588 632

The consolidated statement of cash flows should by analysed in conjunction with the additional information and explanations, which constitute an integral part of the consolidated financial statements.

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

ADDITIONAL INFORMATION AND EXPLANATIONS

General information

1. General information on the Parent

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 S.A. ("Company," "Parent") is the parent entity for ENEA Group ("Group").

As at 31 December 2019, the Parent's shareholding structure was as follows:

	Poland's State Treasury	Other shareholders	Total
As at 31 December 2019	51.50%	48.50%	**100.00%**

As at 31 December 2019, the Parent's highest-level controlling entity was the State Treasury.

As at 31 December 2019, ENEA S.A.'s statutory share capital amounted to PLN 441 443 thousand (PLN 588 018 thousand after restatement to EU IFRS, taking into account hyperinflation and other adjustments) and was divided into 441 442 578 shares.

The Parent's duration is indefinite.

Its activities are conducted on the basis of relevant concessions issued for the Parent and for specific Group companies.

The Company's consolidated financial statements cover the year ended on 31 December 2019 and contain comparative data for the year ended on 31 December 2018.

2. Group composition and consolidation rules

As at 31 December 2019, ENEA Group consisted of the parent - ENEA S.A., 16 subsidiaries, 9 indirect subsidiaries, 2 associates and 2 jointly controlled entities.

ENEA Group's principal business activities are as follows:

- production of electric and thermal energy (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.)

Accounting rules

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:

1) power over the investee,
2) exposure, or rights, to variable returns from its involvement with the investee,
3) 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 15).

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.

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. The Group analyses impairment of investments in associates and jointly controlled entities, and impairment losses are recognised in the financial result of the present year.

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

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 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.

Mergers and acquisitions

Mergers and acquisitions of entities that are not under joint control are accounted for using the equity method.

Purchase of associates and jointly controlled entities

Based on agreements concerning a given investment, the Company judges whether there is joint control or significant influence.

	Company name	Segment	Registered office	ENEA S.A.'s stake in total number of voting rights as at 31 December 2019	ENEA S.A.'s stake in total number of voting rights as at 31 December 2018
SUBSIDIARIES					
1.	ENEA Operator Sp. z o.o.	distribution	Poznań	100%	100%
2.	ENEA Wytwarzanie Sp. z o.o.	generation	Świerże Górne	100%	100%
3.	ENEA Elektrownia Połaniec S.A.	generation	Połaniec	100%	100%
4.	ENEA Oświetlenie Sp. z o.o.	other activity	Szczecin	100%	100%
5.	ENEA Trading Sp. z o.o.	trade	Świerże Górne	100%	100%
6.	ENEA Logistyka Sp. z o.o.	other activity	Poznań	100%	100%
7.	ENEA Serwis Sp. z o.o.	distribution	Lipno	100%	100%
8.	ENEA Centrum Sp. z o.o.	other activity	Poznań	100%[9]	100%
9.	ENEA Pomiary Sp. z o.o.	distribution	Poznań	100%	100%
10.	ENERGO-TOUR Sp. z o.o. w likwidacji	other activity	Poznań	100%[6]	100%[6]
11.	ENEA Innowacje Sp. z o.o.	other activity	Warsaw	100%[8,11]	100%
12.	Lubelski Węgiel BOGDANKA S.A.	mining	Bogdanka	65.99%	65.99%
13.	Annacond Enterprises Sp. z o.o. w likwidacji	distribution	Warsaw	61%[15]	61%
14.	ENEA Ciepło Sp. z o.o.	generation	Białystok	99.94%[10]	95.77%
15.	ENEA Ciepło Serwis Sp. z o.o.	generation	Białystok	100%	100%
16.	ENEA Nowa Energia Sp. z o.o.	generation	Poznań	100%[14]	-
INDIRECT SUBSIDIARIES					
17.	ENEA Bioenergia Sp. z o.o.	generation	Połaniec	100%[1]	100%[1]
18.	ENEA Połaniec Serwis Sp. z o.o.	generation	Połaniec	100%[1]	-
19.	Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o.	generation	Oborniki	99.93%[2]	99.93%[2]
20.	Miejska Energetyka Cieplna Piła Sp. z o.o.	generation	Piła	71.11%[2]	71.11%[2]
21.	EkoTRANS Bogdanka Sp. z o.o.	mining	Bogdanka	65.99%[3]	65.99%[3]
22.	RG Bogdanka Sp. z o.o.	mining	Bogdanka	65.99%[3]	65.99%[3]
23.	MR Bogdanka Sp. z o.o.	mining	Bogdanka	65.99%[3]	65.99%[3]
24.	Łęczyńska Energetyka Sp. z o.o.	mining	Bogdanka	58.53%[3]	58.53%[3]
25.	ENEA Badania i Rozwój Sp. z o.o.	other activity	Świerże Górne	100%[5,12]	100%[2]
JOINTLY CONTROLLED ENTITIES					
26.	Polska Grupa Górnicza S.A.	-	Katowice	7.66%	7.66%

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

27.	**Elektrownia Ostrołęka Sp. z o.o.**	-	Ostrołęka	50%[7]	50%
28.	**Centralny System Wymiany Informacji Sp. z o.o. w likwidacji**	-	Poznań	-[13]	20%[4]
ASSOCIATES					
29.	**Polimex – Mostostal S.A.**	-	Warsaw	16.48%	16.48%
30.	**ElectroMobility Poland S.A.**	-	Warsaw	25%	25%

[1] – indirect subsidiary through stake in ENEA Elektrownia Połaniec S.A.

[2] – indirect subsidiary through stake in ENEA Wytwarzanie Sp. z o.o.

[3] – jointly controlled entity through stake in Lubelski Węgiel BOGDANKA S.A.

[4] – indirect subsidiary through stake in ENEA Operator Sp. z o.o.

[5] – indirect subsidiary through stake in ENEA Innowacje Sp. z o.o.

[6] – 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 financial statements were prepared, procedural activities connected with removing the entity from the National Court Register were in progress.

[7] – on 4 January 2019 an Extraordinary General Meeting of Elektrownia Ostrołęka Sp. z o.o. adopted a resolution on a PLN 361 382 thousand share capital increase, from PLN 551 100 thousand to PLN 912 482 thousand, through the issue of 7 227 642 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 361 382 thousand. On 4 January 2019, ENEA S.A. signed a commitment to acquire 3 613 821 shares in exchange for a cash contribution of PLN 180 691 thousand. On 4 January 2019, ENEA S.A. provided its cash contribution. The share capital increase was registered at the National Court Register on 1 March 2019.

[8] – on 12 June 2019, an Extraordinary General Meeting of ENEA Innowacje Sp. z o.o. adopted Resolution no. 1 regarding a cash increase of the company's share capital by PLN 5 400 thousand, i.e. from PLN 3 805 thousand to PLN 9 205 thousand, by issuing 54 000 new shares with a nominal value of PLN 100 each. The share capital increase was registered at the National Court Register on 19 July 2019.

[9] – on 10 September 2019 an Extraordinary General Meeting of ENEA Centrum Sp. z o.o. adopted a resolution to increase the company's share capital by PLN 100 000 thousand, i.e. from PLN 3 929 thousand to PLN 103 929 thousand by issuing 1 000 000 new shares with a nominal value of PLN 100 each. On 10 September 2019 ENEA S.A. acquired the newly-issued shares and made a non-monetary contribution in the form of receivables totalling PLN 162 000 thousand due for ENEA S.A. from ENEA Centrum Sp. z o.o. for loans made under two loan agreements executed in 2014 and 2015. The amount of PLN 62 000 thousand constitutes a premium of the non-monetary contribution over the nominal value of the acquired shares and was transferred to ENEA Centrum Sp. z o.o.'s supplementary capital. The share capital increase was registered at the National Court Register on 8 November 2019.

[10] – on 4 September 2019 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 ENEA S.A. purchased form ENEA Wytwarzanie Sp. z o.o. 126 083 shares in ENEA Ciepło Sp. z o.o. with a nominal value of PLN 6 304 thousand.

[11] – on 24 September 2019 an Extraordinary General Meeting of ENEA Innowacje Sp. z o.o. adopted Resolution no. 1 regarding a cash increase of the company's share capital by PLN 7 855 thousand, i.e. from PLN 9 205 thousand to PLN 17 060 thousand, by issuing 78 550 new shares with a nominal value of PLN 100 each. On 27 September 2019 ENEA S.A. acquired these shares in the increased share capital of ENEA Innowacje Sp. z o.o. On 10 October 2019 ENEA S.A. provided its cash contribution. The share capital increase was registered at the National Court Register on 21 November 2019.

[12] – on 27 September 2019 ENEA S.A. and ENEA Wytwarzanie Sp. z o.o. sold a 100% stake in ENEA Badania i Rozwój Sp. z o.o. to ENEA Innowacje Sp. z o.o.

[13] – on 1 October 2019, Centralny System Wymiany Informacji Sp. z o.o. w likwidacji was removed from the National Court Register.

[14] – on 5 November 2019 ENEA S.A. founded ENEA Nowa Energia Sp. z o.o. with share capital amounting to PLN 5 thousand and divided into 100 shares with a nominal value of PLN 50 each. The company was registered at the National Court Register on 7 November 2019.

[15] – on 24 February 2020 Annacond Enterprises Sp. z o.o. w likwidacji was removed from the National Court Register.

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

3. Management Board and Supervisory Board composition

Management Board

	As at 31 December 2019	Appointment	As at 31 December 2018	End of term
President of the Management Board	Mirosław Kowalik		Mirosław Kowalik	
Member of the Management Board, responsible for finance	Jarosław Ołowski	21 May 2019	Piotr Olejniczak	20 May 2019
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	

Supervisory Board

	As at 31 December 2019	Appointment	As at 31 December 2018	End of term / resignation
Chairperson of the Supervisory Board	Stanisław Hebda		Stanisław Hebda	
Deputy Chairperson of the Supervisory Board	Mariusz Pliszka	21 May 2019	Paweł Jabłoński	2 December 2019
Secretary of the Supervisory Board	Michał Dominik Jaciubek	21 May 2019	Piotr Mirkowski	
Member of the Supervisory Board	Maciej Mazur	21 May 2019	Sławomir Brzeziński	20 May 2019
Member of the Supervisory Board	Piotr Mirkowski		Wojciech Klimowicz	20 May 2019
Member of the Supervisory Board	Paweł Koroblowski		Paweł Koroblowski	
Member of the Supervisory Board	Ireneusz Kulka		Ireneusz Kulka	
Member of the Supervisory Board			Tadeusz Mikłosz	20 May 2019
Member of the Supervisory Board	Roman Stryjski		Roman Stryjski	

On 3 February 2020, the Company received a statement from the Minster of State Assets of the same date on the use by the Minister of State Assets of an authorisation to appoint, pursuant to § 24 sec. 1 of the Company's Articles of Association, a member of the Supervisory Board of ENEA S.A. Under the aforementioned authorisation, Mr. Bartosz Nieścior was appointed Deputy Chairperson of the Company's Supervisory Board as of 3 February 2020.

On 6 February 2020, the Company received a letter of resignation from the Chairperson of the Supervisory Board, Mr. Stanisław Hebda, resigning as member of ENEA S.A.'s Supervisory Board.

On 19 March 2020, appointed to the Supervisory Board were Mrs. Izabela Felczak-Poturnicka, as Supervisory Board Chairperson, and Mr. Mariusz Fistek.

On 27 May 2020, the Company received statements from the Ministry of State Assets of the same date on exercise of the right to appoint and dismiss, pursuant to § 24 sec. 1 of the Company's Articles of Association, a member of the Supervisory Board of ENEA S.A. In accordance with these statements, the Minister for State Assets dismissed, as of 27 May 2020, Mr. Bartosz Nieścior from the Company's Supervisory Board and at the same time appointed, effective on the same date, Mr. Paweł Szczeszek to the Company's Supervisory Board.

The following table contains the composition of ENEA S.A.'s Supervisory Board as of the date on which these consolidated financial statements:

	As at 4 June 2020
Chairperson of the Supervisory Board	Izabela Felczak-Poturnicka
Secretary of the Supervisory Board	Michał Dominik Jaciubek
Member of the Supervisory Board	Paweł Szczeszek
Member of the Supervisory Board	Maciej Mazur
Member of the Supervisory Board	Piotr Mirkowski
Member of the Supervisory Board	Paweł Koroblowski
Member of the Supervisory Board	Ireneusz Kulka
Member of the Supervisory Board	Mariusz Pliszka
Member of the Supervisory Board	Roman Stryjski
Member of the Supervisory Board	Mariusz Fistek

4. Basis for preparing financial statements

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

EU IFRS cover standards and interpretations approved by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee.

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 2019. 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.

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.

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

5. Accounting rules (policy) and significant estimates and assumptions

The key accounting rules applied in preparing these consolidated financial statements are presented as an element of specific explanatory notes to these consolidated financial statements. There rules were applied to all of the presented periods in a continuous manner, except accounting rules resulting from IFRS 16 *Leases*, which entered into force on 1 January 2019.

Preparing consolidated financial statements in accordance with EU IFRS requires the Management Board to make certain assumptions and estimates that have an impact on the adopted accounting rules and the amounts shown in consolidated financial statements and notes to financial statements. Assumptions and estimates are based on the Management Board's best knowledge regarding current and future events and activities. However, actual results may differ from forecasts. The estimated values presented in previous financial years do not have a material impact on the present interim period. The key areas where the Management Board's estimates have considerable impact on consolidated financial statements are presented in the following explanatory notes:

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

Notes describing significant estimates and assumptions

Notes describing significant estimates and assumptions	Note
Impairment of non-financial assets	section (without a number)
Tax	12
Property, plant and equipment	14
Intangible assets and goodwill	15
Right-of-use assets	16
Investment properties	17
CO_2 emission allowances	19
Inventories	20
Energy origin certificates	21
Trade and other receivables	22
Assets and liabilities arising from contracts with customers	24
Cash and cash equivalents	25
Employee benefit liabilities	32
Provisions	33
Financial instruments and fair value	35

6. Impact of new standards and interpretations, changes in accounting rules and data presentation

New Standards, amendments to Standards and Interpretations that are approved by the European Union but are not yet in effect for annual periods ending on 31 December 2019:

Standard	Entry into force
IFRS 17 Insurance Contracts	1 January 2021
IFRS 3 Business Combinations	1 January 2020
IAS 1 Presentation of Financial Statements	1 January 2020
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020

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

The Group is currently analysing the impact of the New Standards, amendments of Standards and Interpretations on its consolidated financial statements. No significant changes have yet been identified in connection with new standards being implemented.

New Standards, amendments to Standards and Interpretations awaiting approval by the European Union:

Standard	Entry into force
IFRS 9 Financial Instruments - amendments concerning IBOR reform	1 January 2020
IAS 39 Financial Instruments: disclosure and measurement - amendments concerning IBOR reform	1 January 2020
IFRS 7 Financial Instruments: disclosure of information - changes related to IBOR reform	1 January 2020
IFRS 14 Regulatory Deferral Accounts	1 January 2016
IFRS 10 Consolidated Financial Statements - amendments concerning the sale or contribution of assets between an investor and its associates or joint ventures	-
IAS 28 Investments in Associates and Joint Ventures - amendments concerning the sale or contribution of assets between an investor and its associates or joint ventures	-

Changes in applied accounting rules

The accounting rules (policy) applied in preparing these consolidated financial statements are consistent with those applied in preparing the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the application of new standards, amendments to standards and interpretations as described below and amendments to the Group's accounting rules, as described in notes 16 and 23.

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

Application of new standards, amendments to standards and interpretations

IFRS 16 *Leases*

The Group adopted a modified retrospective approach as the approach for implementing IFRS 16, without restating the comparative data for previous periods, i.e. for the period from 1 January 2018 to 31 December 2018.

Impact of IFRS 16 on the consolidated financial statements as at 1 January 2019

	As at 31 December 2018	Impact of IFRS 16	As at 1 January 2019
ASSETS			
Non-current assets			
Property, plant and equipment	21 027 393	(7 047)	21 020 346
Perpetual usufruct of land	105 141	(105 141)	-
Right-of-use assets	-	724 659	724 659
Intangible assets	435 712	(63 238)	372 474
Investment properties	25 864		25 864
Investments in associates and jointly controlled entities	734 268		734 268
Deferred income tax assets	487 272		487 272
Financial assets measured at fair value	49 442		49 442
Debt financial assets at amortised cost	7 741		7 741
Trade and other receivables	23 257	(1 103)	22 154
Costs related to the conclusion of agreements	12 905		12 905
Finance lease and sublease receivables	-	1 103	1 103
Funds in the Mine Decommissioning Fund	128 279		128 279
Total non-current assets	**23 037 274**	**549 233**	**23 586 507**
Current assets			
CO_2 emission allowances	586 236		586 236
Inventories	1 264 870		1 264 870
Trade and other receivables	1 874 505	(759)	1 873 746
Costs related to the conclusion of agreements	16 948		16 948
Assets arising from contracts with customers	327 980		327 980
Finance lease and sublease receivables	-	759	759
Current income tax receivables	93 659		93 659
Financial assets measured at fair value	112 536		112 536
Debt financial assets at amortised cost	234		234
Other short-term investments	545		545
Cash and cash equivalents	2 650 838		2 650 838
Total current assets	**6 928 351**	**-**	**6 928 351**
TOTAL ASSETS	**29 965 625**	**549 233**	**30 514 858**
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)		(16 295)
Revaluation reserve - measurement of hedging instruments	(16 024)		(16 024)
Retained earnings	9 908 842		9 908 842
Total equity attributable to shareholders of the parent	**14 097 005**	**-**	**14 097 005**
Non-controlling interests	952 157		952 157
Total equity	**15 049 162**	**-**	**15 049 162**

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

	As at 31 December 2018	Impact of IFRS 16	As at 1 January 2019
LIABILITIES			
Non-current liabilities			
Credit facilities, loans and debt securities	7 973 713		7 973 713
Trade and other payables	67 485		67 485
Liabilities arising from contracts with customers	3 312		3 312
Lease liabilities	3 646	518 926	522 572
Accounting for subsidies and road lighting modernisation services	198 141		198 141
Deferred income tax provision	367 607		367 607
Employee benefit liabilities	814 769		814 769
Financial liabilities measured at fair value	24 072		24 072
Provisions for other liabilities and other charges	657 112		657 112
Total non-current liabilities	**10 109 857**	**518 926**	**10 628 783**
Current liabilities			
Credit facilities, loans and debt securities	355 840		355 840
Trade and other payables	2 534 733		2 534 733
Liabilities arising from contracts with customers	65 266		65 266
Lease liabilities	2 994	30 307	33 301
Accounting for subsidies and road lighting modernisation services	11 925		11 925
Current income tax liabilities	134		134
Employee benefit liabilities	420 018		420 018
Liabilities concerning the equivalent for rights to free purchase of shares	281		281
Financial liabilities measured at fair value	108 818		108 818
Provisions for other liabilities and other charges	1 306 597		1 306 597
Total current liabilities	**4 806 606**	**30 307**	**4 836 913**
Total liabilities	**14 916 463**	**549 233**	**15 465 696**
TOTAL EQUITY AND LIABILITIES	**29 965 625**	**549 233**	**30 514 858**

The Group has recognised a right-of-use asset and a corresponding lease liability on 1 January 2019 concerning paid and free-of-charge rights to perpetual usufruct of land, tenancy and rent contracts, operating leases, rights to use underground portions of land (Note 16) and rights to establish transmission easements, as presented in the following table:

	As at 1 January 2019
Undiscounted cash flows as at 31 December 2018, i.e. future payments concerning right to perpetual usufruct of land, obtained for free or for a fee, tenancy and rent contracts, operating leases	607 978
Right-of-use assets concerning underground parts of land	300 544
Effect of discount	(257 776)
Other, i.e. low-value or negligible contracts that were not moved to financial leases	(101 513)
Total lease liabilities as at 1 January 2019 resulting from IFRS 16 implementation	**549 233**
Financial lease liabilities as at 31 December 2018 recognised in the 2018 financial report	6 640
Total lease liabilities as at 1 January 2019	**555 873**

The weighted average marginal lending rate for the lessee applied in measuring lease liabilities on the balance sheet as of the first day on which IFRS 16 was used was 2.81% for perpetual usufruct of land rights, 2.73% for buildings, 2.74% for means of transport and 2.72% for rights to use underground portions of land.

Impairment of right-of-use assets as at 1 January 2019 was PLN 12 004 thousand (as at 31 December 2019: PLN 12 077 thousand) and concerned rights to perpetual usufruct of land.

Due to the new standard's impact in the form of an increase in depreciation and finance costs, the introduction of IFRS 16 resulted in a change in EBITDA and its comparability with the preceding period.

	Year ended 31 December 2019	Year ended 31 December 2018
Net profit for the reporting period	**540 697**	**719 250**
Amortisation	1 548 268	1 477 667
Impairment loss/(reversal of impairment loss) on non-financial non-current assets	5 521	(166 454)
Finance costs	441 858	302 980
Finance income	(64 121)	(78 743)
Dividend income	(201)	(430)
Impairment of financial assets measured at amortised cost	65 771	-
Share of profit of associates and jointly controlled entities	482 165	(55 422)
Impairment of investments in jointly controlled entities	59 777	-
Income tax	330 574	149 451
EBITDA	**3 410 309**	**2 348 299**
Lease costs not recognised in measurement of lease liability	16 261	33 630
EBITDAR*	**3 426 570**	**2 381 929**

*The Group defines EBITDAR as EBITDA (full definition on page 20) adjusted by the cost of leases that are not included in the measurement of lease liability (i.e. for IFRS 16: short-term leases, low-value assets, variable lease payments based on an indicator or index; for IFRS 17: costs related to operating leases, gains/(losses) on termination of leases).

7. Functional currency and transactions in foreign currencies

Accounting rules

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.

Transactions and balances

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

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

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

Operating segments

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 and other activity, as shown below.

TRADE	Purchase and sale of electricity.
DISTRIBUTION	Electricity distribution and transmission services.
GENERATION	Generation of electricity from conventional and renewable sources, generation of industrial heat.
MINING	Production and sale of coal, companies providing support services to mines.

AND

OTHER ACTIVITY	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 2019, within the mining segment, external customers whose shares in the Group's external sales exceeded 10% included: Grupa Azoty Zakłady Azotowe "Puławy" (45.1%) and Energa Elektrownie Ostrołęka S.A. (22.6%). 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, impairment of financial assets measured at amortised cost, impairment of investments in 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 in compliance with the accounting rules used in preparing consolidated financial statements.

Information on geographic segments

The Group's activities in 2019 and 2018 were in one geographic segment, i.e. in Poland, and all of its assets were located in Poland.

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

Segment results:

Segment results for the period from 1 January to 31 December 2019 are as follows:

	Trade	Distribution	Generation	Mining	Other activity	Exclusions	Total
Net revenue from sales	7 377 688	2 847 343	5 082 660	314 635	173 972	-	15 796 298
Inter-segment sales	2 260 086	34 347	2 989 230	1 840 921	459 330	(7 583 914)	-
Total net revenue from sales	**9 637 774**	**2 881 690**	**8 071 890**	**2 155 556**	**633 302**	**(7 583 914)**	**15 796 298**
Compensations	597 163	-	115	-	-	-	597 278
Revenue from operating leases and subleases	-	-	340	2 302	5 151	(71)	7 722
Revenue from sales and other income	**10 234 937**	**2 881 690**	**8 072 345**	**2 157 858**	**638 453**	**(7 583 985)**	**16 401 298**
Total costs	(10 213 924)	(2 389 584)	(7 041 787)	(1 739 665)	(611 202)	7 520 150	(14 476 012)
Segment result	**21 013**	**492 106**	**1 030 558**	**418 193**	**27 251**	**(63 835)**	**1 925 286**
Amortisation/depreciation	(1 711)	(602 390)	(553 534)	(352 984)	(62 569)		
Reversal of impairment losses on non-financial non-current assets	-	4 279	(10 050)	250	-		
Segment result - EBITDA	**22 724**	**1 090 217**	**1 594 142**	**770 927**	**89 820**		
% of revenue from sales and other income	**0.2%**	**37.8%**	**19,7%**	**35,7%**	**14.1%**		
Unallocated costs at Group level (administrative expenses)							(68 766)
Operating profit							**1 856 520**
Finance costs							(441 858)
Finance income							64 121
Dividend income							201
Impairment of financial assets measured at amortised cost							(65 771)
Share of profit of associates and jointly controlled entities							(482 165)
Impairment of investments in jointly controlled entities							(59 777)
Income tax							(330 574)
Net profit							**540 697**
Share of profit attributable to non-controlling interests							117 492

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

Segment results:

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/depreciation	(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

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

Other information concerning segments as at 31 December 2019 and for the 12-month period ending on that day is as follows:

	Trade	Distribution	Generation	Mining	Other activity	Exclusions	Total
Property, plant and equipment	14 777	9 275 872	9 399 673	2 877 136	381 171	(487 292)	21 461 337
Trade and other receivables	1 276 901	290 507	1 068 321	245 030	120 946	(905 535)	2 096 170
Costs related to the conclusion of agreements	25 395	-	-	-	-	-	25 395
Assets arising from contracts with customers	119 665	214 946	388	-	503	(5 055)	330 447
Total	**1 436 738**	**9 781 325**	**10 468 382**	**3 122 166**	**502 620**	**(1 397 882)**	**23 913 349**
ASSETS excluded from segments							8 930 505
- including property, plant and equipment							9 467
- including trade and other receivables							48 259
TOTAL ASSETS							**32 843 854**
Trade and other payables	562 020	450 448	873 069	251 396	226 302	(410 608)	1 952 627
Liabilities arising from contracts with customers	512 613	101 221	-	444	1 405	(499 982)	115 701
Total	**1 074 633**	**551 669**	**873 069**	**251 840**	**227 707**	**(910 590)**	**2 068 328**
Equity and liabilities excluded from segments							30 775 526
- including trade and other payables							80 588
TOTAL EQUITY AND LIABILITIES							**32 843 854**
for the year ended 31 December 2019							
Investment expenditures on property, plant and equipment and intangible assets	722	986 288	788 326	409 507	84 890	(36 992)	2 232 741
Investment expenditures on property, plant and equipment and intangible assets excluded from segments							-
Amortisation	1 711	602 390	553 534	352 984	62 569	(27 094)	1 546 094
Amortisation excluded from segments							2 174
Recognition/(reversal/use) of impairment losses on receivables	(5 560)	1 625	(822)	724	(368)	141	(4 260)
Recognition/(reversal) of impairment losses on non-financial non-current assets	-	(4 279)	10 050	(250)	-	-	5 521

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

Other information concerning segments as at 31 December 2018 and for the 12-month period ending on that day 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**
for the year ended 31 December 2018							
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/use) 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)

Impairment of non-financial assets

Accounting rules

The Group's assets that are subject to depreciation are analysed in terms of impairment whenever indications of impairment are identified.

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.

Significant judgements and estimates

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, described further below.

As at 30 September 2019, 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, ENEA Group carried out impairment tests for property, plant and equipment in areas involved in the generation of electricity, among others. Based on these tests, the necessity to recognise the following events was identified.

Following analysis, impairment losses on non-financial non-current assets in the energy generation area at CGU Hydro worth a total of PLN 5 thousand and in the area Elektrownie Systemowe Kozienice worth PLN 11 590 thousand were reversed. The reversal increased the Group's net result by PLN 9 392 thousand. For CGUs Biogas and Białystok, the Group identified the necessity to recognise an impairment loss of PLN 1 281 thousand and PLN 20 364 thousand, respectively. These impairment losses reduce the Group's result by a total of PLN 17 532 thousand. Overall, as a result of the impairment tests, the Group's financial result will decrease by PLN 8 140 thousand.

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	7 786 921	7 775 331
CGU Wind – ENEA Wytwarzanie's wind-based generating assets	448 836	358 528
CGU Hydro – ENEA Wytwarzanie's hydro-based generating assets	298 231	195 924
CGU Biogas – ENEA Wytwarzanie's biogas-based generating assets	(34)	1 281
CGU Elektrownie Systemowe Połaniec – ENEA Elektrownia Połaniec generating assets (coal-based sources)	1 037 605	988 858
CGU Zielony Blok – ENEA Elektrownia Połaniec generating assets (biomass unit)	250 354	222 511
CGU Białystok – ENEA Ciepło's generating assets	685 355	705 719

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 2042,
- CGU Wind:
  - wind farm Darżyno until 2037,
  - wind farm Bardy until 2036,
  - wind farm Baczyna until 2042,
- CGU Hydro – until 2042,
- CGU Biogas – until 2024,
- CGU Elektrownie Systemowe Połaniec – until 2034,
- CGU Zielony Blok – until 2042,
- CGU Białystok – until 2042.

Presented below are the key assumptions used in impairment tests:

- assets were tested in seven CGUs (CGU Elektrownie Systemowe Kozienice, CGU Wind, CGU Hydro, CGU Biogas, CGU Elektrownie Systemowe Połaniec, CGU Zielony Blok, CGU Białystok),
- the main price paths, based on forecasts prepared by ENEA Trading (a company operating as ENEA Group's competence centre for wholesale trade of electricity, emission allowances and fuels), taking into account the specific nature of products and knowledge about existing contracts:
  - wholesale "base" electricity prices: for years 2021-2042: increase in prices from 243.9 PLN/MWh in 2019 to 2022 at an annual average rate of 2%, followed by a down trend until 2026 of an annual average of 0.5%, and after 2026 conservative growth by 1% on average in the period 2027-2042 [fixed prices 2019],
  - prices of energy origin certificates (renewables and cogeneration): the support system for renewables until 2031 was taken into account, and specific renewables plants will use support within a 15-year period. From 2019, average growth of 3% is assumed, from the average level of 128 PLN/MWh until 2021. After 2021, prices will largely be in a downward sideways trend at an average of 2% per year until 2029, and in the final years they will drastically decrease until the support system expiry [fixed prices 2019],
  - CO_2 emission allowance prices: dynamic increase forecast for CO_2 emission allowance prices from an average of 66.53 PLN/t in 2019 to 2021 at the annual average rate of 29%, and from 2022 increase in prices by an average 2% annually [fixed prices 2019],
  - coal prices: slight increase in coal prices is expected from 12.6 PLN/GJ until 2039. From 2039, a slow decline in coal prices is expected [fixed prices 2019],
  - biomass prices: biomass prices are expected to grow until 2030 from the average of 26.2 PLN/GJ in 2019. After 2030 the price is expected to decline, and remain constant until 2042 as the existing green certificate support system ends [fixed prices 2019],
  - heat prices: heat prices are expected to grow by an annual average of 2% until 2042 from 62.9 PLN/GJ in 2019 [fixed prices 2019].
- 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 and 2019,
- inflation, taking into account the inflation target, at a maximum level of 2.5%,

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

- nominal discount rate - 6.12% [discount rate before tax is 7.04%]. The Group used a 2% premium for specific risk for the analysed CGUs. The discount rate taking into account the specific risk premium was 6.74% [discount rate taking into account the specific risk premium before tax was 7.66%]
- 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 value impact of selected factors on the total recoverable value (output value) of CGUs:

Impact of change in discount rate (starting point 6.74%)

Change in assumptions	-0.5pp	Output value	+0.5pp
Change in recoverable value	**787 048**	**10 507 268**	**(684 813)**
- CGU Elektrownie Systemowe Kozienice	550 408	7 786 921	(482 054)
- CGU Wind	16 226	448 836	(15 313)
- CGU Hydro	26 845	298 231	(22 988)
- CGU Biogas	10	(34)	(9)
- CGU Elektrownie Systemowe Połaniec	47 519	1 037 605	(45 058)
- CGU Zielony Blok	(8 069)	250 354	7 365
- CGU Białystok	154 109	685 355	(126 756)

Impact of changes in inflation from 2020 (starting point 2.6% for 2021 and 2.5% in subsequent years)

Change in assumptions	-0.5pp	Output value	+0.5pp
Change in recoverable value	**(625 140)**	**10 507 268**	**676 010**
- CGU Elektrownie Systemowe Kozienice	(389 277)	7 786 921	420 173
- CGU Wind	(13 589)	448 836	14 272
- CGU Hydro	(20 621)	298 231	22 453
- CGU Biogas	(31)	(34)	31
- CGU Elektrownie Systemowe Połaniec	(45 356)	1 037 605	46 438
- CGU Zielony Blok	9 183	250 354	(9 931)
- CGU Białystok	(165 449)	685 355	182 574

Impact of changes in electricity prices

Change in assumptions	-1.0%	Output value	+1.0%
Change in recoverable value	**(855 843)**	**10 507 268**	**834 221**
- CGU Elektrownie Systemowe Kozienice	(559 875)	7 786 921	550 783
- CGU Wind	(4 311)	448 836	4 310
- CGU Hydro	(6 254)	298 231	6 254
- CGU Biogas	(80)	(34)	80
- CGU Elektrownie Systemowe Połaniec	(208 109)	1 037 605	196 161
- CGU Zielony Blok	(53 346)	250 354	52 774
- CGU Białystok	(23 868)	685 355	23 859

Impact of change in price of CO_2 emission allowances

Change in assumptions	-1.0%	Output value	+1.0%
Change in recoverable value	**270 401**	**10 507 268**	**(272 667)**
- CGU Elektrownie Systemowe Kozienice	199 392	7 786 921	(200 043)
- CGU Wind	-	448 836	-
- CGU Hydro	-	298 231	-
- CGU Biogas	-	(34)	-
- CGU Elektrownie Systemowe Połaniec	67 321	1 037 605	(68 934)
- CGU Zielony Blok	-	250 354	-
- CGU Białystok	3 688	685 355	(3 690)

In connection with the fact that LWB's current market capitalisation has remained for a long time below the balance sheet value of its net assets in these consolidated financial statements, the Group carried out an impairment test in the mining area as of 31 December 2019. The significant decline in share price and thus also in market capitalisation continued also after the balance sheet date in the first months of 2020. According to LWB, this situation mainly stems from factors that are beyond its control such as political factors and the EU's climate policy and also in part because of low liquidity and low free float.

Due to the inability to determine fair values for a very large group of assets for which there is no active market and no comparable transactions, the recoverable values of these assets were determined by estimating their useful values using the discounted cash flow approach based on the Group's financial projections for 2020-2051.

The following table contains the test results.

CGU [PLN 000s] – as at 31 December 2019	Recoverable value	Book value
CGU Mining	3 129 982	2 609 095

The key assumptions used in estimating the value in use of the tested assets are presented below:

- given the links between the various divisions and the mine's organisational scheme, all of LWB's assets were considered as one CGU;
- the average annual volume of coal sales in 2020-2035 was set at 9.4 million tonnes;
- forecast period from 2020 to 2051 - was estimated on the basis of the company's extractable coal resources as at the balance sheet date (i.e. resources that are currently available using infrastructure existing as of the balance sheet date, which mainly concerns shafts), taking into account an average annual output of 9.4 million tonnes in 2020-2035 (in subsequent years, average annual output systematically decreases as a result of deposits in the "Bogdanka" field being depleted and the assumption that only currently existing infrastructure is used);
- coal prices for 2020-2041 were set based on projections prepared for the Group's purposes; the average coal sales price in this period was estimated at a level similar to the actual average sales price in 2019 (11.02 PLN/GJ), assuming a +/-5% side-trend; from 2042, the price is fixed at the 2041 level;
- the entire model is inflation-free;
- real wage growth during the entire forecast period was assumed to reflect the company's best possible estimate as of the test date;
- the discount rate is the weighted average cost of capital (WACC) of 5.59% throughout the entire forecast period, estimated based on the latest economic data (using a risk-free rate of 2.03% and a beta coefficient of 0.83);
- the average annual level of investment expenditures during the entire forecast period is PLN 250 663 thousand, including an average of PLN 344 110 thousand in years 2020-2035.

The sensitivity analysis shows that significant factors having impact on the estimated recoverable values of CGUs include discount rates and the prices of coal for energy-generation purposes. Presented below are the results of an analysis of the model's sensitivity (changes in the recoverable value) to a change in the key assumptions.

Impact of changes in discount rate (base value 5.59%)

Change in assumptions	-0.5pp	Output value	+0.5pp
Change in recoverable value	**160 890**	**3 129 982**	**(149 717)**

Impact of changes in coal prices

Change in assumptions	-0.5%	Output value	+0.5%
Change in recoverable value	**(84 061)**	**3 129 982**	**83 870**

Explanatory notes to the consolidated statement of comprehensive income

8. Revenue from sales

Accounting rules

Revenue recognition

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 on a continuous basis - the amount of revenue depends on consumption (delivery of electricity, thermal energy, natural gas, provision of distribution services): revenue is recognised when the Group transfers control over a portion of the service being provided; the Group recognises revenue in the amount of remuneration from a client, to which it is entitled, which directly corresponds to the value of service so far provided to the client - this value is the amount that the Group is authorised to invoice for;
- delivery of goods/services settled at a fixed moment in time (sale of property rights): revenue is recognised when control over the product/service is transferred; the transfer of control takes place when the goods are made available to the client or when service is provided;
- services provided on a continuous basis - the amount of revenue depends on the passage of time (sale of lighting services, process support services): revenue from the sale of services is recognised over time because these services are provided on a continuous basis and therefore a certain portion of such service is subject to transfer at every point in time when service is provided; due to the fact that the value of services rendered to the client does not differ between specific settlement periods, the Group recognises revenue from services provided on the basis of fixed monthly payments (depending on consumption);
- services provided on a continuous basis - based on the status of work (construction services): commitment to provide a service is satisfied over time because as a result of service being provided an asset is created or improved and control over this asset is with the client; 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. The Group recognises as revenue the Price difference amount and the Financial compensations from the Zarządca Rozliczeń S.A.; this revenue does not constitute public aid.

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

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.

Connection fees

Revenue from connection fees is recognised on a one-off basis as revenue when connection works are completed.

Net revenue from sales

	Year ended	
	31 December 2019	31 December 2018
Revenue from the sale of electricity	11 865 052	9 060 134
Revenue from the sale of distribution services	2 823 514	2 660 785
Revenue from the sale of goods and materials	105 744	92 466
Revenue from the sale of other products and services	170 810	167 647
Revenue from origin certificates	29 587	4 432
Revenue from the sale of CO_2 emission allowances	-	27 584
Revenue from the sale of industrial heat	352 746	359 444
Revenue from the sale of coal	269 146	194 118
Revenue from the sale of gas	179 699	106 160
Total net revenue from sales	**15 796 298**	**12 672 770**

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 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 the uncertainty of revenue and cash flows.

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

	Year ended	
	31 December 2019	31 December 2018
Revenue from continuous services	14 868 265	11 827 079
Revenue from services provided at specified time	928 033	845 691
Total	**15 796 298**	**12 672 770**

Compensations

In accordance with the Act of 28 December 2018 on amendment of the act on excise duty and certain other acts and the Ordinance, ENEA S.A. submitted a request to Zarządca Rozliczeń S.A. for payment of the Price difference amount for H1 2019 and requests for payment of the Financial compensation for July-December 2019, worth in total PLN 597 163 thousand (ENEA Wytwarzanie Sp. z o.o. PLN 115 thousand). The Price difference amount and the Financial compensations constitute the Company's revenue and are recognised under the line Compensations. As at 31 December 2019, the Company received PLN 545 026 thousand in payments of the Price difference amount and the Financial compensation. The remaining part of PLN 597 163 thousand, i.e. PLN 52 137 thousand, is recognised in the line Trade and other receivables in the statement of financial position.

9. Operating costs

Accounting rules

The Group presents costs using the comparative approach (costs by nature).

Costs have an impact on financial result to the extent that they apply to a given reporting period, thus ensuring that they are commensurate to revenue or other economic benefits.

Costs by nature

	Year ended	
	31 December 2019	31 December 2018
Amortisation	**(1 548 268)**	**(1 477 667)**
Employee benefit costs	**(1 904 022)**	**(1 711 414)**
- remuneration	(1 403 998)	(1 252 640)
- social insurance and other benefits	(500 024)	(458 774)
Use of materials and raw materials and value of goods and materials sold	**(3 333 521)**	**(2 560 489)**
- use of materials and energy	(3 211 245)	(2 429 106)
- value of goods and materials sold	(122 276)	(131 383)
Value of purchased electricity and gas for sales purposes	**(6 090 506)**	**(4 272 930)**
Third-party services	**(1 372 953)**	**(1 320 661)**
- transmission services	(447 154)	(411 712)
- other third-party services	(925 799)	(908 949)
Taxes and fees	**(414 439)**	**(411 184)**
Total	**(14 663 709)**	**(11 754 345)**

Employee benefit costs

	Year ended	
	31 December 2019	31 December 2018
Wage costs	**(1 403 998)**	**(1 252 640)**
- present wages	(1 293 333)	(1 189 599)
- longevity bonuses	(65 351)	(40 276)
- retirement and disability severance payments	(7 042)	(959)
- other	(38 272)	(21 806)
Cost of social insurance and other benefits	**(500 024)**	**(458 774)**
- social security contributions (ZUS)	(271 603)	(251 003)
- contributions to Company Social Benefit Fund (ZFŚS)	(49 996)	(47 087)
- other social benefits	(102 443)	(94 115)
- other post-employment benefits	(2 651)	(126)
- other	(73 331)	(66 443)
Total	**(1 904 022)**	**(1 711 414)**

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

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

Agreement with trade unions

In 2019, trade unions from over a dozen ENEA Group companies executed a social agreement. Essentially, this document addresses the issues of employment stability at those ENEA Group companies that signed the social agreement and makes it possible for employees to access additional benefits on equal terms. The agreement concerns issues such as: worker rates, instalment-based medical benefits, contributions towards the Company Social Benefits Fund, and industry days being treated as public holidays.

10. Other operating revenue and costs

Other operating revenue

	Year ended	
	31 December 2019	31 December 2018
Release of provision for compensation claims	1 035	15 591
Release of other provisions	150 834	14 247
Reimbursement of costs by insurer	7 372	28 769
Accounting for income from subsidies	8 915	8 082
Compensation, penalties, fines	42 100	58 782
Reversal of unused impairment losses	8 338	6 221
Property, plant and equipment received for free	41 514	33 423
Other operating revenue	59 968	80 007
Total	**320 076**	**245 122**

Other operating costs

	Year ended	
	31 December 2019	31 December 2018
Recognition of provision for compensation claims	(41 116)	(654)
Recognition of other provisions	(32 427)	(54 973)
Impairment of receivables	(2 631)	(13 773)
Write-off of impaired receivables	(12 831)	(17 880)
Impairment of inventory	(84)	(11 981)
Costs of court proceedings	(15 162)	(15 641)
Trade union costs	(1 641)	(1 775)
Compensation for non-contractual use of land	(1 464)	(1 866)
Other operating costs	(41 098)	(50 147)
Total	**(148 454)**	**(168 690)**

11. Finance income and finance costs

Accounting rules

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

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

Finance income

	Year ended 31 December 2019	31 December 2018
Interest income	**42 117**	**36 112**
- bank accounts and deposits	41 219	35 781
- other loans and receivables	618	331
- financial leases and sub-leases	280	-
Exchange differences	**2**	**7 371**
Changes in fair value of financial instruments	**15 963**	**22 276**
Other finance income	**6 039**	**12 984**
Total	**64 121**	**78 743**

Finance costs

	Year ended 31 December 2019	31 December 2018
Interest costs	**(254 510)**	**(203 254)**
- cost of interest on loans and credit	(45 802)	(47 512)
- cost of interest on bonds	(171 473)	(143 789)
- Interest cost on lease liabilities	(14 988)	(231)
- other interest	(22 247)	(11 722)
Exchange differences	**(34 422)**	**(223)**
Cost of discount concerning employee benefits and provisions	**(55 080)**	**(29 078)**
Changes in fair value of financial instruments	**(51 148)**	**(69 632)**
Other finance costs	**(46 698)**	**(793)**
Total	**(441 858)**	**(302 980)**

12. Tax

Accounting rules

Income tax (including deferred income tax)

Income tax recognised in profit or loss for the period covers actual the actual tax burden for the given reporting period, calculated in accordance with the applicable provisions of the act on corporate income tax and potential adjustments of tax returns for previous years.

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

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

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

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

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

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

Significant judgements and estimates

Recoverability of deferred income tax assets

Deferred income tax assets 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 to use it.

The likelihood of using deferred income tax assets against future tax profits is based on the budgets of Group companies.

Income tax

	Year ended 31 December 2019	31 December 2018
current tax	(350 370)	(87 515)
deferred tax	19 796	(61 936)
Income tax	**(330 574)**	**(149 451)**

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:

	Year ended 31 December 2019	31 December 2018
Profit before tax	871 271	868 701
Tax calculated using the 19% rate	(165 541)	(165 053)
Non-deductible costs (permanent differences * 19%)	(138 066)	(18 526)
Non-taxable revenue (permanent differences * 19%)	7 038	27 165
Other * 19%	(34 005)	6 963
Decrease of financial result due to income tax	**(330 574)**	**(149 451)**

Deferred income tax

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

	As at 31 December 2019	31 December 2018
Deferred income tax assets	1 360 169	1 446 030
Offset of deferred income tax assets and provision	(790 800)	(958 758)
Deferred income tax assets after offset	**569 369**	**487 272**
Deferred income tax provision	1 204 192	1 326 365
Offset of deferred income tax assets and provision	(790 800)	(958 758)
Deferred income tax provision after offset	**413 392**	**367 607**

Deferred income tax assets as at 31 December 2019 to be realised within 12 months amounted to PLN 675 818 thousand (PLN 788 246 thousand as at 31 December 2018), while those over 12 months PLN 684 351 thousand (PLN 657 784 thousand as at 31 December 2018).

Deferred income tax provision as at 31 December 2019 to be realised within 12 months amounted to PLN 186 769 thousand (PLN 414 216 thousand as at 31 December 2018), while those over 12 months PLN 1 017 423 thousand (PLN 912 149 thousand as at 31 December 2018).

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

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 CO_2 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 1 January 2018	**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 1 January 2018, 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 December 2018 using the 19% rate	**202 605**	**-**	**57 271**	**-**	**117 685**	**103 544**	**157 721**	**353 399**	**453 805**	**1 446 030**
As at 1 January 2019	**202 605**	**-**	**57 271**	**-**	**117 685**	**103 544**	**157 721**	**353 399**	**453 805**	**1 446 030**
Presentation amount	-	-	-	-	-	(103 138)	-	-	-	(103 138)
Adjustment due to implementation of IFRS 16	-	-	-	-	-	-	-	-	104 354	104 354
As at 1 January 2019, adjusted	**202 605**	**-**	**57 271**	**-**	**117 685**	**406**	**157 721**	**353 399**	**558 159**	**1 447 246**
(Charge)/addition to profit or loss	14 763	-	(20 680)	-	138 877	1 982	(32 834)	(2 743)	(201 437)	(102 072)
(Charge)/addition to other comprehensive income	16 267	-	-	-	-	(2)	-	16	(1 286)	14 995
As at 31 December 2019 using the 19% rate	**233 635**	**-**	**36 591**	**-**	**256 562**	**2 386**	**124 887**	**350 672**	**355 436**	**1 360 169**

** including property, plant and equipment, other intangible assets and perpetual usufruct of land.*

As at 31 December 2019, tax losses to be settled in future periods amounted to PLN 43 375 thousand.

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

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 1 January 2018	**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 December 2018 using the 19% rate	**122 690**	**47 476**	**901 752**	**10 397**	**244 050**	**1 326 365**
As at 1 January 2019	**122 690**	**47 476**	**901 752**	**10 397**	**244 050**	**1 326 365**
Presentation amount	(103 138)	-	-	-	-	(103 138)
Adjustment due to implementation of IFRS 16	-	-	-	-	104 354	104 354
As at 1 January 2019, adjusted	**19 552**	**47 476**	**901 752**	**10 397**	**348 404**	**1 327 581**
Charge/(addition) to profit or loss	(2 278)	(1 841)	153 283	(133)	(270 899)	(121 868)
Charge/(addition) to other comprehensive income	-	-	-	-	(1 521)	(1 521)
As at 31 December 2019 using the 19% rate	**17 274**	**45 635**	**1 055 035**	**10 264**	**75 984**	**1 204 192**

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

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

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

13. Profit per share

Accounting rules

Net profit (loss) per share for each period is calculated by dividing the net profit (loss) attributable to the Parent's shareholders for the period by the weighted average number of shares in that reporting period.

Diluted profit per share is calculated by dividing the period's net profit attributable to common shareholders (after deduction of interest on redeemable preference shares convertible into ordinary shares) by the weighted average number of outstanding ordinary shares during the period (adjusted by the impact of dilutive options and dilutive redeemable preference shares convertible into ordinary shares).

Profit per share

	Year ended	
	31 December 2019	31 December 2018
Net profit attributable to shareholders of the Parent	423 205	686 739
Weighted average number of ordinary shares	441 442 578	441 442 578
Net profit per share (in PLN per share)	**0.96**	**1.56**
Diluted profit per share (in PLN per share)	**0.96**	**1.56**

Explanatory notes to the consolidated statement of financial position

14. Property, plant and equipment

Accounting rules

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.

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 mine closure plan 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.

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

Within its activities, the Group receives tangible assets for free, which are initially measured at fair value. Property, plant and equipment received for free, in the form of power infrastructure (connections, lighting grid) 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).

External financing costs

Costs of external financing that can be directly attributed to an asset purchase, build or manufacture 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. The Group ceases to capitalise external financing costs when the asset is handed over for use. The Group suspends capitalising external financing costs over a longer time period in which it suspended works focused on adapting the asset.

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

Significant judgements and estimates

Economic life and residual value

The amount of depreciation charges is determined on the basis of expected period of use for tangible assets. The verification conducted this year resulted in changes to depreciation/amortisation periods. Their impact in 2020 on the amount of depreciation is PLN (25 500 thousand).

The residual values and economic life 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 indications of impairment are identified, an impairment test is carried out in accordance with IAS 36 (section in these financial statements concerning impairment of non-financial assets).

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 based on length of wall
– technical equipment and machinery	2 – 50 years
– means of transport	3 – 30 years
– other property, plant and equipment	3 – 25 years

Estimating the useful life of mines and coal resources

The mine life-cycle (for LWB) is estimated, based on coal resources covered by a concession and estimated production capacities, to reach 2051. 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 20 December 2019 the Group received a mining concession for the K-6 and K-7 deposit with estimated coal resources of approx. 66 million tonnes. This concession will be included in the mine life-cycle estimate once appropriate analyses concerning deposit development are carried out.

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

Property, plant and equipment

For the financial year ended 31 December 2019:

	Land	Buildings and structures	including mine workings	Technical equipment and machinery	Means of transport	Other tangible assets	Tangible assets under construction	Total
Gross value								
As at 1 January 2019	**114 786**	**16 376 934**	**1 465 088**	**14 196 007**	**344 174**	**674 706**	**1 336 239**	**33 042 846**
Adjustment due to implementation of IFRS 16	-	-	-	-	(10 028)	-	-	(10 028)
As at 1 January 2019, adjusted	**114 786**	**16 376 934**	**1 465 088**	**14 196 007**	**334 146**	**674 706**	**1 336 239**	**33 032 818**
Purchase	-	7 213	-	229 189	1 409	6 178	1 936 810	2 180 799
Sale	(50)	(339)	-	(172)	(8 540)	(43)	-	(9 144)
Transfers	5 528	1 375 054	410 125	320 884	47 444	110 968	(2 137 891)	(278 013)
Transfer to available-for-sale non-current assets	-	(35)	-	-	-	-	-	(35)
Liquidation	-	(305 206)	(205 356)	(38 122)	(5 849)	(3 622)	-	(352 799)
Transfer to investment properties	-	(43)	-	-	-	-	-	(43)
Discontinued investments	-	-	-	-	-	-	(120)	(120)
Other	(26)	83 848	-	2 430	216	4 067	(2 715)	87 820
As at 31 December 2019	**120 238**	**17 537 426**	**1 669 857**	**14 710 216**	**368 826**	**792 254**	**1 132 323**	**34 661 283**
Accumulated depreciation								
As at 1 January 2019	**-**	**(5 514 659)**	**(446 214)**	**(4 502 257)**	**(140 122)**	**(399 340)**	**(2 656)**	**(10 559 034)**
Adjustment due to implementation of IFRS 16	-	-	-	-	2 981	-	-	2 981
As at 1 January 2019, adjusted	**-**	**(5 514 659)**	**(446 214)**	**(4 502 257)**	**(137 141)**	**(399 340)**	**(2 656)**	**(10 556 053)**
Depreciation	-	(721 026)	(176 070)	(670 746)	(23 817)	(54 593)	-	(1 470 182)
Sale	-	189	-	121	6 628	-	-	6 938
Liquidation	-	239 057	161 834	32 747	7 371	3 641	-	282 816
Other	-	1 415	1 405	(155)	(90)	598	-	1 768
As at 31 December 2019	**-**	**(5 995 024)**	**(459 045)**	**(5 140 290)**	**(147 049)**	**(449 694)**	**(2 656)**	**(11 734 713)**
Impairment								
As at 1January 2019	**(1 459)**	**(467 947)**	**-**	**(960 022)**	**(3 480)**	**(4 870)**	**(18 641)**	**(1 456 419)**
Decreases	-	12 785	-	8 022	52	32	260	21 151
Increases	(176)	(6 267)	-	(13 641)	(7)	(168)	(239)	(20 498)
As at 31 December 2019	**(1 635)**	**(461 429)**	**-**	**(965 641)**	**(3 435)**	**(5 006)**	**(18 620)**	**(1 455 766)**
Net value at 1 January 2019	**113 327**	**10 394 328**	**1 018 874**	**8 733 728**	**200 572**	**270 496**	**1 314 942**	**21 027 393**
Adjustment due to implementation of IFRS 16	-	-	-	-	(7 047)	-	-	(7 047)
Net value at 1January 2019, adjusted	**113 327**	**10 394 328**	**1 018 874**	**8 733 728**	**193 525**	**270 496**	**1 314 942**	**21 020 346**
Net value at 31 December 2019	**118 603**	**11 080 973**	**1 210 812**	**8 604 285**	**218 342**	**337 554**	**1 111 047**	**21 470 804**

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

No collateral is established on property, plant and equipment assets. External financing costs capitalised in 2020 were negligible.

For the financial year ended 31 December 2018:

	Land	Buildings and structures	including mine workings	Technical equipment and machinery	Means of transport	Other tangible assets	Tangible assets under construction	Total
Gross value								
As at 1 January 2018	**112 985**	**15 602 003**	**1 324 716**	**13 758 808**	**308 360**	**623 044**	**1 033 520**	**31 438 720**
Purchase	-	2 380	-	11 943	3 856	2 671	1 902 521	1 923 371
Sale	(3)	(211)	-	(833)	(8 630)	(29 969)	-	(39 646)
Transfers	2 121	889 125	206 621	531 651	47 227	79 904	(1 597 692)	(47 664)
Transfer to available-for-sale non-current assets	-	-	-	-	(1 651)	-	-	(1 651)
Liquidation	(2)	(123 825)	(66 249)	(127 054)	(3 781)	28 149	-	(226 513)
Discontinued investments	-	-	-	-	-	-	(2)	(2)
Other	(315)	7 462	-	21 492	(1 207)	(29 093)	(2 108)	(3 769)
As at 31 December 2018	**114 786**	**16 376 934**	**1 465 088**	**14 196 007**	**344 174**	**674 706**	**1 336 239**	**33 042 846**
Accumulated depreciation								
As at 1 January 2018	**-**	**(4 910 650)**	**(297 194)**	**(3 967 977)**	**(124 488)**	**(387 915)**	**(2 656)**	**(9 393 686)**
Depreciation	-	(692 067)	(188 505)	(658 046)	(29 820)	(47 932)	-	(1 427 865)
Sale	-	83	-	792	6 826	28 570	-	36 271
Transfer to available-for-sale non-current assets	-	-	-	-	1 465	-	-	1 465
Liquidation	-	83 597	39 485	116 445	5 249	(26 724)	-	178 567
Other	-	4 378	-	6 529	646	34 661	-	46 214
As at 31 December 2018	**-**	**(5 514 659)**	**(446 214)**	**(4 502 257)**	**(140 122)**	**(399 340)**	**(2 656)**	**(10 559 034)**
Impairment								
As at 1 January 2018	**(2 205)**	**(538 838)**	**-**	**(1 059 405)**	**(3 556)**	**(4 942)**	**(19 221)**	**(1 628 167)**
Decreases	746	70 891	-	99 383	76	72	580	171 748
As at 31 December 2018	**(1 459)**	**(467 947)**	**-**	**(960 022)**	**(3 480)**	**(4 870)**	**(18 641)**	**(1 456 419)**
Net value at 1 January 2018	**110 780**	**10 152 515**	**1 027 522**	**8 731 426**	**180 316**	**230 187**	**1 011 643**	**20 416 867**
Net value at 31 December 2018	**113 327**	**10 394 328**	**1 018 874**	**8 733 728**	**200 572**	**270 496**	**1 314 942**	**21 027 393**

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

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

On 28 February 2018, an Extraordinary General Meeting of Annacond Enterprises Sp. z o.o. (Annacond Enterprises) adopted a resolution on the liquidation of Annacond Enterprises. Annacond Enterprises' sole significant asset is a section of the cross-border 110kV line Wólka Dobrzyńska - state border (Line). In the course of the liquidation process, the Line was sold by Annacond Enterprises' liquidator. On 4 April 2019, Annacond Enterprises' Extraordinary General Meeting adopted a resolution approving the aforementioned transaction, i.e. granting consent for Annacond Enterprises to execute an agreement to sell the 110 kV power line Wólka Dobrzyńska - Brest 2. The sale price was PLN 5 370 thousand net.

Future contract liabilities related to the purchase of property, plant and equipment incurred as at the reporting date but not yet recognised in the statement of financial position reached PLN 1 306 454 thousand as at 31 December 2019 (as at 31 December 2018: PLN 1 118 027 thousand).

As lessee, the Company used the following property, plant and equipment under finance leases as at 31 December 2018. Starting on 1 January 2019, due to IFRS 16 being implemented, the Group presents the following items as right-of-use assets.

	As at 31 December 2018		
	Initial value	Depreciation	Net book value
Means of transport	10 935	(3 837)	7 098
Total	**10 935**	**(3 837)**	**7 098**

15. Intangible assets and goodwill

Accounting rules

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.

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. Until a mining concession is secured, this is not subject to amortisation. Subsequently, capitalised costs are amortised throughout the term of the concession.

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 recognised throughout the expected period of mining usufruct (note 41).

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.

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 their capitalisation criteria 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.

Significant judgements and estimates

Economic life and residual value

The amount of amortisation changes is determined on the basis of expected period of use for intangible assets. The verification conducted this year resulted in changes to depreciation/amortisation periods. Their impact in 2020 on the amount of depreciation is PLN (12 thousand).

Each year, the Group verifies the correctness of periods of use for intangible assets. 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 indications of impairment are identified, an impairment test is carried out in accordance with IAS 36 (section in these financial statements concerning impairment of non-financial assets).

Useful life of intangible assets:

– licences and software	2 – 10 years
– geological information	over the mining concession period (note 41)
– other intangible assets	2 – 40 years

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

Intangible assets

For the financial year ended 31 December 2019:

	Costs of development work	Goodwill	Computer software, licences	Right to establish easement	Geological information	Total
Gross value						
As at 1 January 2019	**6 588**	**229 323**	**588 668**	**71 433**	**40 856**	**936 868**
Adjustment due to implementation of IFRS 16	**-**	**-**	**-**	**(71 433)**	**-**	**(71 433)**
As at 1 January 2019, adjusted	**6 588**	**229 323**	**588 668**	**-**	**40 856**	**865 435**
Transfers	-	-	(775)	-	-	(775)
Purchase	983	-	50 959	-	-	51 942
Liquidation	-	-	(14 158)	-	-	(14 158)
Transfer to available-for-sale non-current assets	-	-	(678)	-	-	(678)
Other	2 914	-	-	-	-	2 914
As at 31 December 2019	**10 485**	**229 323**	**624 016**	**-**	**40 856**	**904 680**
Accumulated depreciation						
As at 1 January 2019	**(2 417)**	**-**	**(255 121)**	**(8 096)**	**(1 705)**	**(267 339)**
Adjustment due to implementation of IFRS 16	**-**	**-**	**-**	**8 096**	**-**	**8 096**
As at 1 January 2019, adjusted	**(2 417)**	**-**	**(255 121)**	**-**	**(1 705)**	**(259 243)**
Amortisation	(896)	-	(44 661)	-	(893)	(46 450)
Liquidation	-	-	13 572	-	-	13 572
Transfer to available-for-sale non-current assets	-	-	184	-	-	184
Other	-	-	(58)	-	-	(58)
As at 31 December 2019	**(3 313)**	**-**	**(286 084)**	**-**	**(2 598)**	**(291 995)**
Impairment						
As at 1 January 2019	**-**	**(227 517)**	**(6 201)**	**(99)**	**-**	**(233 817)**
Adjustment due to implementation of IFRS 16	**-**	**-**	**-**	**99**	**-**	**99**
As at 1 January 2019, adjusted	**-**	**(227 517)**	**(6 201)**	**-**	**-**	**(233 718)**
Decreases	-	-	57	-	-	57
As at 31 December 2019	**-**	**(227 517)**	**(6 144)**	**-**	**-**	**(233 661)**
Net value at 1 January 2019	**4 171**	**1 806**	**327 346**	**63 238**	**39 151**	**435 712**
Adjustment due to implementation of IFRS 16	**-**	**-**	**-**	**(63 238)**	**-**	**(63 238)**
As at 1 January 2019, adjusted	**4 171**	**1 806**	**327 346**	**-**	**39 151**	**372 474**
Net value at 31 December 2019	**7 172**	**1 806**	**331 788**	**-**	**38 258**	**379 024**

No collateral is established on intangible assets. No intangible assets were produced internally in 2019.

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

For the financial year ended 31 December 2018:

	Costs of development work	Goodwill	Computer software, licences	Right to establish easement	Client relations	Geological information	Total
Gross value							
As at 1 January 2018	**6 376**	**229 323**	**566 375**	**61 343**	**16 000**	**40 856**	**920 273**
Transfers	-	-	34 579	-	-	-	34 579
Purchase	289	-	22 757	10 025	-	-	33 071
Liquidation	(77)	-	(34 885)	(32)	(16 000)	-	(50 994)
Other	-	-	(158)	97	-	-	(61)
As at 31 December 2018	**6 588**	**229 323**	**588 668**	**71 433**	**-**	**40 856**	**936 868**
Accumulated depreciation							
As at 1 January 2018	**(1 372)**	**-**	**(243 655)**	**(5 607)**	**(16 000)**	**(814)**	**(267 448)**
Amortisation	(1 122)	-	(45 631)	(2 490)	-	(892)	(50 135)
Liquidation	77	-	34 000	-	16 000	-	50 077
Other	-	-	165	1	-	1	167
As at 31 December 2018	**(2 417)**	**-**	**(255 121)**	**(8 096)**	**-**	**(1 705)**	**(267 339)**
Impairment							
As at 1 January 2018	**-**	**(227 517)**	**(6 249)**	**(811)**	**-**	**-**	**(234 577)**
Decreases	-	-	48	712	-	-	760
As at 31 December 2018	**-**	**(227 517)**	**(6 201)**	**(99)**	**-**	**-**	**(233 817)**
Net value at 1 January 2018	**5 004**	**1 806**	**316 471**	**54 925**	**-**	**40 042**	**418 248**
Net value at 31 December 2018	**4 171**	**1 806**	**327 346**	**63 238**	-	**39 151**	**435 712**

No collateral was established on intangible assets.

As at 31 December 2019 and 31 December 2018, goodwill covered goodwill at Miejska Energetyka Cieplna Piła Sp. z o.o.

Future contract liabilities related to the purchase of property, plant and equipment incurred as at the reporting date but not yet recognised in the statement of financial position reached PLN 29 716 thousand as at 31 December 2019 (as at 31 December 2018: PLN 33 098 thousand).

16. Right-of-use assets

Accounting rules

Rules in effect from 1 January 2019:

A contract contains a lease if:

a) 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 customer; and
b) 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; and
c) the lessee has the right to specify the method in which it uses the identified asset.

As lessee, the Group recognises Leases in its financial statements as:

a) right-of-use assets at purchase price;
   - covering the value of the lease liability plus payments made on or before the contract date, initial direct costs, an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories,
   - less any lease incentives received.
b) lease liabilities constituting the sum of the present value of lease payments and the present value of payments expected at the end of the lease term.

Subsequent to initial recognition, the Group measures the right-of-use assets at purchase price less depreciation and impairment. The depreciation period is set as:

a) if the lease transfers ownership of the underlying asset to the lessee or if the lessee is certain that it will exercise a purchase option, the depreciation period is from the commencement date to the end of the useful life of the underlying asset, or
b) the depreciation period starts from the commencement date to the earlier of:
   - the end of the useful life of the right-of-use asset, or
   - the end of the lease term.

The present value of future lease payments is calculated using a discount rate. ENEA S.A., ENEA Operator Sp. z o.o., ENEA Wytwarzanie Sp. z o.o., Enea Elektrownia Połaniec S.A. and Lubelski Węgiel „Bogdanka” S.A. apply a residual interest rate, i.e. a rate that ENEA S.A. would be required to pay based on a similar lease or, if not possible to determine, an interest rate at the commencement date that ENEA S.A. would have to use to make a loan necessary to purchase the given asset for a similar period and with similar collateral. ENEA S.A. uses an interest rate equal to 6-month WIBOR from the last day of the year preceding the financial year, plus margin. The other companies use an interest rate equal to 1-month WIBOR from the last day of the year preceding the financial year, plus margin. The discount rate is analysed and updated every year. In the case of sub-leases, lessees at ENEA Group use the lessor's discount rate.

The Group sets the lease term, i.e. irrevocable lease term, together with:

a) term for an option to extend the lease if the Group is sufficiently certain that it will exercise this right; and
b) term for an option to terminate the lease if the Group is sufficiently certain that it will not exercise that right.

In most of its leases, the Group uses a lease period in accordance with the contractual period. For contracts executed for an indefinite period, the Group determines the minimum contractual term for both of the parties. If the Group is unable to determine how long it intends to use the asset and such an estimate could be treated as a lease term in the case of contracts with an indefinite period, the Group assumes that the irrevocable contractual period will be the termination period for that lease.

In the case of rights to perpetual usufruct of land, the lease term is the same as the term for the right to perpetual usufruct.

In subsequent periods, the lease liability is measured taking into account:

a) interest charged (unwind of discount),
b) lease payments made,
c) reflection of the re-evaluation of contract, changes in the contract or changes in the nature of variable payments that are fixed in substance.

The liability in a given period will constitute the difference between the present value of lease payments and the sum of lease payments for the given period. The interest part of a lease payment is directly recognised in the statement of profit and loss.

For multi-element contracts, the Group recognises lease components separately from non-lease components. The Group allocates contractual remuneration to all components, using individual sales prices in the case of lease components and aggregated individual sales prices in the case of non-lease components.

The Group has the option to apply a practical expedient and not to apply the lease model in reference to:

a) short-term leases (contracts with a term of up to 12 months and without the right to purchase the asset),
b) the leasing of low-value assets, the initial value of which does not exceed PLN 10 thousand (even if the value of such assets is significant after aggregation) and assets that are not largely depended on or tied to other assets specified in the contract.

This exemption does not apply in situations where the Group transfers the asset under a sub-lease or expects to transfers it. If the Group decides to use this expedient, it recognises lease payments as cost on a straight-line basis throughout the lease term.

From 1 January 2019, rights to the perpetual usufruct of land are recognised as right-of-use assets and are subject to amortisation. From 1 January 2019, the value of rights to perpetual usufruct of land includes values recognised previously as rights to perpetual usufruct of land in accordance with rules in effect until 31 December 2018, plus discounted payments considered as lease payments in accordance with the rules described above.

In June 2019, the IFRS Interpretations Committee issued a summary of decisions taken at public meetings concerning interpretations regarding IFRS 16, including regarding the right to underground parts of land. Prior to this decision being issued by the IFRIC, the Group had not treated contracts giving it the right to use underground portions of land as contracts constituting a lease in accordance with the definition of a lease introduced by IFRS 16. The Group also had not treated transmission easements as Leases both when electricity poles are situated on land covered by the easement and when infrastructure is not present and the easement only concerns an overhead power line. Following a detailed analysis of the impact of the Committee's decisions on accounting rules, the Group considered these contracts as leases. This led to an increase in right-of-use assets and lease liabilities presented in the statement of financial position. Right-of-use assets concerning easements for State Forests was recognised at zero value due to the variability of fees. Detailed impact of this change is presented in note 15 and in the table below.

<u>Rules in effect until 31 December 2018:</u>

Right to perpetual usufruct of land

Lands 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 as an operating lease.
2. Right to perpetual usufruct of land obtained from third persons for a fee - this is recognised as assets under rights to perpetual usufruct of land, at purchase price less amortisation.
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 amortised.

Rights to perpetual usufruct of land are amortised over the period for which they are granted.

Leases

A lease 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 finance 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 leases 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.

Significant judgements and estimates

Right to use underground parts of land

The value of right-of-use assets and lease liabilities were estimated on the basis of annual payments and the estimated period of economic use resulting from the register of tangible asset. In the future, the Group plans to identify in detail contracts concerning the use of underground parts of roadways and other contracts concerning the placement of equipment on roadways, and to specify on this basis the precise values of the right to use these assets.

Discount rate

The way in which the discount rate is determined is described above in accounting rules.

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

Right-of-use assets

For the financial year ended 31 December 2019:

	Right to perpetual usufruct of land	Buildings	Technical equipment and machinery	Means of transport	Right to establish easement	Right-of-use assets concerning underground parts of land	Total
Gross value							
As at 1 January 2019	**124 978**	**-**	**-**	**-**	**-**	**-**	**124 978**
Adjustment due to implementation of IFRS 16	230 328	14 365	-	14 024	71 433	300 544	630 694
As at 1 January 2019, adjusted	**355 306**	**14 365**	**-**	**14 024**	**71 433**	**300 544**	**755 672**
Purchase	2 875	1 017	892	1 462	27 118	-	33 364
Sale	(103)	(38)	-	-	-	-	(141)
Transferred under a finance sublease	-	246	-	-	-	-	246
Liquidation	(7)	-	(281)	(151)	-	-	(439)
Other	(5 795)	(107)	-	(255)	(1)	-	(6 158)
As at 31 December 2019	**352 276**	**15 483**	**611**	**15 080**	**98 550**	**300 544**	**782 544**
Accumulated depreciation							
As at 1 January 2019	**(7 932)**	**-**	**-**	**-**	**-**	**-**	**(7 932)**
Adjustment due to implementation of IFRS 16	-	-	-	(2 981)	(8 096)	-	(11 077)
As at 1 January 2019, adjusted	**(7 932)**	**-**	**-**	**(2 981)**	**(8 096)**	**-**	**(19 009)**
Sale	3	-	-	-	-	-	3
Amortisation/depreciation	(5 276)	(5 057)	(14)	(6 165)	(3 148)	(12 022)	(31 682)
Liquidation	-	31	-	37	-	-	68
Other	13	-	-	88	-	-	101
As at 31 December 2019	**(13 192)**	**(5 026)**	**(14)**	**(9 021)**	**(11 244)**	**(12 022)**	**(50 519)**
Impairment							
As at 1 January 2019	**(11 905)**	**-**	**-**	**-**	**-**	**-**	**(11 905)**
Adjustment due to implementation of IFRS 16	-				(99)	-	(99)
As at 1 January 2019, adjusted	**(11 905)**	**-**	**-**	**-**	**(99)**	**-**	**(12 004)**
Decreases	1	-	-	-	-	-	1
Increases	(74)	-	-	-	-	-	(74)
As at 31 December 2019	**(11 978)**	**-**	**-**	**-**	**(99)**	**-**	**(12 077)**
Net value at 1 January 2019	**105 141**	**-**	**-**	**-**	**-**	**-**	**105 141**
Adjustment due to implementation of IFRS 16	230 328	14 365	-	11 043	63 238	300 544	619 518
Net value at 1 January 2019, adjusted	**335 469**	**14 365**	**-**	**11 043**	**63 238**	**300 544**	**724 659**
Net value at 31 December 2019	**327 106**	**10 457**	**597**	**6 059**	**87 207**	**288 522**	**719 948**

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

Perpetual usufruct of land

	As at 31 December 2018
Gross value	
As at 1 January	**124 036**
Transfers	406
Purchase	307
Liquidation	(80)
Other	309
As at 31 December	**124 978**
Accumulated depreciation	
As at 1 January	**(6 560)**
Amortisation	(1 373)
Liquidation	1
As at 31 December	**(7 932)**
Impairment	
As at 1 January	**(11 905)**
As at 31 December	**(11 905)**
Net value at 1 January	**105 571**
Net value at 31 December	**105 141**

17. Investment properties

Accounting rules

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.

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

Significant judgements and estimates

Key assumptions regarding verifying the economic life of investment properties are described in an explanatory note concerning property, plant and equipment (note 14), and key assumptions concerning impairment are described in a note in the section of these financial statements relating to the impairment of non-financial assets.

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

Investment properties

	As at 31 December 2019	As at 31 December 2018
Gross value		
As at 1 January	**32 770**	**32 945**
Purchase	33	334
Transfer	836	-
Liquidation	-	(509)
Other	43	-
As at 31 December	**33 682**	**32 770**
Accumulated depreciation		
As at 1 January	**(6 222)**	**(5 191)**
Depreciation	(3 670)	(1 047)
Liquidation	-	16
As at 31 December	**(9 892)**	**(6 222)**
Impairment		
As at 1 January	**(684)**	**(773)**
Decreases	3	89
As at 31 December	**(681)**	**(684)**
Net value		
As at 1 January	**25 864**	**26 981**
As at 31 December	**23 109**	**25 864**

No collateral was established on investment properties.

Presented below are revenue and costs related to investment properties:

	Year ended 31 December 2019	Year ended 31 December 2018
Income from investment properties	2 556	4 625
Operating costs related to income-generating investment properties	(6 425)	(4 036)

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 8 142 thousand. The Group estimates that the fair value is close to the value recognised in the books.

18. Investments in associates and jointly controlled entities

Accounting rules

Accounting rules concerning investments in subsidiaries, associates and jointly controlled entities are presented in note entitled Group composition and consolidation rules (note 2).

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

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

As at 31 December 2019	Elektrownia Ostrołęka Sp. z o.o.	Polimex - Mostostal S.A.*	Polska Grupa Górnicza S.A.	ElectroMobility Poland S.A.	Total
Stake	**50.00%**	**16.48%**	**7.66%**	**25%**	
Current assets	37 549	964 470	2 226 017	40 174	3 268 210
Non-current assets	65 419	718 259	9 794 651	17 542	10 595 871
Total assets	**102 968**	**1 682 729**	**12 020 668**	**57 716**	**13 864 081**
Current liabilities	86 271	779 861	4 040 084	1 297	4 907 513
Non-current liabilities	170 532	319 677	4 694 514	3	5 184 726
Total liabilities	**256 803**	**1 099 538**	**8 734 598**	**1 300**	**10 092 239**
Net assets	**(153 835)**	**583 191**	**3 286 070**	**56 416**	**3 754 535**
Share in net assets	**-**	**96 110**	**251 713**	**14 104**	**361 927**
Goodwill	7 080	15 954	52 697	-	75 731
Impairment	(7 080)	-	(52 697)	-	(59 777)
Goodwill after impairment	-	15 954	-	-	15 954
Elimination of unrealised gains/losses	-	(7 573)	2 708	-	(4 865)
Book value of equity-accounted investments at 31 December 2019	**-**	**104 491**	**254 421**	**14 104**	**373 016**
Revenue	8 360	1 502 896	9 189 382	394	10 701 032
Net result	(1 038 720)	4 490	(427 079)	(5 531)	(456 857)
Elimination of unrealised gains/losses	-	(7 573)	2 708	-	(4 865)
Elimination of excess of net loss over balance sheet value of shares	(76 916)	-	-	-	(76 916)
Share of profit of associates and jointly controlled entities	**(442 444)**	**5 511**	**(44 342)**	**(890)**	**(482 165)**
Impairment of investments in jointly controlled entities	**(7 080)**	**-**	**(52 697)**	**-**	**(59 777)**

** package data – may slightly differ from published data*

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.

Guided by the precautionary principle, the Group decided to recognise an impairment loss on the value of its investment in Polska Grupa Górnicza S.A. (PGG S.A.) down to the amount of its share in net assets. In accordance with information received from the Management Board of PGG S.A., its financial statements for 2019 were not yet approved by the General Meeting as of the date on which this report was prepared. As per information available at the date on which these financial statements were prepared, the Group is not expecting changes in the financial statements of PGG S.A. as at 31 December 2019 that would cause a change in the amount of the impairment loss. Events influencing the activities of PGG S.A. took place in 2020, including the situation with the COVID-19 pandemic and arrangements with trade unions concerning wage increases. The Group expects these events to be reflected in the financial statements of PGG S.A. for subsequent periods, after which the Group will consider whether they might have an impact on the measurement of the shares held by the Group.

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

ENEA S.A.'s share in the net loss of Elektrownia Ostrołęka Sp. z o.o., caused by an impairment test of that company's non-current assets, which showed a negative value of the CGU if the project were to be continued based on coal fuel, is higher than the present value of the stake in this company, which is why it has to be reduced to zero.

As at 31 December 2018	Elektrownia Ostrołęka Sp. z o.o.	Polimex - Mostostal S.A.	Polska Grupa Górnicza S.A.	ElectroMobility Poland S.A.	Total
Stake	**50.00%**	**16.48%**	**7.66%**	**25.00%**	
Current assets	95 005	1 222 581	3 030 488	52 464	4 400 538
Non-current assets	473 083	712 957	9 026 951	9 223	10 222 214
Total assets	**568 088**	**1 935 538**	**12 057 439**	**61 687**	**14 622 752**
Current liabilities	24 011	840 158	3 801 041	1 711	4 666 921
Non-current liabilities	20 573	538 027	4 511 080	-	5 069 680
Total liabilities	**44 584**	**1 378 185**	**8 312 121**	**1 711**	**9 736 601**
Net assets	**523 504**	**557 353**	**3 745 318**	**59 976**	**4 886 151**
Share in net assets	**261 752**	**91 852**	**286 891**	**14 994**	**655 489**
Goodwill	7 080	15 954	52 697	-	75 731
Elimination of unrealised gains/losses	-	(8 825)	11 873	-	3 048
Book value of equity-accounted investments at 31 December 2018	**268 832**	**98 981**	**351 461**	**14 994**	**734 268**
Revenue	4 149	1 556 170	8 918 722	298	10 479 339
Net result	(5 017)	72 018	530 244	(7 340)	589 905
Elimination of unrealised gains/losses	-	(8 825)	11 873	-	3 048
Share of profit of associates and jointly controlled entities	**(2 197)**	**8 014**	**51 461**	**(1 856)**	**55 422**

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

Change in investments in subsidiaries, associates and jointly controlled entities

	As at	
	31 December 2019	31 December 2018
As at 1 January	**734 268**	**355 152**
Change in the change in net assets	(482 165)	55 422
Impairment of investments in jointly controlled entities	(59 777)	-
Purchase of investments	180 690	323 694
As at 31 December	**373 016**	**734 268**

Implementation of project to build Elektrownia Ostrołęka C

At 31 December 2019, ENEA S.A. held 9 124 821 shares of Elektrownia Ostrołęka Sp. z o.o., with a nominal value of PLN 50 each and total nominal value of PLN 456 241 thousand.

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 (Memorandum) with ENERGA S.A. and Elektrownia Ostrołęka Sp. z o.o. setting out rules for cooperation in the project to build power plant Ostrołęka C, including termination of the Investment Agreement of 8 December 2016, together with Annex 1/2018 of 26 March 2018, and limitation of ENEA S.A.'s financial commitment at the Construction Stage, i.e. not counting funds already committed by ENEA S.A. at the earlier stages of the project to build Elektrownia Ostrołęka C, 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 the Annex of 26 March 2018 were 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, and 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 intended 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. would not breach financial covenants.

The Memorandum constituted 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 could lead to PGE's involvement in the Elektrownia Ostrołęka C project, which is currently being implemented by ENEA S.A. and ENERGA S.A. On 19 November 2019, PGE announced that it had withdrawn from these talks.

From 29 January 2019, based on point 1.7 of the aforementioned Memorandum, the Parties commenced efforts to adapt the terms of agreement with the General Contractor to the Project's current status.

On 30 April 2019, ENEA S.A. executed a memorandum ("Memorandum") with Energa S.A. regarding financing for a project to build a new coal unit - the planned Ostrołęka C power plant in Ostrołęka with 1000 MW gross capacity ("Project"). In the Memorandum, ENEA S.A. and Energa S.A. determined detailed rules for financing the Project, which had been preliminarily agreed in a memorandum of 28 December 2018 between ENEA S.A, Elektrownia Ostrołęka Sp. z o.o. ("company") and Energa S.A.

In the Memorandum, ENEA S.A. undertook to provide the company with PLN 819 million in financing for the project from January 2021 under a PLN 1 billion financial commitment from the 28 December 2018 memorandum, including approx. PLN 181 million already provided to the company to be used as an advance payment for the unit's general contractor. If ENEA S.A. does not execute a new Founding Agreement / Investment Agreement with ENERGA S.A. by 31 December 2020, ENEA S.A. will be required, within the deadlines specified in the Memorandum and within the PLN 819 million limit, to reimburse ENERGA S.A. for half of the funding that ENERGA S.A. independently provides to the company during that period.

If within a deadline resulting from the agreed schedule ENEA S.A. or Energa S.A. do not provide the funding - at their own fault - to the company in a manner other than through a loan or share purchase in particular, then ENEA S.A. or Energa S.A. will be required to pay the amount resulting from the schedule to the company's bank account. The Memorandum also includes provisions protecting ENEA S.A. against claims from the company for return of Project financing amounts that were directly returned to Energa S.A. in connection with financing provided by it during the period prior to execution of the new Founding Agreement / Investment Agreement.

The parties to the Memorandum undertook to specify, in separate agreements, rules for their participation in Project risks, rules for participating in profits and losses and corporate governance rules that will protect their rights and obligations proportionately to their involvement in the Project.

On 30 September 2019, in connection with an obligation arising from the Memorandum being met, ENEA S.A. executed an agreement with Energa S.A. to assign rights from a loan agreement concerning a loan issued to Elektrownia Ostrołęka Sp. z o.o. by Energa S.A. of 17 July 2019. On the same day, ENEA S.A. complied with an obligation arising from the Memorandum by reimbursing Energa S.A. for half of financing provided by Energa S.A. to the company during the period from the date on which the Memorandum was executed, i.e. PLN 29 000 thousand.

On 4 October 2019, an agreement was executed between Elektrownia Ostrołęka Sp. z o.o. and a consortium consisting of Torpol S.A. and Zakłady Automatyki "Kombud" S.A. for the performance of a project titled "Conversion of rail infrastructure system for Elektrownia Ostrołęka C."

On 23 December 2019 ENEA S.A. and ENERGA S.A. executed with Elektrownia Ostrołęka Sp. z o.o. Annex 1 to the Loan agreement of 17 July 2019, extending a PLN 58 million loan repayment deadline from 31 December 2019 to 31 January 2020, along with the lenders' (ENERGA S.A. and ENEA S.A.) commitment to convert, by 31 January 2020, the loan receivable into share capital, subject to approval by the Supervisory Boards of ENERGA S.A. and ENEA S.A.

On 23 December 2019 ENEA S.A. and ENERGA S.A. executed a loan agreement with Elektrownia Ostrołęka Sp. z o.o., pursuant to which ENERGA S.A. issued a loan of up to PLN 340 million to Elektrownia Ostrołęka Sp. z o.o. until 26 February 2021. Under the agreement, if the circumstances indicated in point 1.8 of the Agreement materialise, ENERGA S.A. will sell to ENEA S.A. half of the debt that it will own based on a loan agreement with Elektrownia Ostrołęka Sp. z o.o., payable by 31 January 2021, for a price equal to the nominal value of the debt, covering especially principal and interest as of 31 January 2021. ENEA S.A. will be required to pay the price for this debt by 31 January 2021. ENERGA S.A. paid Elektrownia Ostrołęka Sp. z o.o. the first tranche of the loan on 23 December 2019, amounting to PLN 160 million, and the second tranche on 13 January 2020, amounting to PLN 17 million. As of 31 December 2019, the aforementioned condition was fulfilled for the first tranche of PLN 160 million. As at 31 December 2019, ENEA S.A. presents receivables concerning the aforementioned loan agreement of PLN 80 000 thousand plus PLN 123 thousand in interest, and a liability towards ENERGA S.A. of the same amount.

On 31 January 2020 ENEA S.A. and ENERGA S.A. executed with Elektrownia Ostrołęka Sp. z o.o. Annex 2 to the Loan Agreement of 17 July 2019 extending the deadline for repaying the PLN 58 million loan specified in Annex 1 to the Loan Agreement (31 January 2020) to 31 March 2020, with both of the Lenders (ENERGA S.A. and ENEA S.A.) committing to take action intended to convert their respective parts of the debt into share capital, subject to approval by the Supervisory

Boards of ENERGA S.A. and ENEA S.A., and with the stipulation that the final decision regarding this conversion would be made by each of the Lenders individually at their own discretion directly prior to the loan repayment deadline and taking into account the Project's development progress and status at that time. On 30 March 2020, ENEA S.A. and ENERGA S.A. executed with Elektrownia Ostrołęka Sp. z o.o. Annex 3 to a Loan Agreement of 17 July 2019, in which they decided to extend the deadline for repaying the PLN 58 000 thousand loan from the deadline specified in Annex 2 to the Loan Agreement (31 March 2020) to 30 June 2020.

On 5 December 2019 PKN Orlen S.A. announced a tender offer for all outstanding shares in ENERGA S.A. For the tender offer to go through, subscriptions must cover enough ENERGA S.A. shares to carry at least 66% of total votes. Subscriptions to sell ENERGA S.A. shares began on 31 January 2020 and are expected to end on 9 April 2020. On 26 March 2020, PKN Orlen S.A. announced that it extended the deadline for accepting subscriptions to 22 April 2020. On 26 March 2020, PKN Orlen S.A. announced that it had extended the deadline for accepting subscriptions to 22 April 2020.

On 30 April 2020, PKN Orlen S.A. concluded the process of settling all transactions to purchase shares in ENERGA S.A. following a completed tender offer for the sale of all shares issued by ENERGA S.A., announced by PKN Orlen S.A. on 5 December 2019. As a result of the tender offer, PKN Orlen S.A. purchased 331 313 082 shares of ENERGA S.A., i.e. approx. 80% of ENERGA S.A.'s share capital and approx. 85% of votes at the general meeting of ENERGA S.A.

On 13 February 2020, ENEA S.A. executed an agreement with ENERGA S.A. suspending financing from ENERGA S.A. and ENEA S.A. for the project to build Elektrownia Ostrołęka C. In the agreement, ENEA S.A. and ENERGA S.A. undertook to carry out analyses, especially concerning the project's technical, technological, economic and organisational parameters and further financing.

ENERGA S.A. and ENEA S.A. assumed that suspending financing for the project would result in the company having to suspend its contract executed on 12 July 2018 to build Elektrownia Ostrołęka C with capacity of approx. 1000 MW, along with a contract to convert rail infrastructure for Elektrownia Ostrołęka C of 4 October 2019. The agreement has no impact on the existing agreements in place, especially it has no impact on previous arrangements regarding project financing rules and formula for settlements between ENERGA S.A. and ENEA S.A., adopted based on previous arrangements of 28 December 2018 and 30 April 2019, and the arrangement dated 30 April 2019 will be applied in settling any potential additional costs that could arise if the project to build Elektrownia Ostrołęka Sp. z o.o. is suspended.

On 14 February 2020, Elektrownia Ostrołęka Sp. z o.o. issued to the General Contractor for the contract to build Elektrownia Ostrołęka C with capacity of approx. 1000 MW of 12 July 2018 a notice to suspend all works related to that contract, effective 14 February 2020. Until this notice was handed in to the General Contractor, works had been progressing as scheduled. A majority of the earthworks were completed, while cementing, reinforcing and assembly works were in progress. Moreover, on the same day Elektrownia Ostrołęka Sp. z o.o. issued a notice for the contractor in charge of converting rail infrastructure for Elektrownia Ostrołęka C to suspend that contract dated 4 October 2019, effective 14 February 2020. Until this notice was handed to the contractor, works had been progressing as scheduled. Works on an HV line (carried out by a different contractor) were nearly completed.

On 18 April 2020, an agreement was signed between PKN Orlen and the State Treasury regarding the planned acquisition of capital control over ENERGA S.A. by PKN Orlen. The parties to the agreement intended to continue ENERGA S.A.'s strategic investments after PKN Orlen acquired control over ENERGA S.A. PKN Orlen declared that immediately after obtaining control over ENERGA S.A. it would verify the conditions for continuing these investments, especially the construction of Elektrownia Ostrołęka C.

On 7 May 2020, ENERGA S.A. announced an extension of the period for analysis of the Ostrołęka C project. According to the current report, it was assumed that the analysis would last a further month.

As part of analytical work under the agreement, ENEA S.A. and ENERGA S.A. worked on updating business and technical assumptions as well as assumptions concerning the financing structure within the business model. The results of this work on ENERGA S.A.'s part were provided to Elektrownia Ostrołęka Sp. z o.o. on 14 May 2020, when the company received calculations regarding the Project's profitability if it were to be continued based on coal fuel. These results were used to create a test for the CGU by the company. The CGU test conducted by the company showed that finishing the Project would generate a negative value, meaning that continuing the Project would not be justified.

On 19 May 2020, PKN Orlen, holding an 80% stake in share capital and 85% of votes at the general meeting of ENERGA S.A., published current report 31/2020, in which it announced that it provided its position to ENERGA S.A. in connection with a question sent to PKN Orlen by ENERGA S.A. regarding intent to provide direct financial support for the investment, which covers the construction of a coal-based power generation unit, being implemented by Elektrownia Ostrołęka Sp. z o.o., based in Ostrołęka (Investment).

PKN Orlen declared initial readiness to provide direct financial support for the Investment only if the Investment's technological assumptions were changed to gas-based. PKN Orlen also declared readiness to talk with the company's shareholders, i.e. ENERGA S.A. and ENEA S.A., about the form, scope and ways of getting involved in the aforementioned Investment.

Moreover, on 19 May 2020 ENERGA S.A. published current report 41/2020, announcing that on 19 May 2020 it had received from PKN Orlen, a majority shareholder in ENERGA S.A., a declaration on initial readiness to provide direct financial support for the Investment, covering the construction of a power generation unit and being implemented by Elektrownia Ostrołęka Sp. z o.o. This declaration is a response to ENERGA S.A.'s question for PKN Orlen and was made only on the condition that the technological assumptions for the Investment were changed to a technology based on gas fuel, which is one of the scenarios considered in an analysis that ENERGA S.A. had announced in current reports 8/2020 of 13 February, 11/2020 of 23 February 2020 and 38/2020 of 7 May 2020.

On 19 May, ENEA S.A. received by email a company of Resolution 39/2020 of the Management Board of Elektrownia Ostrołęka Sp. z o.o. dated 19 May 2020 regarding the recognition of an impairment loss on the company's assets. Following an impairment test carried out at Elektrownia Ostrołęka Sp. z o.o., which is a consequence of updated business objectives by Elektrownia Ostrołęka Sp. z o.o. regarding the project to build Elektrownia Ostrołęka C based on coal technology, in these consolidated financial statements ENEA S.A. recognised its share in the net loss of Elektrownia Ostrołęka Sp. z o.o. Given that it is larger than the current value of the stake in this company, it was reduced to zero. Taking into account the circumstances and status of the project being implemented by Elektrownia Ostrołęka Sp. z o.o. as of 31 December 2019, this information was considered as an adjusting event after the reporting period in accordance with IAS 10 point 8.

Furthermore, in these consolidated financial statements loans issued to this company were revalued to recoverable value:

1) Short-term loan resulting from an agreement of 30 September 2019 regarding the assignment of rights to a loan agreement of 17 July 2019, issued to Elektrownia Ostrołęka by ENERGA S.A.: impairment of PLN 29 496 thousand,
2) Long-term loan resulting from an agreement executed on 23 December 2019 between ENERGA S.A., Elektrownia S.A. and ENEA S.A.: impairment of PLN 36 275 thousand.

On 2 June 2020, the Management Board of ENEA S.A. received a final report on analyses conducted in collaboration with ENERGA S.A. concerning the project's technical, technological, economic, organisational and legal aspects and further financing for the project. Conclusions from these analyses do not justify further implementation of the project in its present form, i.e. as a project to build a power plant generating electricity in a hard coal combustion process. The following factors have an impact on this assessment:

1) regulatory changes at EU level and the credit policies of financial institutions, which show a considerable increase in the availability of financing for energy projects based on gas combustion vs. coal projects;

   and

2) acquisition of control over Energa by PKN Orlen, the strategy of which does not include investments in electricity generation based on coal combustion.

At the same time, technical analysis confirmed the viability of a power plant generating electricity in a natural gas combustion process ("Gas Project") at the location of the coal unit currently being built. As a consequence of the above, the Parent's Management Board has decided to change the fuel source from coal to gas.

A tri-partite agreement was executed on 2 June 2020 between the Parent, ENERGA S.A. and PKN Orlen, specifying the following key cooperation rules for the Gas Project:

- subject to the stipulations below, cooperation between the Parent and ENERGA S.A. will be continued as part of the existing special purpose vehicle, i.e. Elektrownia Ostrołęka Sp. z o.o., and settlements between the Parent and ENERGA S.A. relating to costs concerning the Project as well as settlements with Project contractors will be made in accordance with the existing rules,
- PKN Orlen's potential role in the Gas Project as a new shareholder will be taken into account,
- ENEA S.A.'s participation in the Gas Project as minority shareholder will have a limit on the amount to be invested, as a consequence of which the Company will not be an entity jointly controlling Elektrownia Ostrołęka,
- subject to the requisite corporate approvals, a new shareholder agreement will be executed regarding the Gas Project, taking into account the aforementioned rules for cooperation,
- activities will be undertaken by ENERGA S.A. together with PKN Orlen to raise financing for the Gas Project.

As at 31 December 2019, ENEA S.A.'s commitment to provide financing to Elektrownia Ostrołęka Sp. z o.o. resulting from existing agreements (especially the agreements dated 28 December 2018 and 30 April 2019) that had not yet been met amounted to PLN 710 million. Considering the above, the Company does not have sufficient information on any additional payments or their deadlines. The liability resulting from these agreements (especially the agreements of 28 December 2018 and 30 April 2019) can be performed on the basis of future arrangements resulting from the agreement of 2 June 2020.

At the date on which these financial statements were prepared, having assessed the aforementioned events as well as having analysed the above investment's status and the issue of transforming the existing project into the Gas Project, which took place after the balance sheet date and in respect of which final arrangements with the project's General Contractor have not yet been made, no need to create additional provisions for this liability was identified as of the balance sheet date.

19. CO_2 emission allowances

Accounting rules

CO_2 emission allowances purchased 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 CO_2 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

In the aforementioned groups inventory is managed using the FIFO method, i.e. 'first in, first out,' for each of the installations, or using the weighted average purchase price approach.

When CO_2 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 CO_2 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 of compliance with the above obligation are recognised in accounting books systematically over an annual reporting period in the form of a provision for estimated CO_2 emissions for each installation proportionally to the actual and planned electricity production, and are recognised as cost of core activity.

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 sale 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:

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

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.

Significant judgements and estimates

Determining the impairment of CO_2 emission allowances requires net realisable values to be estimated based on the most up-to-date sales prices at the time when these estimates are made.

CO_2 emission allowances

	As at 31 December 2019	As at 31 December 2018
Gross value		
As at 1 January	**586 236**	**595 533**
Purchase	1 423 701	516 810
Redemption of allowances	(546 287)	(497 255)
Sale	(82 986)	(22 228)
Other changes	(5 536)	(6 624)
As at 31 December	**1 375 128**	**586 236**
Net book value		
As at 1 January	**586 236**	**595 533**
As at 31 December	**1 375 128**	**586 236**

20. Inventories

Accounting rules

Inventory components are measured at the purchase price or cost to manufacture.

The distribution of inventory is established as follows:

– using the weighted average purchase price approach,
– using specific identification of actual costs,
– using the FIFO method.

The Group's inventory includes energy origin certificates purchased for redemption, for further sale and those produced internally.

Certificates of energy origin - these confirm that energy is produced in renewable source or in cogeneration. 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 - these confirm declared energy savings resulting from activities intended to improve energy efficiency. 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 Group - 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 Group,
- 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 recognises 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 sale of electricity to end customers generated in a given settlement year is reduced 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 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 specific identification method or the weighted average purchase price method.

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.

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

Significant judgements and estimates

Determining the impairment of inventory requires net realisable values to be estimated based on the most up-to-date sales prices at the time when these estimates are made.

Inventories

	As at	
	31 December 2019	31 December 2018
Materials	952 280	769 319
Semi-finished products and production in progress	772	609
Finished products	34 396	18 612
Energy origin certificates	436 118	516 180
Goods	11 569	13 760
Gross value of inventory	**1 435 135**	**1 318 480**
Impairment of inventory	(58 840)	(53 610)
Net value of inventory	**1 376 295**	**1 264 870**

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 2019, impairment of inventory increased by PLN 5 230 thousand on a net basis (in the 12 months of 2018 impairment of inventory increased by PLN 46 720 thousand on a net basis).

No collateral is established on inventory.

21. Energy origin certificates

Accounting rules

Accounting rules are presented in note Inventory (note 20).

Significant judgements and estimates

Significant judgements and estimates are presented in note Inventory (note 20).

Energy origin certificates

	As at	
	31 December 2019	31 December 2018
Net value at 1 January	**516 133**	**257 046**
Internal manufacture	263 460	188 597
Purchase	109 101	461 543
Depreciation	(426 905)	(376 813)
Sale	(24 529)	(14 489)
Change in impairment	(6 110)	373
Other changes	(579)	(124)
Net value at 31 December	**430 571**	**516 133**

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

22. Trade and other receivables

Accounting rules

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 an 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.

Significant judgements and estimates

Impairment of trade and other receivables

Impairment of receivables is determined on the basis of expected credit losses. Expected credit losses take into account previous counterparty default events as well as potential estimated credit losses (note 38.1), 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.

Trade and other receivables

	As at	
	31 December 2019	31 December 2018
Current trade and other receivables		
Finance lease receivables	-*	759
Trade receivables	1 240 224	1 352 963
Tax (excluding income tax) and other benefit receivables	285 819	95 258
Other receivables	272 228	407 749
Advances	470 681	171 044
Prepaid property insurance	12 459	8 834
Current trade and other receivables gross	**2 281 411**	**2 036 607**
Minus: impairment of receivables	(157 844)	(162 102)
Net current trade and other receivables	**2 123 567**	**1 874 505**

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

	As at 31 December 2019	As at 31 December 2018
Non-current trade and other receivables		
Finance lease receivables	-*	1 103
Trade receivables	4 032	9 206
Other receivables	16 830	12 950
Non-current trade and other receivables gross	**20 862**	**23 259**
Minus: impairment of receivables	-	(2)
Net non-current trade and other receivables	**20 862**	**23 257**

** presentation change resulting from IFRS 16, described in note 6.*

23. Group as finance or operating lessor / sublessor

Accounting rules

As lessor, the Group classifies leases as finance leases or operating leases.

The Group recognises operating lease revenue on a straight-line basis throughout the lease term.

In a finance lease, the Group (as lessor) ceases to recognise the leased asset as property, plant and equipment and recognises finance lease receivables in an amount equal to the net lease investment. The recognition of finance income reflects a fixed periodic rate of return in the net lease investment by the lessor as part of a finance lease. Lease payments for a given reporting period decrease the gross lease investment, reducing both the principal receivable and the amount of unrealised finance income.

As an indirect lessor, the Group recognises the main lease contract and the sub-lease contract as two separate contracts. The measurement of the head lease, i.e. measurement of the right-of-use assets and the lease liability, is in accordance with the measurement methodology for standard leases. The Group (indirect lessor) classifies a sublease as a finance lease or an operating lease in reference to the right-of-use resulting from the head lease.

Subleases the term of which constitutes a major part of the head lease term are classified as finance leases. Otherwise, the sublease is an operating lease.

The Group (indirect lessor) throughout the term of the sublease recognises both interest income from the sublease and interest costs on the head lease, which are presented separately.

The Group (indirect lessor) recognises sublease receivables in an amount equal to the sum of minimum lease payments due to the sublessor resulting from a finance sublease, discounted using the sublease interest rate. Based on the adopted interest rate, the fixed lease payment resulting from the contract is split into principal and interest. The principal portion reduces the amount of sublease receivable, while the interest portion is recognised in profit or loss.

When the Group executes a sublease contract that is an operating lease, the Group (indirect lessor) continues to recognise in the statement of financial position a lease liability and right-of-use assets.

As lessor, the Group does not have the option to use a practical expedient in the form of separating lease and non-lease components. The Group must allocate the total contractual consideration to lease and non-lease components based on the unit sale prices for specific components. Unit sale prices may be derived from price lists based on which the Group prepares its offerings. IFRS 15 *Revenue from Contracts with Customers* applies to non-lease components.

General information on the Group as lessor

The Group is lessor in leases for event illuminations and also acts as lessor in operating leases for commercial facilities, land and IT services.

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

23.1. Group as finance lessor / sublessor

Reconciling undiscounted contract lease payments with net lease investment

	As at 31 December 2019
Undiscounted contract lease payments	**1 922**
Unrealised finance income (discount effect)	(653)
Discounted contract lease payments (net lease investment)	**1 269**

Undiscounted contract payments on finance leases (this division applies to the period left until contract expiry)

	As at 31 December 2019
Under one year	1 231
From one to five years	691
Value of undiscounted contract payments on finance leases	**1 922**

Income from finance leases

	Year ended 31 December 2019
Interest income from finance leases	**280**

23.2. Group as operating lessor / sublessor

Undiscounted contract payments on operating leases (this division applies to the period left until contract expiry)

	As at 31 December 2019
Under one year	2 348
From one to five years	717
Over five years	148
Value of undiscounted contract payments on operating leases	**3 213**

Income from operating leases

	Year ended 31 December 2019
Income from operating leases	**7 722**

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

24. Assets and liabilities arising from contracts with customers

Accounting rules

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 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).

Significant judgements and estimates

Uninvoiced revenue from sales at the end of financial period

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 the financial year.

Assets and liabilities arising from contracts with customers

	Assets arising from contracts with customers	Liabilities arising from contracts with customers
As at 1 January 2018, 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 31 December 2018	**327 980**	**68 578**
Non-invoiced receivables	2 395	-
Increase due to prepayments	-	34 492
Liabilities resulting from sales adjustments	-	12 631
Impairment	72	-
As at 31 December 2019	**330 447**	**115 701**

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 liabilities concerning sales adjustments related to the Act on amendment of the act on excise duty and certain other acts (note 43.1) as well as advances received for connection fees.

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

25. Cash and cash equivalents

Accounting rules

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.

Significant judgements and estimates

Presentation of deposits at clearinghouse IRGiT

These are funds constituting collateral for settlements with the clearing-house IRGiT, and they are analysed in terms of the possibility to free them up without incurring a substantial loss.

Cash and cash equivalents

	As at	
	31 December 2019	31 December 2018
Cash on hand and at bank account	**764 089**	**1 069 639**
- Cash on hand	25	24
- Cash at bank account	764 064	1 069 615
Other cash	**2 997 858**	**1 581 199**
- Cash in transit	7	1 131
- Deposits	2 934 752	1 143 636
- Other	63 099	436 432
Total cash and cash equivalents	**3 761 947**	**2 650 838**
Cash recognised in the statement of cash flows	**3 761 947**	**2 650 838**
including restricted cash	477 382	588 632

No collateral is established on cash.

As at 31 December 2019, the Group's restricted cash amounted to PLN 477 382 thousand (as at 31 December 2018: PLN 588 632 thousand). This mainly included cash for deposits for electricity and CO_2 emission allowance transactions (mainly cash for collateral in settlements with clearinghouse IRGiT), funds in a VAT account (split payment), collateral paid to suppliers and cash withholding as collateral for proper performance of work.

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

26. Equity

Accounting rules

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.

Equity

As at 31 December 2019

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**

As at 31 December 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 capital was fully paid-up.

27. Non-controlling interests

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

Non-controlling interests

For the financial year ended 31 December 2019:

Name of subsidiary	Miejska Energetyka Cieplna Piła Sp. z o.o.	Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Obornikach	ENEA Ciepło Sp. z o.o.	Lubelski Wegiel Bogdanka S.A.	Total non-controlling interests
Non-controlling interests (in %)	**28.89%**	**0.07%**	**0.06%**	**34.01%**	
Non-current assets	90 036	14 817	704 109	3 120 332	
Current assets	32 025	3 462	152 537	745 789	
Non-current liabilities	(15 695)	(4 236)	(152 058)	(561 583)	
Current liabilities	(13 190)	(2 984)	(119 851)	(373 694)	
Net assets	**93 176**	**11 059**	**584 737**	**2 930 844**	
Book value of non-controlling interests	**26 919**	**8**	**351**	**996 780**	**1 024 058**
Revenue from sales	61 080	6 473	377 549	2 157 858	
Net profit/(loss) for the reporting period	(1 756)	(514)	4 379	343 466	
Total comprehensive income	(1 985)	(564)	2 748	338 616	
Profit/(loss) attributable to non-controlling interests	**(366)**	**-**	**953**	**116 905**	**117 492**
Comprehensive income attributable to non-controlling interests	**(432)**	**-**	**952**	**115 246**	**115 766**
Net cash flows from operating activities	2 686	954	83 816	716 420	
Net cash flows from investing activities	(10 480)	(1 014)	(54 881)	(471 855)	
Net cash flows from financing activities	(2 115)	(484)	(27 811)	(32 618)	
Net cash flows	**(9 909)**	**(544)**	**1 124**	**211 947**	
Paid dividend attributable to non-controlling interests	**-**	**-**	**-**	**(8 673)**	

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.

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

For the financial year ended 31 December 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.	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)**	

No dividend was paid to non-controlling interests in 2018.

28. Dividends

Accounting rules

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.

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.

A decision on a dividend payment for the present financial year will be made by shareholders at the 2020 Ordinary General Meeting. The Management Board of ENEA S.A. will provide its recommendation on the 2019 profit allocation by the end of H1 2020.

On 20 May 2019, 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 2018 to 31 December 2018, pursuant to which 100% of the 2018 net profit was transferred to reserve capital, intended to finance investments.

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.

29. Capital management policy

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 2019.

30. Debt-related liabilities

Accounting rules

Financial liabilities, including credit facilities, loans and debt securities

At initial recognition, all **credit facilities and loans** are recognised at fair value less capital-raising costs.

Subsequent to initial recognition, **credit and loan liabilities** are measured at amortised cost using the effective interest rate approach. In determining the amortised cost, costs related to obtaining credit or loan and discount or bonuses related to the liability are taken into account.

Financial liabilities that include debt securities are classified at initial recognition as:

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

Accounting rules for **financial liabilities** are described in greater detail in the section concerning financial instruments in the note devoted to financial instruments and fair value (note 35), whereas **lease liabilities** are described in the note concerning right-of-use assets (note 16).

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

Credit facilities, loans and debt securities

	As at 31 December 2019	31 December 2018
Bank credit	1 891 366	2 054 465
Loans	56 861	69 127
Bonds	5 854 886	5 850 121
Long-term	**7 803 113**	**7 973 713**
Bank credit	169 956	160 138
Loans	12 450	12 546
Bonds	1 920 505	183 156
Short-term	**2 102 911**	**355 840**
Total	**9 906 024**	**8 329 553**

In accordance with ENEA S.A.'s financing model, in order to secure funding for ENEA Group companies' on-going operations and investment needs, ENEA executes agreements with external financial institutions concerning bond issue programmes and/or credit agreements.

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	Debt at 31 December 2019	Debt at 31 December 2018	Interest	Contract period
1.	ENEA S.A.	EIB	18 October 2012 and 19 June 2013 (A and B)	1 425 000	1 138 956	1 264 369	Fixed interest rate or WIBOR 6M + margin	17 June 2030
2.	ENEA S.A.	EIB	29 May 2015 (C)	946 000	915 167	941 833	Fixed interest rate or WIBOR 6M + margin	15 September 2032
3.	ENEA S.A.	PKO BP	28 January 2014, Annex 1 of 25 January 2017	300 000	-	-	WIBOR 1M + margin	31 December 2019
4.	ENEA S.A.	Pekao S.A.	28 January 2014, Annex 1 of 25 January 2017	150 000	-	-	WIBOR 1M + margin	31 December 2019
5.	ENEA Ciepło Sp. z o.o.	National Fund for Environmental Protection and Water Management (NFOŚiGW)	22 December 2015	60 075	48 184	55 192	Interest based on WIBOR 3M, no less than 2%	20 December 2026
6.	LWB	mBank	16 December 2016, Annex 1 of 30 November 2018, Annex 2 of 16 September 2019	100 000	-	-	WIBOR 1M + margin	29 November 2019
7.	Other	-	-	-	26 218	33 391	-	-

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

TOTAL	**2 981 075**	**2 128 525**	**2 294 785**
Transaction costs and effect of measurement using effective interest rate		2 108	1 491
TOTAL	**2 981 075**	**2 130 633**	**2 296 276**

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 were used 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 were fully used. Interest on credit facilities may be fixed or variable.

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%. The loan was transferred (together with an organised part of enterprise) from ENEA Wytwarzanie Sp. z o.o. 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 2019 amounted to PLN 48 184 thousand (at 31 December 2018: PLN 55 192 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, extended the repayment deadline to 29 November 2019. An annex was signed on 16 September 2019 pursuant to which the amount of available credit was changed (PLN 100 000 thousand until 17 September 2019, PLN 20 000 thousand from 18 September to 21 October 2019, and PLN 100 000 thousand from 22 October 2022). The agreement expired on 29 November 2019.

Bond issue programmes

Presented below is a list of bonds issued by ENEA S.A.

Item	Bond issue programme name	Programme start date	Programme amount	Value of outstanding bonds as at 31 December 2019	Value of outstanding bonds as at 31 December 2018	Interest	Buy-back deadline
1.	Bond issue programme agreement with PKO BP S.A., Bank PEKAO S.A., Santander BP S.A., Citi BH S.A.	21 June 2012	3 000 000	3 000 000	3 000 000	WIBOR 6M + margin	One-time buy-back between June 2020 and June 2022
2.	Bond issue programme agreement with BGK	15 May 2014	1 000 000	800 000	880 000	WIBOR 6M + margin	Buy-back in tranches, last tranche due in December 2026
3.	Bond issue programme agreement with PKO BP S.A., Bank PEKAO S.A. and mBank S.A.	30 June 2014	5 000 000	3 378 200	1 500 000	WIBOR 6M + margin	One-time buy-back of each series, in February 2020, September 2021 and June 2024

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

4.	Bond issue programme agreement with BGK	3 December 2015	700 000	608 890	685 000	WIBOR 6M + margin	Buy-back in tranches, last tranche due in September 2027
	TOTAL		**9 700 000**	**7 787 090**	**6 065 000**		
Transaction costs and effect of measurement using effective interest rate				(11 699)	(31 723)		
	TOTAL		**9 700 000**	**7 775 391**	**6 033 277**		

In the 12-month period ending 31 December 2019 ENEA S.A. did not execute new bond issue programme agreements.

On 12 June 2019 ENEA S.A., ING Bank Śląski S.A., PKO Bank Polski S.A., Bank Pekao S.A. and mBank S.A. signed an agreement pursuant to which ING Bank Śląski S.A. as of the agreement date no longer performed the functions it performed under the "Programme Agreement regarding a bond issue program up to PLN 5 000 000 thousand of 30 June 2014" in reference to new bond issues.

On 12 June 2019, ENEA S.A., PKO Bank Polski S.A., Bank Pekao S.A. and mBank S.A. executed an "Agreement amending and consolidating the Programme Agreement of 30 June 2014." This agreement was intended to adapt the rights and obligations arising under it to the existing MiFID regulations.

On 26 June 2019 ENEA S.A. as part of the "Programme Agreement regarding a bond issue program up to PLN 5 000 000 thousand of 30 June 2014" issued 10 000 bearer bonds with a total nominal value of PLN 1 000 000 thousand. The issue is intended to refinance ENEA S.A.'s debt arising from the ENEA0220 series bonds. On 17 September 2019, series ENEA0624 bonds were introduced to the alternative trading system Catalyst pursuant to resolution 928/2019 by the Management Board of Giełda Papierów Wartościowych S.A.

On 14 October 2019 ENEA S.A. completed an early buy-back of ENEA0220 series bonds issued as part of the "Programme Agreement regarding a bond issue program up to PLN 5 000 000 thousand of 30 June 2014." The bonds were purchased for redemption pursuant to art. 76 sec. 1 of the Act on Bonds of 15 January 2015. Given the above, on 15 October 2019 the Management Board of ENEA S.A. decided to adopt a resolution to buy back 1 218 thousand series ENEA0220 shares with a total nominal value of PLN 121 800 thousand. The remaining portion of the series ENEA0220 shares are held by bondholders and will continue being traded on an alternative trade system organised by BondSpot S.A. Their maturities are on 10 February 2020.

On 2 December 2019, ENEA S.A. as part of the "Programme Agreement regarding a bond issue program up to PLN 5 000 000 thousand of 30 June 2014" ENEA S.A. carried out a series of allocations to a sole entity series ENEB0624, totalling 10 000 thousand to ENEB0624 with a total nominal value of PLN 1 000 000 thousand. The bonds were offered in a past cycle pursuant to art. 33 point 2 of the Act on Bonds.

Interest rate hedges and currency hedges

These transactions are described in notes 38.5 and 38.4.

Financing terms - covenants

Financing agreements require ENEA S.A. and ENEA Group to maintain certain financial ratios. As at 31 December 2019 and the date on which these consolidated financial statements were prepared and in the course of 2019 the Group did not breach any credit agreement provisions such as would require early re-payment of long-term debt.

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

Lease liabilities

	As at 31 December 2019			As at 31 December 2018		
	Lease liabilities	Interest	Total	Finance lease liabilities	Interest	Total
Under one year	27 939	14 174	42 113	2 994	262	3 256
From one to five years	47 914	60 271	108 185	3 646	197	3 843
Over five years	456 410	299 604	756 014	-	-	-
Total	**532 263**	**374 049**	**906 312**	**6 640**	**459**	**7 099**

Passenger vehicles were the main object of leases in 2018.

Contracts that are subject to IFRS 16 are leases, rights to perpetual usufruct of land, tenancy agreements that meet the definition of a lease (office space in buildings, stations, underground parts of land). The Group sets the lease term, i.e. an irrevocable lease term, together with: a) term for an option to extend the lease if it is sufficiently certain that the Group will exercise this right; b) term for an option to terminate the lease if it is sufficiently certain that the Group will not exercise the right. In most of its leases, the Group uses a lease term in accordance with the contractual period. For contracts executed for an indefinite period, the Group determines the minimum contractual term for both of the parties. If the Group is unable to determine how long it intends to use the asset and such an estimate could be treated as a lease term in the case of contracts with an indefinite term, the Group assumes that the irrevocable contractual term will be the termination period for that contract. In the case of rights to the perpetual usufruct of land, the Group sets the lease term in line with the period for which such rights are granted. In the case of rights to use underground parts of land, the average lease term is used, based on the period outstanding, as at the date on which the liability is recognised, for depreciation of the infrastructure placed under the ground. In 2019, leases also included cars and the renting of parking spots. There is a buy-out option in the case of cars. Car leases have a three-year term. At LBW, a contract to lease locomotives includes a fixed monthly payment for use. The rent payment may be proportionally reduced for periods in which the lessee does not use locomotives with no fault on the lessee's part. The contract does not contain provisions concerning extensions or buy-out of the lease object after the lease term.

Finance lease costs

	Year ended 31 December 2019
Interest cost on lease liabilities	(14 988)
Cost of short-term leases for which a practical expedient was applied	(4 261)
Cost of low-value asset leases for which a practical expedient was applied	-
Cost of variable lease payments not recognised in measurement of lease liabilities	(4)
Gain on change in or liquidation of right-of-use assets	20

The present value of future lease payments is calculated using the interest rate implicit in the lease. If the lease rate is unknown, the Group uses a residual interest rate, i.e. a rate that would have to be paid in order to borrow, on similar terms and with similar collateral, funds necessary to purchase an asset similar to the right-of-use asset on similar economic terms.

The Group may use a practical expedient and not apply the lease recognition model in reference to: a) short-term leases (a lease term of 12 months or less; the contract does not include a right to buy out the asset) b) low-asset value leases the initial value of which for new assets does not exceed PLN 10 thousand (even if their aggregate value is material). If the Group decides to use this expedient, it recognises lease payments as cost on a straight-line basis throughout the lease term or using another approach that more closely reflects the Group benefit. This exemption does not apply to situations where the Group transfers the asset under a sub-lease or expects to transfers it.

General information on the Group as lessee

The Group does not have significant future cash outflows that are not included in measurement of a finance liability and covenants imposed by lessors. The Group was not a party to any leasebacks in 2019.

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

Future liabilities concerning rent and tenancy contracts other than leases (this division applies to the period left until contract expiry)

	As at 31 December 2019
Under one year	15 340
From one to five years	26 582
Over five years	23 857
Value of future liabilities concerning rent and tenancy agreements other than a lease	**65 779**

Future liabilities concerning right to perpetual usufruct of land, obtained for free or for a fee, as well as rent and tenancy agreements and operating leases (concerns 2018)

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.*

	As at 31 December 2018
Under one year	7 091
From one to five years	38 570
Over five years	471 606
Value of future liabilities concerning rights to perpetual usufruct of land	**517 267**

Future liabilities concerning tenancy agreements and operating leases*

	As at 31 December 2018
Under one year	23 084
From one to five years	41 024
Over five years	26 603
Value of future liabilities concerning tenancy, rent agreements and operating leases	**90 711**

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

	Year ended 31 December 2018
Right to perpetual use	10 011
Tenancy agreements and operating leases	22 165

Operating lease payments recognised in costs*

	Year ended 31 December 2018
Minimum lease payments	(5 254)

** The tables above do not include the right to use underground parts of land and right to establish easement, which are recognised as leases from 2019.*

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

31. Trade and other payables

Accounting rules

Trade and other payables classified as financial liabilities are initially recognised at fair value that corresponds to nominal value, less transaction costs, and are subsequently measured at amortised cost using the effective interest rate approach.

Other liabilities not constituting financial liabilities are initially recognised at nominal value and are measured at the end of the reporting period in the amount of payment due.

	As at 31 December 2019	31 December 2018
Non-current trade and other payables		
Liabilities concerning purchase of licences for geological information and concessions	36 493	39 159
Liabilities arising from assignment of loan agreement	80 123	-
Other	3 159	28 326
Non-current trade and other payables	**119 775**	**67 485**
Current trade and other payables		
Trade payables	820 238	873 902
Advances received for supplies, works and services	93	5 070
Tax (excluding income tax) and similar liabilities	432 755	129 797
Liabilities concerning purchase of tangible and intangible assets	470 411	589 494
Dividend liabilities	4	4
Special funds	1 089	227
Liabilities concerning deposits for futures transactions for CO_2 emission allowances	-	851 157
Other	188 850	85 082
Total current trade and other payables	**1 913 440**	**2 534 733**
Total trade and other payables	**2 033 215**	**2 602 218**

32. Employee benefit liabilities

Accounting rules

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 (remuneration for unused vacation time), 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.

Other liabilities are measured in the amount due to be paid.

Long-term employee benefits

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. These benefits are financed entirely by the Group. Actuarial methods are used to estimate these liabilities.

Defined benefit plans

In accordance with workplace remuneration regulations, the Group's employees have the right to the following post-employment benefits:

- retirement/disability severance pay - paid on a one-off basis upon retirement,
- post-mortem payment - if an employee dies in the course of work or while on disability leave after work as a result of a disease, the family is entitled to a post-mortem payment from the employer,
- cash equivalent resulting from the right to discounted electricity prices,
- benefits from the Workplace Social Benefits Fund.

The provisions below constitute a defined benefit plan after the employment period.

The present value of provisions for post-employment benefits is calculated at each balance sheet date by an independent actuary, using actuarial methods. The provisions are calculated for every employee individually. The liabilities accrued are equal to discounted payments that will be made in the future, taking into account employee turnover, and they apply to a period until the balance sheet date. Demographic information and information on employee turnover are based on historic data.

Actuarial gains and losses on the measurement of post-employment benefit liabilities are recognised entirely in other comprehensive income.

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 these liabilities. Actuarial gains and losses are fully recognised in present-period profit or loss.

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.

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

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

Significant judgements and estimates

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 by an independent actuary using actuarial methods. This estimate is affected by the discount rate and long-term growth in wages.

Estimates of the following employee benefit liabilities are done by an actuary:

- longevity bonus payments,
- pension/disability benefit payments,
- post-mortem payments,
- right to discounts in purchasing electricity,
- contribution to the Workplace Social Benefits Fund.

For calculation purposes, basic data was used for each Group employee individually, as at the end of the reporting period, (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.

Actuarial assumptions used in calculating these estimates are presented below.

Employee benefit liabilities

	As at	
	31 December 2019	31 December 2018
Remuneration and other liabilities	387 727	337 385
Provision for Voluntary Leave Programme	-	1 665
Retirement and disability severance payments	215 354	185 906
Right to rebates in purchasing energy after retirement	301 704	250 254
Contribution to Company Social Benefits Fund for retired employees	103 756	73 752
Post-mortem payment	25 086	21 448
Longevity bonus	416 273	364 377
Total employee benefit liabilities	**1 449 900**	**1 234 787**
Long-term	*983 818*	*814 769*
Short-term	*466 082*	*420 018*

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

Changes in the 12 months to 31 December 2019

	Retirement and disability severance payments	Right to rebates in purchasing energy after retirement	Contribution to Company Social Benefits Fund for retired employees	Post-mortem payment	Longevity bonus	Total
As at 1 January 2019	**185 906**	**250 254**	**73 752**	**21 448**	**364 377**	**895 737**
Costs recognised in profit or loss, including:	**15 440**	**26 895**	**10 461**	**1 994**	**92 921**	**147 711**
cost of present employment	10 287	5 276	2 259	1 363	26 384	45 569
cost of future employment	113	13 789	5 884	3	866	20 655
cost of interest	5 040	7 830	2 318	628	10 498	26 314
net actuarial gains/losses arising from change in financial assumptions	-	-	-	-	38 381	38 381
net actuarial gains/losses arising from adjustment of demographic assumptions	-	-	-	-	(1 352)	(1 352)
net actuarial gains/losses arising from ex-post adjustment of assumptions	-	-	-	-	18 144	18 144
Costs recognised in other comprehensive income, including:	**28 051**	**33 483**	**21 271**	**2 476**	**-**	**85 281**
net actuarial gains/losses arising from change in financial assumptions	23 647	48 338	22 122	2 624	-	96 731
net actuarial gains/losses arising from adjustment of demographic assumptions	(698)	(1 501)	(1 056)	(20)	-	(3 275)
net actuarial gains/losses arising from ex-post adjustment of assumptions	5 102	(13 354)	205	(128)	-	(8 175)
Reduced liabilities concerning payout of benefits (negative value)	**(14 043)**	**(8 928)**	**(1 728)**	**(832)**	**(41 025)**	**(66 556)**
Total changes	**29 448**	**51 450**	**30 004**	**3 638**	**51 896**	**166 436**
As at 31 December 2019	**215 354**	**301 704**	**103 756**	**25 086**	**416 273**	**1 062 173**
Long-term	*188 386*	*292 569*	*101 386*	*22 984*	*378 493*	*983 818*
Short-term	*26 968*	*9 135*	*2 370*	*2 102*	*37 780*	*78 355*

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

Changes in the 12 months to 31 December 2018

	Retirement and disability severance payments	Right to rebates in purchasing energy after retirement	Contribution to Company Social Benefits Fund for retired employees	Post-mortem payment	Longevity bonus	Total
As at 1 January 2018	**173 984**	**223 457**	**69 262**	**4 271**	**339 352**	**810 326**
Costs recognised in profit or loss, including:	**14 222**	**11 308**	**4 195**	**18 014**	**59 688**	**107 427**
cost of present employment	9 333	4 335	1 998	1 427	23 997	41 090
cost of future employment	33	-	-	15 954	171	16 158
cost of interest	4 856	6 973	2 197	633	9 953	24 612
net actuarial gains/losses arising from change in financial assumptions	-	-	-	-	2 014	2 014
net actuarial gains/losses arising from adjustment of demographic assumptions	-	-	-	-	(528)	(528)
net actuarial gains/losses arising from ex-post adjustment of assumptions	-	-	-	-	24 081	24 081
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)**	**(34 663)**	**(58 401)**
Total changes	**11 922**	**26 797**	**4 490**	**17 177**	**25 025**	**85 411**
As at 31 December 2018	**185 906**	**250 254**	**73 752**	**21 448**	**364 377**	**895 737**
Long-term	*156 507*	*240 746*	*71 993*	*19 508*	*326 015*	*814 769*
Short-term	*29 399*	*9 508*	*1 759*	*1 940*	*38 362*	*80 968*

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

Actuarial assumptions

Assumptions	31 December 2019	31 December 2018
Estimated long-term annual growth in remuneration	2.7%	2.5%
Estimated growth in value of contribution to Company Social Benefits Fund	13.95% in 2021, 5.7% in 2022-2026, 5.6% in 2027-2029, 5.2% in the forecast's remaining years.	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.
Discount rate	2.15%	3.22%
Value of cash equivalent for subsidised energy purchases	PLN 1 330.25	PLN 1 412.76
Growth in the value of cash equivalent for subsidised electricity purchases	in 2020: 23.18%, 2021: -4.0%, 2022-2026: 5.0%, in subsequent years: 2.5%	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
Average monthly remuneration (for the purposes of calculating Company Social Benefit Fund liabilities)	PLN 4 134.02	PLN 3 278.14

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	(81 470)	103 164
Expected remuneration growth rate	42 387	(35 072)
Average growth in the value of cash equivalent for subsidised electricity purchases	53 090	(42 322)

Maturity of defined benefit plan liabilities

Weighted average period of defined benefit plan liabilities (in years)	As at 31 December 2019	31 December 2018
Retirement and disability severance payments	14.7	13.5
Post-mortem payment	11.4	11.3
Right to rebates in purchasing energy after retirement	16.5	15.5
Contribution to Company Social Benefits Fund for retired employees	19.0	17.7

33. Provisions

Accounting rules

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.

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 as at the balance sheet date. The cost to create provisions is recognised in other operating costs.

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 onerous contracts if the costs to comply with an obligation arising from a contract exceed the benefits (that are expected to be) received from that contract.

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 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.

The provision for origin certificates will be performed in Q1-Q2 2020.

Provision for mine liquidation

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.

Significant judgements and estimates

Provision for non-contractual use of property

Valuation includes estimating the potential payments of compensation for non-contractual use of land and for rent. 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. The 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.

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, the rehabilitation obligation is expected to arise in 2060. Future estimated costs of landfill rehabilitation were discounted to present value using a 2.15% discount rate (3.22% as at 31 December 2018).

Provision for CO_2 emission allowance purchases

Judgements concern assumptions related to the allocation of free CO_2 emission allowances due for the Group for 2019.

Provision for mine liquidation costs

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. Any changes to these assumptions have an impact on the provision's book value. Mine closure costs are calculated by an independent advisory firm using historic data concerning mine closure costs in the hard coal sector in Poland. It is difficult to determine when this provision will be performed.

Provision for claims concerning terminated agreements for the purchase of property rights

Recognising this provision requires the most accurate estimate of potential compensation for terminating contracts for the purchase of property rights (note 43.7). It is difficult to determine when this provision will be performed.

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

Change in provisions for liabilities and other charges

For the financial year ended 31 December 2019:

	Provision for non-contractual use of land	Provision for other claims	Provision for landfill site reclamation	Provision for energy origin certificates	Provision for CO_2 emission allowance purchases	Mine liquidation	Other	Total
As at 1 January 2019	**182 738**	**166 663**	**66 119**	**306 918**	**557 713**	**112 566**	**570 992**	**1 963 709**
Reversal of discount and change of discount rate	10 249	-	2 665	-	-	3 625	-	16 539
Increase in existing provisions	17 626	68 787	25 849	181 356	1 241 691	46 781	91 587	1 673 677
Use of provisions	(295)	(1 133)	-	(289 750)	(558 177)	-	(146 238)	(995 593)
Reversal of unused provision	(231)	(3 611)	(3 353)	(969)	(7 902)	-	(151 813)	(167 879)
As at 31 December 2019	**210 087**	**230 706**	**91 280**	**197 555**	**1 233 325**	**162 972**	**364 528**	**2 490 453**
Long-term								*774 065*
Short-term								*1 716 388*

For the financial year 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 CO_2 emission allowance purchases	Mine liquidation	Other	Total
As at 1 January 2018	**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 31 December 2018	**182 738**	**166 663**	**66 119**	**306 918**	**557 713**	**112 566**	**570 992**	**1 963 709**
Long-term								*657 112*
Short-term								*1 306 597*

A description of material claims and conditional liabilities is presented in note 43.

Provision for CO2 emission allowance purchases

The provision for CO_2 emission allowance purchases as at 31 December 2019 amounted to PLN 1 233 325 thousand (as at 31 December 2018: PLN 557 713 thousand). This provision will be used in 2020.

Provision for other claims

In 2019, ENEA S.A. created a PLN 18 687 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 2019 was PLN 123 032 thousand (this provision is included in the table above in the column "Provision for other claims" and detailed information on this provision are presented in note 43.7).

Other provisions mainly concern:

- potential liabilities related to grid assets resulting from differences in the interpretation of regulations PLN 170 985 thousand (as at 31 December 2018: PLN 160 171 thousand); it is difficult to determine when this provision will be performed, however in these financial statements it is assumed that it will not happen within 12 months,
- costs to use forest land managed by State Forests PLN 96 278 thousand (as at 31 December 2018: PLN 115 008 thousand); it is difficult to determine when this provision will be performed, however in these financial statements it is assumed that it will not happen within 12 months,
- onerous contracts PLN 68 565 thousand (as at 31 December 2018: PLN 78 981 thousand); this provision will be performed in 2020 (note 43.1),
- property tax at Lubelski Węgiel Bogdanka S.A. PLN 10 306 thousand (as at 31 December 2018: PLN 41 431 thousand) (note 43.4),
- ZUS claims concerning accident insurance contributions at Lubelski Węgiel Bogdanka S.A. PLN 0 thousand (as at 31 December 2018: PLN 22 658 thousand),
- rectification of mining damages PLN 2 149 thousand (as at 31 December 2018: PLN 3 184 thousand),
- wind farm Skoczykłody PLN 0 thousand (PLN 129 000 thousand as at 31 December 2018) (note 46).

34. Accounting for subsidies and road lighting modernisation services

Accounting rules

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 relevant 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.

Recognising a subsidy in financial statements depends on the intended use of such financing, e.g.:

- subsidies received and intended for the acquisition or manufacture of tangible assets are recognised in the statement of financial position as deferred revenue,
- subsidies for purposes other than those described above are recognised in the statement of profit and loss as other operating revenue.

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

Accounting for income from subsidies and road lighting modernisation services

	As at 31 December 2019	As at 31 December 2018
Long-term		
Accounting for deferred revenue - subsidies	147 268	133 689
Accounting for deferred revenue - road lighting modernisation services	80 145	64 452
Total non-current deferred revenue	**227 413**	**198 141**
Short-term		
Accounting for deferred revenue - subsidies	9 663	9 713
Accounting for deferred revenue - road lighting modernisation services	3 141	2 212
Total current deferred revenue	**12 804**	**11 925**

Schedule for accounting for deferred revenue

	As at 31 December 2019	As at 31 December 2018
Up to one year	12 804	11 925
From one to five years	49 538	50 468
Over five years	177 875	147 673
Total deferred revenue	**240 217**	**210 066**

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

Road lighting modernisation services, i.e. improving the quality and efficiency of road lighting, are services provided on an on-going basis. Revenue from improving the quality and efficiency of road lighting is recognised proportionally over the economic period of use for the tangible assets created.

Financial instruments and financial risk management

35. Financial instruments and fair value

Accounting rules

Financial assets

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 Group 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.

Financial liabilities, including credit facilities, loans and debt securities

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 Group 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 each balance sheet at fair value; fair value determined at the balance sheet date is not adjusted for transaction costs that would have to be incurred to settle a given item; restatements to fair value are recognised in the period's financial result;
- financial liabilities at amortised cost are measured at amortised cost on every balance sheet date.

Significant judgements and estimates

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.

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

Financial instruments

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

	As at 31 December 2019		As at 31 December 2018	
	Book value	Fair value	Book value	Fair value
FINANCIAL ASSETS				
Long-term	**236 923**	**40 172**	**211 321**	**49 442**
Financial assets measured at fair value	40 172	40 172	49 442	49 442
Debt financial assets at amortised cost	48 649	(*)	7 741	(*)
Trade and other receivables	13 785	(*)	25 859 (***)	(*)
Finance lease and sublease receivables	319	(*)	(**)	(**)
Funds in the Mine Decommissioning Fund	133 998	(*)	128 279	(*)
Short-term	**5 652 186**	**7 056**	**4 610 169**	**112 536**
Financial assets measured at fair value	7 056	7 056	112 536	112 536
Debt financial assets at amortised cost	3 576	(*)	234	(*)
Assets arising from contracts with customers	330 447	(*)	327 980	(*)
Other short-term investments	477	(*)	545	(*)
Trade and other receivables	1 547 733	(*)	1 518 036 (***)	(*)
Financial lease and sub-lease receivables	950	(*)	(**)	(**)
Cash and cash equivalents	3 761 947	(*)	2 650 838	(*)
TOTAL FINANCIAL ASSETS	**5 889 109**	**47 228**	**4 821 490**	**161 978**
FINANCIAL LIABILITIES				
Long-term	**8 451 708**	**7 870 704**	**8 068 916**	**8 069 170**
Credit facilities, loans and debt securities	7 803 113	7 846 208	7 973 713	8 045 098
Lease liabilities	504 324	(*)	3 646	(*)
Trade and other payables	119 775	(*)	67 485	(*)
Liabilities arising from contracts with customers	-	-	-	-
Financial liabilities measured at fair value	24 496	24 496	24 072	24 072
Short-term	**3 659 422**	**2 139 349**	**2 867 291**	**464 658**
Credit facilities, loans and debt securities	2 102 911	2 102 911	355 840	355 840
Lease liabilities	27 939	(*)	2 994	(*)
Trade and other payables	1 479 503	(*)	2 399 639	(*)
Liabilities arising from contracts with customers	12 631	(*)	-	-
Financial liabilities measured at fair value	36 438	36 438	108 818	108 818
TOTAL FINANCIAL LIABILITIES	**12 111 130**	**10 010 053**	**10 936 207**	**8 533 828**

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

(**) As at 31 December 2018, finance lease receivables were recorded in the line "Trade and other receivables;" the data restatement is presented in note 6.

(***) Trade and other receivables include collateral deposits.

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

	As at 1 January 2019	Adjustment due to implementation of IFRS 16	As at 1 January 2019, adjusted	Gains/losses recognised in financial result due to balance sheet measurement or modification	Interest income/costs	Impairment - expected credit losses	Gain on disposal or derecognition	Other comprehensive income	Change	As at 31 December 2019
Financial assets at fair value through profit or loss:	**146 112**	**-**	**146 112**	**(7 509)**	**-**	**-**	**-**	**-**	**(107 241)**	**31 362**
- financial assets mandatorily measured at fair value through profit or loss	127 212	-	127 212	(6 934)	-	-	-	-	(107 241)	13 037
financial assets voluntarily measured at fair value through profit or loss	18 900	-	18 900	(575)	-	-	-	-	-	18 325
Equity instruments at fair value through other comprehensive income	**15 866**	**-**	**15 866**	**-**	**-**	**-**	**-**	**-**	**-**	**15 866**
Financial assets at amortised cost:	**4 659 512**	**(1 862)**	**4 657 650**	**(495)**	**10 925**	**(61 666)**	**-**	**-**	**1 234 198**	**5 840 612**
- debt financial assets at amortised cost	7 975	-	7 975	(495)	1 260	(65 998)	-	-	109 483	52 225
- trade and other receivables	1 543 895	(1 862)	1 542 033	-	-	4 260	-	-	15 225	1 561 518
- assets arising from contracts with customers	327 980	-	327 980	-	-	72	-	-	2 395	330 447
- cash and cash equivalents	2 650 838	-	2 650 838	-	7 807	-	-	-	1 103 302	3 761 947
- funds in the Mine Decommissioning Fund	128 279	-	128 279	-	1 858	-	-	-	3 861	133 998
- other short-term investments	545	-	545	-	-	-	-	-	(68)	477
Financial lease and sublease receivables	**-**	**1 862**	**1 862**	**-**	**-**	**-**	**-**	**-**	**(593)**	**1 269**
Financial liabilities at fair value through profit or loss:	**(110 667)**	**-**	**(110 667)**	**-**	**-**	**-**	**-**	**-**	**73 535**	**(37 132)**
- financial liabilities measured at fair value through profit or loss	(110 667)	-	(110 667)	-	-	-	-	-	73 535	(37 132)
Derivative instruments used in hedge accounting	**(22 223)**	**-**	**(22 223)**	**(1 894)**	**-**	**-**	**-**	**(1 645)**	**1 960**	**(23 802)**
Financial liabilities at amortised cost:	**(10 796 677)**	**-**	**(10 796 677)**	**102 041**	**(2 743)**	**-**	**1 236**	**-**	**(821 790)**	**(11 517 933)**
- credit facilities, loans and debt securities	(8 329 553)	-	(8 329 553)	102 041	(2 743)	-	1 236	-	(1 677 005)	(9 906 024)
- trade and other payables	(2 467 124)	-	(2 467 124)	-	-	-	-	-	867 846	(1 599 278)
- liabilities arising from contracts with customers	-	-	-	-	-	-	-	-	(12 631)	(12 631)
Lease liabilities	**(6 640)**	**(549 233)**	**(555 873)**	**-**	**-**	**-**	**-**	**-**	**23 610**	**(532 263)**
Total	**(6 114 717)**	**(549 233)**	**(6 663 950)**	**92 143**	**8 182**	**(61 666)**	**1 236**	**(1 645)**	**403 679**	**(6 222 021)**

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

	As at 1 January 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 December 2018
Financial assets at fair value through profit or loss:	**96 489**	**(15 750)**	-	**-**	**-**	**65 373**	**146 112**
- 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:	**4 419 476**	**(32)**	**10 812**	**(4 670)**	**-**	**233 926**	**4 659 512**
- debt financial assets at amortised cost	12 978	(32)	234	-	-	(5 205)	7 975
- trade and other receivables	1 352 062*	-	-	(4 370)	-	196 203*	1 543 895
- 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 the 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:	**(51 060)**	**-**	**-**	**-**	**-**	**(59 607)**	**(110 667)**
- financial liabilities 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:	**(10 175 022)**	**(17 894)**	**(3 969)**	**-**	**-**	**(599 792)**	**(10 796 677)**
- credit facilities, 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	**(5 657 255)**	**(33 676)**	**(446)**	**(4 670)**	**(59 027)**	**(359 643)**	**(6 114 717)**

** Trade and other receivables include security deposits.*

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

	As at 31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value	**17 800**	**12 482**	**16 946**	**47 228**
Equity instruments at fair value through other comprehensive income	-	-	15 866	15 866
Call options (at fair value through profit or loss)	-	5 182	-	5 182
Other derivative instruments at fair value through profit or loss	-	7 300	-	7 300
Interests at fair value through profit or loss	17 800	-	1 080	18 880
Total	**17 800**	**12 482**	**16 946**	**47 228**
Financial liabilities measured at fair value	**-**	**(60 934)**	**-**	**(60 934)**
Derivative instruments at fair value through profit or loss	-	(37 132)	-	(37 132)
Derivative instruments used in hedge accounting (e.g. interest rate swaps)	-	(23 802)	-	(23 802)
Credit facilities, loans and debt securities	**-**	**(9 949 119)**	**-**	**(9 949 119)**
Total	**-**	**(10 010 053)**	**-**	**(10 010 053)**

	As at 31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value	**18 375**	**126 652**	**16 951**	**161 978**
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 measured at fair value	**-**	**(132 890)**	**-**	**(132 890)**
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)**	**-**	**(8 240 970)**
Total	**-**	**(8 533 828)**	**-**	**(8 533 828)**

Financial assets at fair value include:

- shares in unrelated entities, the stake in which is below 20%; this line includes a stake in PGE EJ1 Sp. z o.o. worth PLN 15 866 thousand, for which there is no market price quoted on an active market and the fair value of which was determined based on ENEA S.A.'s share of the net assets of PGE EJ1 Sp. z o.o. as at 31 December 2019; having analysed the standard IFRS 9, the Group decided to qualify these interests as financial instruments through other comprehensive income; in the course of 2019, no transactions were executed that would be recognised through profit or loss; in the event that interests in unrelated entities are quoted on the Warsaw Stock Exchange, their fair value is determined on the basis of stock market quotes;
- Polimex-Mostostal S.A. call options;
- derivative instruments, which 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 under 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.

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

The table above 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 45).

No transfers between the levels were made in 2019.

As at 31 December 2019, 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 a 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 these options as at 31 December 2019 was PLN 5 182 thousand (at 31 December 2018: PLN 12 116 thousand).

Moreover, the Group's financial assets at fair value include the measurement of derivative contracts for the purchase of electricity and gas and concerning property rights not used for the Group's own purposes worth PLN 7 300 thousand (as at 31 December 2018: PLN 114 536 thousand). The nominal value of contracts for the purchase and sale of electricity, gas and property rights maturing in 2019-2021, presented as financial assets and liabilities at fair value, amounts to PLN 1 251 989 thousand (PLN 595 966 thousand concerns procurement contracts and PLN 656 023 thousand concerns sales contracts).

36. Debt financial assets at amortised cost

Debt financial assets at amortised cost

	As at 31 December 2019	As at 31 December 2018
Current debt financial assets at amortised cost		
Loans granted	3 576	234
Total current debt financial assets at amortised cost	**3 576**	**234**
Non-current debt financial assets at amortised cost		
Loans granted	48 649	7 741
Total non-current debt financial assets at amortised cost	**48 649**	**7 741**
TOTAL	**52 225**	**7 975**

As a result of an impairment test of non-current assets carried out at Elektrownia Ostrołęka Sp. z o.o., as a result of which Elektrownia Ostrołęka Sp. z o.o. updated its business assumptions regarding the project to build Elektrownia Ostrołęka C based on coal fuel, these consolidated financial statements include an impairment loss on loans issued to this company to recoverable value. The impairment as at 31 December 2019 amounts to PLN 65 771 thousand (note 18).

37. Hedge accounting

Accounting rules

Hedge accounting and derivative instruments

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 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.

A cash flow hedge is a hedge of 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, 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.

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

Cash flow hedging

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

	As at	
	31 December 2019	31 December 2018
Accumulated other comprehensive income related to the effective part of cash flow hedges as at 1 January, recognised in hedging reserve	**(16 024)**	**25 967**
- related to interest rate hedges	(16 024)	25 967
Measurement of hedging instruments as at balance sheet date, in part considered as effective hedge	**(1 332)**	**(41 991)**
- related to interest rate hedges	(1 332)	(41 991)
Accumulated other comprehensive income related to the effective part of cash flow hedges as at 31 December, recognised in hedging reserve	**(17 356)**	**(16 024)**
- related to interest rate hedges	(17 356)	(16 024)

ENEA S.A. executed IRS transactions to hedge cash flows against interest rate risk. Their value in accordance with the hedge accounting policy at the end of 2019 was PLN 6 079 316 thousand, up by PLN 1 235 276 from 2018. This change resulted from settlements related to the expiry of a derivative instrument and regular payments for hedged exposure as well as new IRS transactions. Maturities are different depending on the derivative, from 10 February 2020 to 16 September 2024. Their balance sheet value as of 31 December 2019 was PLN 23 765 thousand, with PLN 17 356 thousand recognised in other comprehensive income and the ineffective part of the hedge recognised in the 2019 financial result being PLN 1 619 thousand. Bonds issued by ENEA S.A. and credit facilities from EIB are hedged with IRSs.

38. Financial risk management

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.

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

38.1. Credit risk

Exposure to credit risk	Risk management
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. **Key factors having impact on the Group's credit risk:** – 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, – 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.).

The following table shows a structure of balance-sheet items depicting the Group's exposure to credit risk:

	Maximum exposure to credit risk* as at	
	31 December 2019	31 December 2018
Financial assets measured at fair value (without shares and equity instruments through other comprehensive income)	12 482	126 652
Debt financial assets at amortised cost	52 225	7 975
Other short-term investments	477	545
Assets arising from contracts with customers	330 447	327 980
Trade and other receivables	1 561 518	1 543 895***
Financial lease and sub-lease receivables	1 269	-**
Cash and cash equivalents	3 761 947	2 650 838
Funds in the Mine Decommissioning Fund	133 998	128 279
Credit risk	**5 854 363**	**4 786 164**

** These values correspond to book values.*
*** As at 31 December 2018, finance lease receivables were recorded in the line "Trade and other receivables;" the data restatement is presented in note 6.*
**** Trade and other receivables include security deposits.*

Credit risk associated with trade receivables

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;

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

– 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 a given financial asset due to credit risk.

Impairment of trade and other receivables:

	As at	
	31 December 2019	31 December 2018
Impairment as of 1 January	**162 104**	**153 115**
Adjustment due to implementation of IFRS 9	-	4 619
Impairment as of 1 January, adjusted	**162 104**	**157 734**
Created	9 135	26 492
Reversed	(3 494)	(2 068)
Used	(9 901)	(20 054)
Impairment as of 31 December	**157 844**	**162 104**

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

Age structure of assets arising from contracts with customers and trade and other receivables constituting financial instruments:

	As at 31 December 2019		
	Nominal value	Impairment	Book value
Trade and other receivables			
Current	1 418 337	(8 783)	1 409 554
Overdue	301 025	(149 061)	151 964
0-30 days	99 035	(413)	98 622
31-90 days	13 354	(1 422)	11 932
91-180 days	6 932	(2 130)	4 802
over 180 days	181 704	(145 096)	36 608
Total	**1 719 362**	**(157 844)**	**1 561 518**
Assets arising from contracts with customers	**330 675**	**(228)**	**330 447**

	As at 31 December 2018		
	Nominal value	Impairment	Book value
Trade and other receivables			
Current	1 412 709*	(15 266)	1 397 443
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	**1 705 999**	**(162 104)**	**1 543 895**
Assets arising from contracts with customers	**328 280**	**(300)**	**327 980**

** Trade and other receivables include security deposits.*

Credit risk associated with trade receivables by market segment

Electricity sales and distribution services - retail clients	There is a substantial amount of overdue 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 and distribution services - business, key and strategic clients	The amounts of overdue receivables in this segment are much lower than in the case of individual customers. 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	The amounts of overdue receivables are negligible.

In the debt collection and recovery process, the Group works with specialised external entities that support it 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.

Credit risk associated with cash and derivative instruments

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 safety for such transactions is governed by "ENEA Group's liquidity and liquidity risk management policy" and "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 "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," a maximum permissible level of fund allocation to one transaction partner is set. 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 2019, cash was allocated as follows at the three banks with the largest balances: bank A 32.5%, bank B 25.4%, bank C 14%.

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

Credit risk associated with other financial assets

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 monitors significant credit risk and determines impairment for expected credit losses. In pursuing this objective, the Department's personnel performs individual assessments of each counterparty 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 a 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 asset categories for which expected credit losses are calculated, by rating:

	As at	
	31 December 2019 12-month ECL	31 December 2018 12-month ECL
Cash and cash equivalents	**3 761 947**	**2 650 838**
from AAA to BBB- (investment grade)	3 761 947	2 650 838
Funds in the Mine Decommissioning Fund	**133 998**	**128 279**
from AAA to BBB- (investment grade)	133 998	128 279
Loans granted	**118 223**	**7 975**
from AAA to BBB- (investment grade)	8 244	7 975
from CCC to D (non-investment grade)	109 979	
Other short-term investments	**477**	**545**
from AAA to BBB- (investment grade)	477	545
Total gross value	**4 014 645**	**2 787 637**
Loans granted	(65 998)	-
Total impairment for expected credit losses	**(65 998)**	**-**
Cash and cash equivalents	3 761 947	2 650 838
Funds in the Mine Decommissioning Fund	133 998	128 279
Loans granted	52 225	7 975
Other short-term investments	477	545
Total balance sheet value	**3 948 647**	**2 787 637**

38.2. Financial liquidity risk

Exposure to financial liquidity risk	Risk management
Financial liquidity risk is perceived as the risk that ENEA Group would have no ability to meet its payment obligations at maturity. The aim of these activities is to reduce the likelihood of financial liquidity risk materialising by optimally using financial resources and available financing instruments.	In its business, ENEA Group strives to ensure a stable availability of cash allowing it to meet its payment liabilities on time. Activities addressed in "ENEA Group's liquidity and liquidity risk management policy" also include securing the ability to effectively respond to liquidity crises, i.e. periods of increased demand for cash. These activities allow for uninterrupted operations in liquidity crises for a period of time that is necessary to launch emergency financing plans, aiming to supplement any funding shortages. In the financial liquidity management process, the Group focuses on activities centred around an analysis of cash flows in current and strategic dimensions, optimisation of working capital components and monitoring the concentration bank account balances. In order to ensure an appropriate level of security in unpredictable situations, the Group carries out cyclical scenario analyses and develops emergency financing plans intended to ensure the capacity to supplement cash shortages. The Group centrally manages financial surpluses. Allocating surpluses is mainly done with the use of term deposits. With a view toward limiting concentration risk, investments of excess cash are diversified in terms of financial institutions. Investment performance is monitored on an on-going basis. Activities related to financial liquidity and liquidity risk management are coordinated by ENEA S.A. In order to secure funding for on-going operations and optimise the financial surplus management process, ENEA S.A. and ENEA Group companies use cash pooling. ENEA S.A. serves as Pool Leader. Additional instruments for the financing of on-going operations that secure funding for cash pooling system participants are ENEA S.A.'s overdraft facilities. Instruments for the financing of on-going operations also include the Group's central mechanism for raising external funding by ENEA S.A., which is subsequently distributed by ENEA S.A. within the Group.

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 600 000 thousand as at 31 December 2019.

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

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

As at 31 December 2019

	Trade and other payables	Lease liabilities	Bank credit and bonds	Loans	Financial liabilities at fair value	Liabilities arising from contracts with customers	Total
Book value	**1 599 278**	**532 263**	**9 836 713**	**69 311**	**60 934**	**12 631**	**12 111 130**
Non-discounted contractual cash flows	**(1 619 139)**	**(906 312)**	**(10 769 985)**	**(75 729)**	**(61 512)**	**(12 631)**	**(13 445 308)**
up to 6 months	(1 478 140)	(21 321)	(1 324 008)	(7 327)	(41 608)	(12 631)	(2 885 035)
6-12 months	(4 522)	(20 792)	(989 838)	(6 706)	(3 441)	-	(1 025 299)
1-2 years	(91 704)	(55 409)	(1 407 068)	(13 101)	(11 713)	-	(1 578 995)
2-5 years	(14 441)	(52 776)	(5 230 255)	(33 877)	(4 750)	-	(5 336 099)
over 5 years	(30 332)	(756 014)	(1 818 816)	(14 718)	-	-	(2 619 880)

As at 31 December 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)

38.3. Commodity risk

Exposure to commodity risk	Risk management
Commodity risk is related to potential changes in the Group's revenue/cash flows occurring especially as a result of changes in commodity prices. 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	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 (higher than risk appetite). 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

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.	and associated commodities that are the subject of trade. Moreover, regardless of the above, ENEA Group uses management rules specified in the Group's strategic regulations (wholesale trade mode), setting out methods for optimising the Group'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).

38.4. Currency risk

Exposure to currency risk	Risk management
Currency risk is associated with potential changes in exchange rates that may in turn lead to changes in the Group's cash flows. The Group's exposure to currency risk stems from the obligation to comply with the requirement to purchase and submit for redemption emission allowances, as well as investment expenditures and performance of service contracts with counterparties whose remuneration is denominated in foreign currencies.	Hedging is performed on the basis of "ENEA Group's currency risk and interest rate risk management policy." Currency risk is mainly hedged using FX forwards. Currency hedges are intended to ensure a fixed value of cash flows in domestic currency that are generated in connection with operating and investing activities. 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 '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 ENEA Group's 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 over a year in reference to a single Group company, as of 31 December 2019. The Group does not apply hedge accounting in this area.

FX forwards

In the 12-month period ending 31 December 2019 ENEA S.A. did not execute FX forward transactions. Measurement of these instruments as at 31 December 2019 was PLN 0 thousand (PLN 0 thousand as at 31 December 2018).

ENEA Trading Sp. z o.o. in 2019 executed hedging transactions to secure the purchase of EUR for emission allowances.

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

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

	As at 31 December 2019				As at 31 December 2018			
	Book value	including value in EUR expressed in functional currency (PLN)	Financial result		Book value	including value in EUR expressed in functional currency (PLN)	Financial result	
			Exchange rate up +1%	Exchange rate down -1%			Exchange rate up +1%	Exchange rate down -1%
Financial assets								
Cash and cash equivalents	3 761 947	170 922	1 709	(1 709)	2 650 838	778 352	7 784	(7 784)
Trade and other receivables	1 561 518	314 462	3 145	(3 145)	1 543 895*	299 024	2 990	(2 990)
Financial liabilities								
Trade and other payables	(1 599 278)	(42 767)	(428)	428	(2 467 124)	(1 859)	(19)	19
Financial liabilities measured at fair value	(60 934)	(35 617)	(356)	356	(132 890)**	(5 916)	(59)	59
Net exposure	**3 663 253**	**407 000**			**1 594 719**	**1 069 601**		
Impact on result before tax			**4 070**	**(4 070)**			**10 696**	**(10 696)**
19% tax			(773)	773			(2 032)	2 032
Net exposure after tax			**3 297**	**(3 297)**			**8 664**	**(8 664)**

** Trade and other receivables include security deposits.*
*** Forwards are presented in financial liabilities at fair value.*

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

38.5. Interest rate risk

Exposure to interest rate risk	Risk management
Interest rate risk is associated with a negative impact of changes in interest rates on ENEA Group's financial situation. Exposure to interest rate risk is related to credit agreements and bond issue programme agreements. Given the Group's financing arrangement model, interest rate risk is identified and managed (quantified, mitigated) by the Parent. Financing is arranged based on variable interest, which is calculated in correlation with market (interbank) rates. 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 - exposure to interest rate risk is identified solely on the basis of the liability side of planned cash flows, without taking into account the value of financial investments (which tend to have lower durations than financial liabilities) - although this only applies to non-current financial liabilities.	In line with the interest rate risk hedging strategies adopted in 2019 pursuant to "ENEA Group's currency risk and interest rate risk management policy," the Group reduces interest rate risk by executing Interest Rate Swaps. The use of hedging instruments makes it possible to exchange a series of coupon payments in the same currency, calculated on an agreed nominal amount and for a specific period, although the Group pays interest based on fixed rates, while the second side of the transaction (bank) pays interest based on variable rates. In order to maximise the hedge effectiveness, the hedging instrument's parameters are identical to the terms of the transaction being hedged (i.e. the underlying position). This eventually leads to an economic link forming between payments resulting from servicing external financing and the derivatives used to hedge them. 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 (based on which hedging transactions are executed) or earlier settlement of the hedged item.

As at 31 December 2019, the Group had credit and bond liabilities of PLN 9 906 024 thousand. The aforementioned debt has been hedged in 52.5% 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:

	As at	
	31 December 2019	**31 December 2018**
Fixed-rate instruments		
Financial assets	4 891 004	3 991 684
Financial liabilities	(2 842 799)	(2 773 787)
Impact of IRS hedge	(5 201 117)	(5 315 000)
Total	**(3 152 912)**	**(4 097 103)**
Variable-rate instruments		
Financial assets	950 877	667 828*
Financial liabilities	(9 207 397)	(8 029 530)
Impact of IRS hedge	5 201 117	5 315 000
Total	**(3 055 403)**	**(2 046 702)**

** Variable-rate financial assets include security deposits.*

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.

Interest rate swaps

In the 12-month period ending 31 December 2019 ENEA S.A. executed an Interest Rate Swap for an exposure amounting to PLN 1 488 890 thousand. The total bond and credit exposure hedged with IRSs as at 31 December 2019 amounted to PLN 5 201 117 thousand. Moreover, ENEA S.A. has fixed-rate credit agreements totalling PLN 649 934 thousand. These transactions have material impact on the predictability of expense flows and finance costs. The measurement of these instruments is presented in the item: "Financial liabilities 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 2019, financial liabilities at fair value concerning IRSs amounted to PLN 23 802 thousand (31 December 2018: PLN 22 176 thousand).

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

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

	As at 31 December 2019			As at 31 December 2018		
	Book value	Impact of interest rate risk on financial result (12-month period)		Book value	Impact of interest rate risk on financial result (12-month period)	
		+1pp	-1pp		+1pp	-1pp
Financial assets						
Cash	388 944	3 889	(3 889)	197 514	1 975	(1 975)
Funds in the Mine Decommissioning Fund	133 998	1 340	(1 340)	128 279	1 283	(1 283)
Trade and other receivables	427 935	4 279	(4 279)	341 968*	3 420	(3 420)
Other short-term investments	-	-	-	67	1	(1)
Impact on result before tax		**9 508**	**(9 508)**		**6 679**	**(6 679)**
19% tax		(1 807)	1 807		(1 269)	1 269
Impact on result after tax		**7 701**	**(7 701)**		**5 410**	**(5 410)**
Financial liabilities						
Credit facilities, loans and debt securities	(9 207 397)	(92 074)	92 074	(8 028 402)	(80 284)	80 284
Lease liabilities	-	-	-	(1 128)	(11)	11
Derivative instruments	(23 802)	-	-	(22 176)	-	-
Impact on result before tax		**(92 074)**	**92 074**		**(80 295)**	**80 295**
19% tax		17 494	(17 494)		15 256	(15 256)
Impact on result after tax		**(74 580)**	**74 580**		**(65 039)**	**65 039**
Total		**(66 879)**	**66 879**		**(59 629)**	**59 629**

** Trade and other receivables include security deposits.*

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

Other explanatory notes

39. 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 are divided into two categories:
  - resulting from being appointed as Supervisory Board members,
  - resulting from other civil-law contracts.
- transactions with State Treasury related parties.

Transactions with members of the Group's corporate authorities:

Item	Year ended			
	Company's Management Board		Company's Supervisory Board	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Remuneration under management contracts and consulting contracts	4 023*	3 310**		-
Remuneration under appointment to management or supervisory bodies		-	774	790
TOTAL	**4 023**	**3 310**	**774**	**790**

** This remuneration includes a non-compete clause, severance pay for a former Management Board Member and bonuses for 2017 amounting to PLN 1 282 thousand.*

*** This remuneration includes a non-compete clause and bonuses for 2017 for former Management Board members, amounting to PLN 610 thousand.*

As at 31 December 2019, liabilities related to management contracts and consultancy contracts towards Management Board members amount to PLN 164 thousand (PLN 158 thousand as at 31 December 2018). As at 31 December 2019, a provision for Management Board bonuses amounted to PLN 3 510 thousand (PLN 2 652 thousand as at 31 December 2018); the amount of this provision is not included in the above table.

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

Organ	As at 1 January 2019	Granted from 1 January 2019	Repayment until 31 December 2019	As at 31 December 2019
Company's Supervisory Board	5		(5)*	-
TOTAL	**5**		**(5)**	**-**

* of which PLN 2 thousand concerns expiry of term of Supervisory Board Members

Organ	As at 1 January 2018	Granted from 1 January 2018	Repayment until 31 December 2018	As at 31 December 2018
Company's Supervisory Board	11	-	(6)	5
TOTAL	**11**	**-**	**(6)**	**5**

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.

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

Transactions with State Treasury related parties.

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 mainly is 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, and these terms 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.

In addition, the Group identified financial transactions with State Treasury's related parties, i.e. with banks serving as guarantors for bond issue programmes. These entities include: PKO BP S.A., Pekao S.A. and Bank Gospodarstwa Krajowego. Detailed information on bond issue programmes is presented in note 30.

Among State Treasury subsidiaries ENEA Group's largest counterparty-customer is Grupa Azoty, with net sales in 2019 reaching PLN 295 616 thousand (2018: KGHM Polska Miedź with sales of PLN 167 262 thousand), the largest supplier-counterparty is Polskie Sieci Elektroenergetyczne, with net purchases of PLN 1 074 274 thousand (2018: also Polskie Sieci Elektroenergetyczne - purchases of PLN 1 536 868 thousand).

Transactions with jointly controlled entities and associates

The following table presents the key transactions with jointly controlled entities and associates:

	Year ended 31 December 2019		As at 31 December 2019	
	Sale	Purchases	Receivables	Liabilities
Jointly controlled entities	69 289	441 502	51 292	103 917
Associates	6 564	1 688	1	81 628

	Year ended 31 December 2018		As at 31 December 2018	
	Sale	Purchases	Receivables	Liabilities
Jointly controlled entities	109 763	494 518	44 122	54 891
Associates	2 376	10 896	12	90 404

The value of loans issued to jointly controlled entity Elektrownia Ostrołęka Sp. z o.o. is PLN 109 619 thousand gross and PLN 43 848 thousand net (note 18).

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

40. 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:

	Year ended 31 December 2019	31 December 2018
Changes in CO_2 emission allowances on balance sheet	**(788 892)**	**9 297**
- Purchase Price Allocation	(5 536)	(2 746)
Changes in CO_2 emission allowances in cash flow statement	**(794 428)**	**6 551**
Change in inventory on the balance sheet	**(111 425)**	**(418 683)**
- adjustment of depreciation by change in product levels and considerations for own purposes	2 501	937
- depreciation of re-usable materials	(1 068)	-
- material revenue due to liquidation of tangible assets	-	135
Change in inventory in the cash flow statement	**(109 992)**	**(417 611)**
Change in trade and other receivables on balance sheet	**(244 676)**	**(321 298)**
- VAT and income tax offset	(12 956)	(70 118)
- presentation adjustment of receivables and liabilities	-	16 532
- transaction costs	908	1 623
- loans	-	(12 978)
- CIT receivables	(366)	4 593
- bond programmes	1 044	210
- IFRS amendment	-	(6 007)
- finance leases	(1 472)	-
- Other	423	757
Change in trade and other receivables *in cash flow statement*	**(257 095)**	**(386 686)**
Change in trade and other payables on balance sheet	**(521 880)**	**561 832**
- investment commitments	123 258	116 253
- presentation adjustment of receivables and liabilities	-	(17 447)
- interest charged and not paid	121	(172)
- CIT liabilities	-	(4 959)
- expiry of options	-	27 101
- IFRS amendment	-	(60 304)
- adjustment of investment commitments by charged VAT	(14 075)	(1 816)
- offset of liabilities with excess CIT paid	11 857	2 465
- loan	(80 123)	-
- acquisition income/costs	-	(2 777)
- bond programmes	-	1 253
- Other	(1 099)	234
Change in trade and other payables in cash flow statement	**(481 941)**	**621 663**
Change in employee benefit liabilities on balance sheet	**215 113**	**56 898**
- actuarial gains/losses recognised in other comprehensive income	(85 281)	(36 385)
- Other	128	468
Change in employee benefit liabilities in cash flow statement	**129 960**	**20 981**
Change in accounting for subsidies and road lighting modernisation services on balance sheet	**30 151**	**(527 799)**
- IFRS amendment	-	548 431
- Other	-	41
Change in accounting for subsidies and road lighting modernisation services in cash flow statement	**30 151**	**20 673**

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

Change in other provisions for liabilities and other charges on balance sheet	**526 744**	**236 593**
- elimination of change in provision for Mine Closure Fund	(44 046)	(2 414)
- Other	(25)	38
Change in other provisions for liabilities and other charges in cash flow statement	**482 673**	**234 217**

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

	As at 31 December 2019	31 December 2018
As at 1 January	**2 296 276**	**2 392 406**
Credit and loans received	-	11 229
Repayment of credit and loans	(166 222)	(111 354)
Measurement and transaction costs	579	3 995
As at 31 December	**2 130 633**	**2 296 276**

Reconciliation of bonds

	As at 31 December 2019	31 December 2018
As at 1 January	**6 033 277**	**5 867 114**
Bond buy-back	(277 910)	(395 000)
Bond issuance	2 000 000	550 000
Measurement and transaction costs	20 024	11 163
As at 31 December	**7 775 391**	**6 033 277**

41. 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.

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

	Term of concession agreement								
	ENEA S.A.	ENEA Operator Sp. z o.o.	ENEA Wytwarzanie Sp. z o.o.	ENEA Trading Sp. z o.o.	MEC Piła Sp. z o.o.	PEC Sp. z o.o.	ENEA Ciepło Sp. z o.o.	ENEA Elektrownia Połaniec S.A.	Lubelski Węgiel Bogdanka S.A.
Trade of electricity	31 December 2025		31 December 2030	31 December 2030			1 September 2028	31 December 2030	
Trade of gas fuels	31 December 2030			31 December 2030			10 January 2029		
Foreign trade of natural gas				31 December 2030					
Trade of heat							30 September 2028		
Distribution of electricity		1 July 2030							
Generation of electricity			31 December 2030		31 December 2030		30 November 2028	1 November 2025	
Generation of thermal energy			31 December 2025		31 December 2025	31 December 2025	30 September 2028	1 November 2025	
Transmission and distribution of heat			31 December 2025		31 December 2025	31 December 2025	30 September 2028	1 November 2025	
Mining of hard coal from "Bogdanka" deposit within mining area "Puchaczów V" of 6 April 2009									31 December 2031
Mining of hard coal from "Lubelskie Zagłębie Węglowe - obszar K-3" deposit within mining area "Stręczyn" of 17 June 2014									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									31 December 2065
Mining of hard coal from "Lubelskie Zagłębie Węglowe - obszar K-6 i K-7" deposit situated in the Cyców municipality in Łęczno poviat, Lubelskie voivodship, dated 20 December 2019									31 December 2046

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.

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

42. Employment

	Year ended 31 December 2019	Year ended 31 December 2018
Blue collar jobs	9 682	9 448
White collar jobs	7 314	6 737
TOTAL	**16 996**	**16 185**

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

43. Conditional liabilities, court proceedings and cases on-going before public administration organs

This section of explanatory notes includes conditional liabilities and on-going proceedings in courts, arbitration bodies or public administration bodies

43.1. Impact of tariff for electricity for tariff G customers

On 30 December 2019 the President of the Energy Regulatory Office ("URE President") decided to approve a tariff for electricity for a set of tariff G customer groups for the period from 14 January to 31 March 2020 ("Tariff").

The URE President approved an electricity sales price for customers in tariff G groups for ENEA S.A. at an average of PLN 289.37 per MWh.

Considering the above and acting pursuant to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Group identified the necessity to recognise in Q4 2019 a provision for onerous contracts.

Determining the size of provision for onerous contracts

As a result of the Tariff being approved effective from 14 January 2020, the Group analysed this issue in terms of updating provisions and recognising potential returns in the context of IAS 37. 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 became unavoidable unless it is unable to reliably determine the amount of this provision and returns-related assets are recognised when they are certain in an amount not higher than the recognised provisions. In reference to determining the costs of performance in the meaning of IAS 37, only direct costs were taken into account (the cost to purchase energy, property rights, along with the current excise duty rate), while indirect costs were not included (own costs and profit). The issue of which costs should be taken into account in estimating the provision for onerous contracts was deliberated by the IASB in 2017. The issue was not resolved unequivocally, and selecting a solution is a matter of judgement.

Using prices in effect in Q1 2020 for tariff G clients, with a tariff regulated by the URE President, the Group estimated a loss on the contract. This loss results from using a cost model for purchasing electricity in 2020 (costs of electricity and property rights and an excise duty rate deemed as justified on market terms by the Group in the tariff process for 2020) and the simultaneous application of sales prices approved by the URE President in the Tariff for the first quarter of 2020 until the end of 2020. The following was furthermore taken into account:

- sales prices from 2019, in effect during the first 13 days of 2020 (de facto prices from 2018),
- sales volume resulting from the planned sales to Tariff G customers in 2020.

As at 31 December 2019, the Group estimated the provision for onerous contracts at PLN 68 565 thousand. In 2019, the Group used the provision for onerous contracts at PLN 78 981 thousand (created as at 31 December 2018).

43.2. Sureties and guarantees

The following table presents significant bank guarantees valid as of 31 December 2019 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 2019

Guarantee issue date	Guarantee validity	Entity for which the guarantee was issued	Bank - issuer	Guarantee amount in PLN 000s
12 August 2018	16 May 2021	Górecka Projekt Sp. z o.o.	PKO BP S.A.	2 109
13 November 2018	30 January 2020	Olsztyn municipality	PKO BP S.A.	4 462
24 May 2019	30 July 2020	City of Bydgoszcz	PKO BP S.A.	1 207
Total bank guarantees				**7 778**

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 August 2018	12 August 2020	Górecka Projekt Sp. z o.o.	PKO BP S.A.	1 944
13 November 2018	30 January 2020	Olsztyn municipality	PKO BP S.A.	4 462
Total bank guarantees				**6 406**

The value of other guarantees issued by the Group as at 31 December 2019 was PLN 17 614 thousand (PLN 7 793 thousand as at 31 December 2018).

43.3. On-going proceedings in 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 2019, a total of 5 754 cases initiated by the Group were in progress before courts of general competence, worth in aggregate PLN 181 081 thousand (31 December 2018: 9 735 cases worth PLN 160 617 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.

There are also claims concerning terminated agreements for the purchase of property rights (note 43.7).

Court proceedings against ENEA Wytwarzanie Sp. z o.o. concern compensation for damages and contractual penalties.

At 31 December 2019, a total of 2 344 cases against the Group were in progress before courts of general competence, worth in aggregate PLN 913 887 thousand (31 December 2018: 2 249 cases worth PLN 796 154 thousand). The outcome of individual cases is not significant from the viewpoint of the Group's financial result.

Provisions related to these court cases are presented in note 33.

43.4. Other court proceedings

Proceedings on-going before public administration courts involving Lubelski Węgiel Bogdanka S.A. mainly concern disputes with local government units regarding property tax. This stems from the fact that in preparing property tax declarations LWB (like other mining companies in Poland) did not take into account the value of underground mining excavations or the value of equipment located therein in calculating this tax. In 2014-2017, partial settlement of mutual property tax receivables and liabilities were performed.

At the end of 2018, following the receipt by the Local Government Appeals Commission (SKO) of decisions from Municipal Leaders in which they determined the amount of the company's property tax liability for 2013 in the case of the Ludwin, Puchaczów and Cyców Municipalities, mutual property tax receivables and liabilities were settled. Following this settlement, a previously created PLN 9 485 thousand provision was used (mainly to offset overpayments due for the company).

In August 2019, order to protect the Group from any potential consequences in the form of late interest on property tax - provided that the municipalities' decisions that include equipment and support structures located inside mining excavations are eventually upheld - LWB decided to include the value of underground excavations and equipment in calculations regarding this tax (given the majority of case law involving tax on elements of mining excavations) and to pay back tax together with interest for years 2016-2019. Corrected declarations were submitted and back tax with interest was paid on 6 August 2019, with PLN 27 610 thousand in total being paid to the municipalities of Puchaczów, Cyców and Ludwin. This operation had no impact on the Group's financial result (part of a provision previously created for this purpose was used).

At the end of 2019, following the receipt by the Local Government Appeals Commission (SKO) of decisions from Municipal Leaders in which they determined the amount of the company's property tax liability for 2014 in the case of the Ludwin, Puchaczów and Cyców Municipalities, mutual property tax receivables and liabilities were settled. Following this settlement, a previously created PLN 9 183 thousand provision was used (just as in previous years, mainly to offset overpayments due for the company, with a partial payment from the company as well).

In parallel to this provision, based on the above facts, in connection with settlements conducted in: 2014, 2015, 2017, 2018 and 2019 (use of overpayments to satisfy liabilities) concerning property tax in relation to underground mining excavations, LWB calculated as of 31 December 2019 income due from overpaid property tax in the amount of PLN 184 thousand (PLN 4 877 thousand as at 31 December 2018). It should be noted that in 2019 receivables concerning property tax overpayments were almost entirely settled. Receivables concerning accrued income were recognised in the consolidated statement of financial position.

Regarding LWB, a proceeding was in progress before the District Court in Lublin concerning ZUS claims with regard to accident insurance contributions. In connection with ZUS's Lublin branch determining on 18 June 2014 an interest rate for LWB's accident insurance contributions at 3.47% for the settlement period from 1 April 2013 to 31 March 2014 and at 3.09% for the settlement period from 1 April 2014 to 31 March 2015, and an additional sanction being imposed on the company, LWB decided to create an appropriate provision. ZUS's decision was appealed by the company and was the subject of dispute in 2015-2018.

An appeal hearing took place on 21 November 2017, during which the Court of Appeals in Lublin examined ZUS's appeal of a ruling in favour of LWB issued on 7 February 2017. The Court of Appeals ruled to reject ZUS's appeal. On 12 March 2018, ZUS's Lublin branch lodged a cassation appeal regarding this ruling with the Supreme Court. Through a ruling of 4 April 2019, the Supreme Court rejected the cassation appeal lodged by ZUS's Lublin branch, in connection with which the dispute between the company and ZUS's Lublin branch was concluded. Given the above, the Group decided to release the previously created provision of PLN 22 658 thousand.

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 concerned 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 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.

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. On 10 September 2018 ENEA Wytwarzanie Sp. z o.o. appealed the ruling. On 8 January 2019 the Appeals Court in Białystok referred the motion to exclude judges from the Appeals Court in Białystok to the Supreme Court. On 9 March 2019, the Supreme Court decided to reject and in part cancel ENEA Wytwarzanie Sp. z o.o.'s request to exclude judges from the Appeals Court in Białystok (file no. SN IV Co 9/19). The hearing at the Appeals Court in Białystok was held on 19 June 2019. Following the hearing, the Appeals Court in Białystok ruled to reject the company's appeal. ENEA Wytwarzanie Sp. z o.o. requested to receive the ruling together with justification. This ruling is final. On 8 October 2019, the company filed a cassation appeal with the Supreme Court against a ruling from the second-instance court, with the intermediation of the Appeals Court in Białystok. Through a letter dated 21 November 2019 the Municipality of Białystok submitted its response to the cassation appeal. The cassation appeal was transferred to the Supreme Court.

On 15 July 2019, ENEA Wytwarzanie Sp. z o.o. paid PLN 34 539 thousand to the Municipality of Białystok (principal plus statutory late interest from 25 January 2017 to the payment date) for the purchase of 126 083 shares in Miejskie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Białystok, along with PLN 144 thousand as reimbursement of first- and second-instance litigation costs.

Irrespective of the above, on 12 July 2019 ENEA Wytwarzanie Sp. z o.o. and ENEA S.A. signed an agreement specifying rules for the sale of the aforementioned shares by ENEA Wytwarzanie Sp. z o.o. to ENEA S.A.

On 29 August 2019, the Supervisory Board of ENEA S.A. authorised the Management Board of ENEA S.A. to purchase 126 083 shares in ENEA Ciepło Sp. z o.o., with a nominal value of PLN 50 each and total nominal value of PLN 6 304 thousand, for PLN 34 539 thousand.

On 4 September 2019 ENEA S.A. and ENEA Wytwarzanie Sp. z o.o. executed a sale agreement concerning 126 083 shares in ENEA Ciepło Sp. z o.o., with a nominal value of PLN 50 each and total nominal value of PLN 6 304 thousand, for PLN 34 539 thousand, pursuant to which ownership of the shares was to be transferred from ENEA Wytwarzanie Sp. z o.o. to ENEA S.A. on the day on which ENEA S.A. paid the share purchase price to ENEA Wytwarzanie Sp. z o.o. ENEA S.A.'s payment to ENEA Wytwarzanie Sp. z o.o. was made on 11 September 2019.

Given the above, from 11 September 2019 ENEA S.A. holds 3 019 288 shares in the share capital of ENEA Ciepło Sp. z o.o., which constitutes a nearly 99.94% stake in this company's share capital. The remaining shares are held by the company's employees.

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 first hearing in the case was held on 10 April 2019, with no witnesses called to the hearing. The Court requested that the Company provide the Investment Agreement within 14 days, at least as regards points 1 to 8 (especially point 8.6), subject to the trial consequences indicated in art. 233 § 2 of the Civil Procedure Code. ENEA's attorney filed a reservation to the protocol pursuant to art. 162 of the Civil Procedure Code. On 24 April 2019, the Company provided the Investment Agreement. The Court decided to postpone the hearing to 17 July 2019. On 31 July 2019, the District Court in Poznań allowed the main claim and declared the Resolution invalid. On 17 September 2018, an attorney for ENEA S.A. submitted an appeal against the ruling of 31 July 2019. The complainant submitted a response to the appeal, to which ENEA S.A.'s attorney replied. The Appeals Court in Poznań scheduled the appeals hearing on 6 May 2020; this date was cancelled and a new one has been set for 8 July 2020.

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 was scheduled for 8 May 2019. That hearing, and others scheduled for 30 July 2019 and 1 October 2019, did not take place. A new hearing date has not yet been set. The hearing has been suspended until a final ruling is issued in a case instigated by a shareholder of the Company - Fundacja "CLIENTEARTH Prawnicy dla ziemi."

On 20 August 2018, the Energy Regulatory Office ("URE") sent a notice to ENEA Wytwarzanie Sp. z o.o. regarding the instigation of an administrative proceeding to impose a monetary penalty due to the possibility that applications for issue of origin certificates for years 2010-2018 submitted to the URE President could have contained inaccurate data, information or declarations.

In accordance with the notice, ENEA Wytwarzanie Sp. z o.o. provided detailed explanations and the required documentation.

As of 31 December 2019, the case was still in progress and the URE did not send any new requests for additional information.

43.5. Risk associated with legal status of properties used by the Group

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 2019, the Group had a provision for claims concerning non-contractual use of land amounting to PLN 210 087 thousand.

43.6. 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 an amicable resolution in this case, ENEA S.A. 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.

43.7. 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 10 court proceedings concerning agreements for the purchase of property rights arising under certificates of origin for energy from renewable sources, which includes:

- 7 proceedings for payment against ENEA S.A. concerning remuneration, contractual penalties or compensation
- 2 proceedings for the voidance of ENEA S.A.'s termination of agreements to sell property rights, which took place on 28 October 2016, including 1 proceeding in which claims for payment are being sought at the same time;
- 1 proceeding for payment, in which ENEA S.A. seeks a claim concerning a contractual penalty.

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);
- 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:
    - 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
    - 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 significantly 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 123 032 thousand provision for potential claims resulting from the terminated Agreements in relation to submissions made by 31 December 2019 concerning transactions to sell property rights by the counterparties; the provision is presented in note 33.

In February 2020, ENEA S.A. executed an agreement with Megawind Polska Sp. z o.o., based in Szczecin, which had initiated three court proceedings, regarding an amicable resolution of these disputes, pursuant to which:

- case IX GC 64/17, the proceeding was validly closed due to a court settlement being reached;
- in case ref. IX GC 996/16 ENEA S.A. withdrew its appeal against the ruling of 29 November 2019 - the appeals proceeding was closed but the ruling on closure is yet to become final;

- in case ref. IX GC 1167/16, Megawind Polska Sp. z o.o. withdrew its lawsuit and rescinded its claims - the proceeding was closed, but the ruling on closure is yet to become final.

The amount agreed upon in the settlement is covered by previously created provisions for on-going court proceedings.

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

44. Collateral on assets and other restrictions

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 at 31 December 2019	Debt at 31 December 2018	Term of collateral
1.	**Enea Serwis**	Collateral for agreement to issue contract guarantees	Blank promissory note	**WUPRINŻ S.A.**	14	14	12 August 2020
2.	**Enea Serwis**	Collateral for agreement to issue contract guarantees	Blank promissory note	**PGL Lasy Państwowe**	31	31	12 August 2020
3.	**Enea Serwis**	Collateral for agreement to issue contract guarantees	Blank promissory note	**STRABAG Sp. z o.o.**	30	30	12 August 2020
4.	**Enea Serwis**	Collateral for agreement to issue contract guarantees	Blank promissory note	**STRABAG Sp. z o.o.**	30	30	12 August 2020
5.	**Enea Serwis**	Collateral for agreement to issue contract guarantees	Blank promissory note	**STRABAG Sp. z o.o.**	25	25	12 August 2020
6.	**Enea Serwis**	Collateral for agreement to issue contract guarantees	Blank promissory note	**STRABAG Sp. z o.o.**	25	25	12 August 2020
7.	**PEC Oborniki**	Collateral for loan	Blank promissory note, assignment of receivables	**WFOŚiGW**	1 008	1 307	20 June 2023
8.	**PEC Oborniki**	Collateral for loan	Blank promissory note, assignment of receivables	**WFOŚiGW**	1 259	1 310	20 September 2018
9.	**Enea Ciepło**	Collateral for loan	Blank promissory note	**National Fund for Environmental Protection and Water Management (NFOŚiGW)**	48 184	55 486	20 December 2026
10.	**Enea Ciepło**	Collateral for credit facility	Blank promissory note	**PKO BP S.A.**	2 172	3 040	30 June 2024
11.	**Enea Ciepło**	Collateral for credit facility	Blank promissory note	**ING Bank Śląski S.A.**	2 919	2 869	12 November 2026
12.	**LW Bogdanka**	Collateral for loan	Blank promissory note, assignment of receivables	**WFOŚiGW**	14 076	17 141	31 July 2024
13.	**MEC Piła**	Collateral for loans	Blank promissory note, assignment of receivables	**WFOŚiGW**	4 784	6 723	20 June 2023
14.	**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 25.

45. Participation in nuclear power plant build programme

On 15 April 2015 KGHM, PGE, TAURON and ENEA S.A. executed an agreement to purchase shares in PGE EJ 1. KGHM, TAURON and ENEA S.A. 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. ENEA S.A.'s overall expenditures on purchasing shares and increasing the company's share capital 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. 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 S.A. expressed preliminary interest in selling its entire stake in PGE EJ 1. Preliminary interest in selling their stakes in PGE EJ 1 was also expressed by the other shareholders, i.e. TAURON and KGHM. On 17 April 2019, PGE S.A. decided to withdraw from the process to purchase shares held by the remaining shareholders.

As at 31 December 2019 and at the date on which these consolidated 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.

46. 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 286.5 million. ENEA Wytwarzanie Sp. z o.o. saw 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 286.5 million and the value estimated using ENEA S.A.'s model.

On 21 February 2020, ENEA Wytwarzanie Sp. z o.o. reached an out-of-court settlement with the Claimants. Pursuant to the settlement, the parties terminated the preliminary agreement concerning the purchase by Enea Wytwarzanie Sp. z o.o. of shares in Eco-Power Sp. z o.o., effective as of the date on which the settlement was executed, and unconditionally and irrevocably waived all claims against one another with regard to any shares directly or indirectly related to the intended sale to Enea Wytwarzanie Sp. z o.o. of shares in Eco-Power Sp. z o.o. In the light of the above, the Group released a PLN 129 million provision in these consolidated financial statements.

47. Tax group

Through a decision of 14 May 2019, the Director of the 1st Wielkopolskie Tax Authority in Poznań confirmed the expiry of a decision issued on 25 October 2016 regarding the registration of ENEA Tax Group agreement due to ENEA Tax Group's failure in tax year 2018 to comply with the condition to maintain a ratio of profit to revenue of at least 2%.

ENEA Tax Group lost its tax group status as of 31 December 2018.

1 January 2019 is the first day of a new tax year for companies within the tax group, and from this date they are required to individually settle corporate income tax.

On 11 December 2019 the Director of the 1st Wielkopolskie Tax Authority in Poznań registered an agreement concerning the formation of a tax group for a period of three tax years from 1 January 2020 to 31 December 2022. The agreement was executed in the form of a notarial deed on 12 November 2019 between 11 ENEA Group companies, including: ENEA S.A., ENEA Operator Sp. z o.o., ENEA Centrum Sp. z o.o., ENEA Wytwarzanie Sp. z o.o., ENEA Elektrownia Połaniec S.A.

The tax group is represented by ENEA S.A.

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

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

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

48. Events after the reporting period

Changes in the composition of ENEA S.A.'s Supervisory Board taking place after 31 December 2019 are presented in note 3.

Events after the reporting period concerning the investment in Elektrownia Ostrołęka Sp. z o.o. are presented in note 18.

On 21 February 2020, Enea Wytwarzanie Sp. z o.o. reached an out-of-court settlement with Fen Wind Farm B.V., based in Amsterdam, and Wento Holdings S.à.r.l., based in Luxembourg, concerning a court dispute relating to the purchase by Enea Wytwarzanie Sp. z o.o. of shares in Eco-Power Sp. z o.o., which is the owner of wind farm Skoczykłody. More details are available in note 46.

The first information out of China regarding the coronavirus SARS-Cov-2 threat, which causes the COVID-19 disease (“coronavirus”), appeared towards the end of 2019. As at 31 December 2019, the virus was limited territorially, however in the first months of 2020 the situation drastically developed and coronavirus spread on a global scale (reaching Poland at the beginning of March 2020), thus magnifying the adverse effects on human life and the global economy. Currently, the Group’s activities are not materially affected by virus-related threats, nonetheless the Management Board is closely monitoring the situation and threat levels, at the same time undertaking numerous activities intended to minimise the virus threat and any potential negative impact caused by it. These activities include a temporary reduction in business travel and meetings, greater availability and scope of use of cleaning agents, disinfectants and protective equipment, introduction of appropriate workplace procedures as well as the monitoring of employees’ travel directions, with emphasis on high-risk countries. In terms of re-organising work, remote and rotational work was introduced in all areas where this was possible without disrupting critical processes. The key activities also include adapting the Group’s procedures to the requirements stemming from the Act of 2 March 2020 on specific solutions related to preventing, counteracting and combating COVID-19, which was adopted by the Polish parliament.

The Management Board of ENEA S.A. has designated a crisis coordination centre for ENEA Group dedicated to preventing, counteracting and combating COVID-19. Following this resolution, all Group companies designated teams that coordinate tasks related to maintaining the continuity of ENEA Group companies’ operations in the context of the coronavirus threat. This entire effort is being coordinated by the Management Board of ENEA S.A., through the aforementioned crisis coordination centre.

At the date on which these consolidated financial statements were prepared, it is difficult to predict how the situation will develop, just as it is difficult to predict the potential negative impact on the operating and financing activities of the Company and the Group. A further spread of the virus may result in a decrease in economic activity (currently, numerous restrictions are applicable to: hotels, restaurants, coffee shops, shopping galleries), a decline in demand for electricity and, in consequence, reduced electricity production, which could have an adverse impact on the Group’s revenue from sales. Lower demand for electricity may cause a reduction in hard coal mining and thus lower revenue from sales in the Mining segment. In the distribution area, the core activities are being performed at this moment, and the continuity of critical processes has been ensured. It cannot be ruled out that the turnover of receivables will deteriorate given the difficult economic situation and limited paying ability of electricity customers. Swings on global markets recently also caused substantial changes in the prices of electricity, CO_2 emission allowances, commodities as well as substantial swings on equity markets, which if they turn out to be more of a long-term trend may cause changes in assumptions used in impairment tests concerning the Group’s assets.

In connection with the events described above, after the reporting period the Parent's Management Board analysed the key assumptions pertaining to estimates in the financial statements. At the date of these financial statements, the Parent's Management Board declares that they remain valid in the long term. In connection with the uncertainty caused by the SARS-CoV-2 virus pandemic, the Parent's Management Board is constantly monitoring its impact on the key assumptions and estimates that may have an impact on ENEA Group's situation.

Due to work being re-organised and enhanced precautions caused by the state of epidemic being implemented, planned repairs and modernisations of generating units, including adaptations to BAT conclusions, might be shifted in time. Substantial volatility on commodity exchanges means that it is necessary to deploy additional funds as collateral for transactions.

According to the Management Board of ENEA S.A., the above events are non-adjusting events after the reporting period.

During the period between the balance sheet date and the date on which these consolidated financial statements were prepared, the Parent's share price declined from approx. PLN 8/share to approx. PLN 7/share, which according to the Parent's Management Board is mainly caused by the unfavourable situation on global markets and uncertainties surrounding the COVID-19 epidemic, as described above. Given the above, the Parent's Management Board is analysing the soundness and validity of key assumptions, mainly related to impairment tests. At the date of these financial statements, the Parent's Management Board did not identify the need to modify the key assumptions in impairment tests or other estimates that could have a material impact on these consolidated financial statements.