<u>In case of divergence between the language versions, the Polish version shall prevail.</u>

Polenergia S.A. Group

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2019

INCLUDING THE REPORT OF THE INDEPENDENT AUDITOR

Michał Michalski – President of the Management Board	*Iwona Sierżęga – Member of the Management Board*
Tomasz Kietliński - Member of the Management Board	*Piotr Maciołek - Member of the Management Board*
Jarosław Bogacz - Member of the Management Board	
Agnieszka Grzeszczak – Director Accounting Department	

Warsaw, 10 March 2020

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(PLN K)

1. Consolidated balance sheet

as at 31 December 2019

ASSETS

	Note	31.12.2019	31.12.2018
I. Non-current assets		**1 881 025**	**1 877 422**
1. Tangible fixed assets	13	1 630 749	1 589 271
2. Intangible assets	14	9 281	19 466
3. Subordinated entities goodwill	15	69 613	69 613
4. Financial assets	17	10 159	22 538
5. Financial assets measured using the equity method	18	153 643	161 838
6. Long term receivables	19	3 842	4 146
7. Deferred income tax assets	26	3 695	10 507
8. Prepayments and accrued income		43	43
II. Current assets		**598 736**	**1 176 860**
1. Inventories	20	38 331	34 971
2. Trade receivables	21	85 667	116 010
3. Income tax receivable	21	789	5 849
4. Other short term receivables	21	45 662	59 863
5. Prepayments and accrued income	22	6 434	5 927
6. Short term financial assets	23	76 148	642 383
7. Cash and equivalent	24	345 705	311 857
Total assets		**2 479 761**	**3 054 282**

EQUITY AND LIABILITIES

	Note	31.12.2019	31.12.2018
I. Shareholders' equity		**1 295 244**	**1 185 741**
Equity attributable to the shareholders of the parent company		**1 294 316**	**1 184 838**
1. Share capital	25	90 887	90 887
2. Share premium account		557 983	601 911
3. Reserve capital from option measurement		13 207	13 207
4. Other capital reserves		403 661	402 612
5. Retained profit (loss)		119 567	72 235
6. Net profit		109 011	3 404
7. F/X translation differences		-	582
Non-controlling interests		**928**	**903**
II. Long term liabilities		**939 429**	**954 389**
1. Bank loans and borrowings	28	732 400	792 259
2. Deferred income tax provision	26	68 416	69 196
3. Provisions	27	22 392	22 302
4. Accruals and deferred income	30	50 100	53 367
5. Other liabilities	29	66 121	17 265
III. Short term liabilities		**245 088**	**914 152**
1. Bank loans and borrowings	28	50 015	113 119
2. Trade payables	29	74 339	129 391
3. Income tax payable	29	5 565	345
4. Other liabilities	29	96 293	646 593
5. Provisions	27	2 108	10 587
6. Accruals and deferred income	30	16 768	14 117
Total equity and liabilities		**2 479 761**	**3 054 282**

(PLN K)

2. Consolidated profit and loss account

For the year ended on 31 December 2019

	Note	For 12 months ended 31.12.2019	31.12.2018
			restated data
Revenues from contracts with clients	32	2 491 086	3 261 688
Other revenues	32	105 491	187 024
Cost of goods sold	33	(2 384 448)	(3 319 507)
Gross sales profit		**212 129**	**129 205**
Other operating revenues	34	8 652	79 920
Selling expense	33	(550)	(723)
General overheads	33	(38 434)	(41 612)
Other operating expenses	35	(21 354)	(82 986)
Financial income	36	5 767	5 700
Financial costs	37	(49 535)	(60 794)
Profit on loss of control over subsidiaries	18	20 204	11 983
Profit before tax		**136 879**	**40 693**
Income tax	26	(27 843)	(37 312)
Net profit		**109 036**	**3 381**
Net profit attributed to:		**109 036**	**3 381**
Parent company shareholders		109 011	3 404
Non-controling shareholders		25	(23)
Earnings per share:			
Weghted average of ordinary shares		45 443 547	45 443 547
– basic earnings (loss) for period attributable to parent company shareholders		2,40	0,07
– diluted earnings (loss) for period attributable to parent company shareholders		2,40	0,07

Consolidated statement of comprehensive income

	For 12 months ended 31.12.2019	31.12.2018
Net profit for period	**109 036**	**3 381**
Other comprehensive income that may be reclassified to profit and loss account once specific conditions are met		
Cash flow hedges	1 049	642
F/X translation differences	(582)	(53)
Other net comprehensive income	**467**	**589**
COMPREHENSIVE INCOME FOR PERIOD	**109 503**	**3 970**
Comprehensive income for period:	109 503	3 970
Parent company shareholders	109 478	3 993
Non-controlling shareholders	25	(23)

(PLN K)

3. Consolidated statement of changes in equity

For the year ended on 31 December 2019

	Share capital	Share premium account	Reserve capital from option measurement	Other capital reserves	Retained profit	Net profit	F/X translattion differences	Equity attributable to the shareholders of the parent company	Non-controlling interest	Total equity
As at January 2019	**90 887**	**601 911**	**13 207**	**402 612**	**75 639**	**-**	**582**	**1 184 838**	**903**	**1 185 741**
Comprehensive income for reporting period										
- Net profit (loss) for reporting period	-	-	-	-	-	109 011	-	109 011	25	109 036
- Other comprehensive income for period	-	-	-	1 049	-	-	(582)	467	-	467
Transactions with owners of the parent recognized directly in equity										
- Alocation of profit/loss	-	(43 928)	-	-	43 928	-	-	-	-	-
As at 31 December 2019	**90 887**	**557 983**	**13 207**	**403 661**	**119 567**	**109 011**	**-**	**1 294 316**	**928**	**1 295 244**

The amount of PLN 1,049 k of other comprehensive income is related to the measurement of cash-flow hedges, discussed in detail in Note 41.

The amount of PLN 53,928 k is the distribution of profit/loss of the parent company for 2018 referred to in more detail in Note 25.

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For the year ended 31 December 2018

	Share capital	Share premium account	Reserve capital from option measurement	Other capital reserves	Retained profit	Net profit	F/X translattion differences	Equity attributable to the shareholders of the parent company	Non-controlling interest	Total equity
As at January 2018	**90 887**	**680 777**	**13 207**	**401 970**	**(6 414)**	**-**	**635**	**1 181 062**	**926**	**1 181 988**
Change of accounting principles in line with IFRS 9	-	-	-	-	(217)	-	-	(217)	-	(217)
As at 1 January 2019 (converted)	**90 887**	**680 777**	**13 207**	**401 970**	**(6 631)**	**-**	**635**	**1 180 845**	**926**	**1 181 771**
Comprehensive income for reporting period										
- Net profit (loss) for reporting period	-	-	-	-	-	3 404	-	3 404	(23)	3 381
- Other comprehensive uncome foe period	-	-	-	642	-	-	(53)	589	-	589
Transactions with owners of the parent recognized directly in equity										
- Alocation of profit/loss	-	(78 866)	-	-	78 866	-	-	-	-	-
As at 31 December 2018	**90 887**	**601 911**	**13 207**	**402 612**	**72 235**	**3 404**	**582**	**1 184 838**	**903**	**1 185 741**

The amount of PLN 642 k of other comprehensive income is related to the measurement of cash-flow hedges, discussed in detail in Note 41.

The amount of PLN 78,866 k is the distribution of profit/loss of the parent company for 2017 referred to in more detail in Note 25.

The change of accounting principles resulting in the figure of PLN 217k reflects renegotiation of the facility agreement.

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4. Consolidated statement of cash flows

For the year ended on 31 December 2019

	Note	For 12 months ended 31.12.2019	For 12 months ended 31.12.2018
A.Cash flow from operating activities			
I.Profit (loss) before tax		**136 879**	**40 693**
II.Total adjustments		**125 769**	**71 190**
1.Depreciation		101 453	95 523
2.Foreign exchange losses (gains)		34	792
3.Interest and profit shares (dividends)		45 168	53 472
4.Losses (gains) on investing activities		(2 951)	83
5. Income tax		(11 774)	(24 271)
6.Changes in provisions		(8 388)	6 326
7.Changes in inventory		(3 360)	(8 353)
8.Changes in receivables		621 561	(536 720)
9.Changes in liabilities, excluding bank loans and borrowings		(615 449)	487 690
10.Changes in accruals		(547)	(3 624)
11. Other adjustments		22	272
III.Net cash flows from operating activities (I+/-II)		**262 648**	**111 883**
B.Cash flows from investing activities			
I. Cash in		**36 765**	**111 378**
1. Disposal of intangibles and tangible fixed assets		233	3 574
2. From financial asstes, including:		36 518	109 358
a) disposal of financial asstes		34 007	108 612
b) repayment of long-term loans given		1 945	-
c) interest		566	-
d) other inflows from financial asstes		-	746
3. Cash from disposal of subsidiary		-	(1 554)
4. Other investment inflows		14	-
II.Cash out		**93 661**	**55 312**
1. Acquisition of tangible fixed assets		86 612	28 693
2. For financial asstes, including:		7 049	26 619
a) acquisition of financial assets		6 094	26 619
b) long-term loans given		955	-
III.Net cash flows from investing activities (I-II)		**(56 896)**	**56 066**
C.Cash flows from financing activities			
I.Cash in		**14 540**	**58 652**
1.Loans and borrowings		14 540	58 652
II.Cash out		**186 417**	**212 496**
1.Repayment of loans and borrowings		140 561	165 520
2.Lease payables		5 954	611
3.Interest		39 586	45 383
4.Other financial expenses		316	982
III.Net cash flows from financing activities (I-II)		**(171 877)**	**(153 844)**
D.Total net cash flows (A.III+/-B.III+/-C.III)		**33 875**	**14 105**
E.Increase/decrease in cash in the balance sheet, including:		**33 848**	**13 959**
- change in cash due to f/x differences		(27)	(146)
F.Cash at beginning of period		**311 857**	**297 898**
G.Cash at end of period, including:		**345 705**	**311 857**
- restricted cash	38	41 643	40 049

(PLN K)

5. General

Polenergia S.A. Group (the "Group") comprises Polenergia S.A. (former Polish Energy Partners S.A), business name altered by way of an inscription in the National Court Register (KRS) dated 11 September 2014 (the "Company", the "parent company") and its subsidiaries. The Company was founded under a Notarized Deed of 17 July 1997. The Company has been registered with the National Court Register kept by the District Court for the city of Warsaw, Commercial Division XII of the National Court Register under number KRS 0000026545. The Company was assigned the statistical number REGON 012693488. The registered office of the Company is located in Warsaw at Krucza 24/26 from 20 November 2013.

Stock of Polenergia S.A. is listed at the Warsaw Stock Exchange.

Polenergia S.A Group consists of vertically integrated companies operating in the area of energy generation using both renewable and conventional sources, as well as in the areas of distribution and trading in electrical energy. The Group was formed in the process of consolidating two asset groups controlled by Kulczyk Holding S.àr.ls (former Polenergia Holding S.àr.l) with registered office in Luxembourg i.e. Polish Energy Partners S.A. (with focus on wind farm electricity generation) and Grupa Polenergia (with focus on the generation, distribution, sale of and trading in electrical energy and certificates of origin and developing new projects in the area of energy generation).

Lifetime of the Company, as well as all member companies of the Group is unlimited.

These consolidated financial statements were approved for publication by the parent company Management Board on 9 March 2020.

5.1. Periods covered by the consolidated financial statements

The consolidated financial statements cover the year ended on 31 December 2019 and comprises comparable financial data for the year ended on 31 December 2018.

Composition of the parent company Management Board as at 31 December 2019:

Michał Michalski	President of the Management Board
Iwona Sierżęga	Member of the Management Board

On 23 January 2019 the Company received a resignation of Mr. Jacek Głowacki from his position as the President of the Management Board. Concurrently, during the meeting on 23 January 2019, the Supervisory Board appointed Mr. Michał Michalski President of the Management Board and Ms. Iwona Sierżęga Member of the Management Board. On 16 December 2019 Mr. Robert Nowak filed his resignation from his position of the Member of the Company Management Board. On 22 January 2020 the Supervisory Board appointed Messrs. Piotr Maciołek, Tomasz Kietliński and Jarosław Bogacz Members of the Management Board.

Composition of the parent company Supervisory Board as at 31 December 2019:

Dominika Kulczyk - Chair of the Supervisory Board

Hans E. Schweickardt - Deputy Chair of the Supervisory Board

Brian Bode - Member of the Supervisory Board

Adrian Dworzyński - Member of the Supervisory Board

Marjolein Helder - Member of the Supervisory Board

Sebastian Kulczyk - Member of the Supervisory Board

Orest Nazaruk - Member of the Supervisory Board

Marta Schmude - Member of the Supervisory Board

On 7 January 2019 Mr. Michał Kawa resigned from his position of the Member of the Company Supervisory Board.

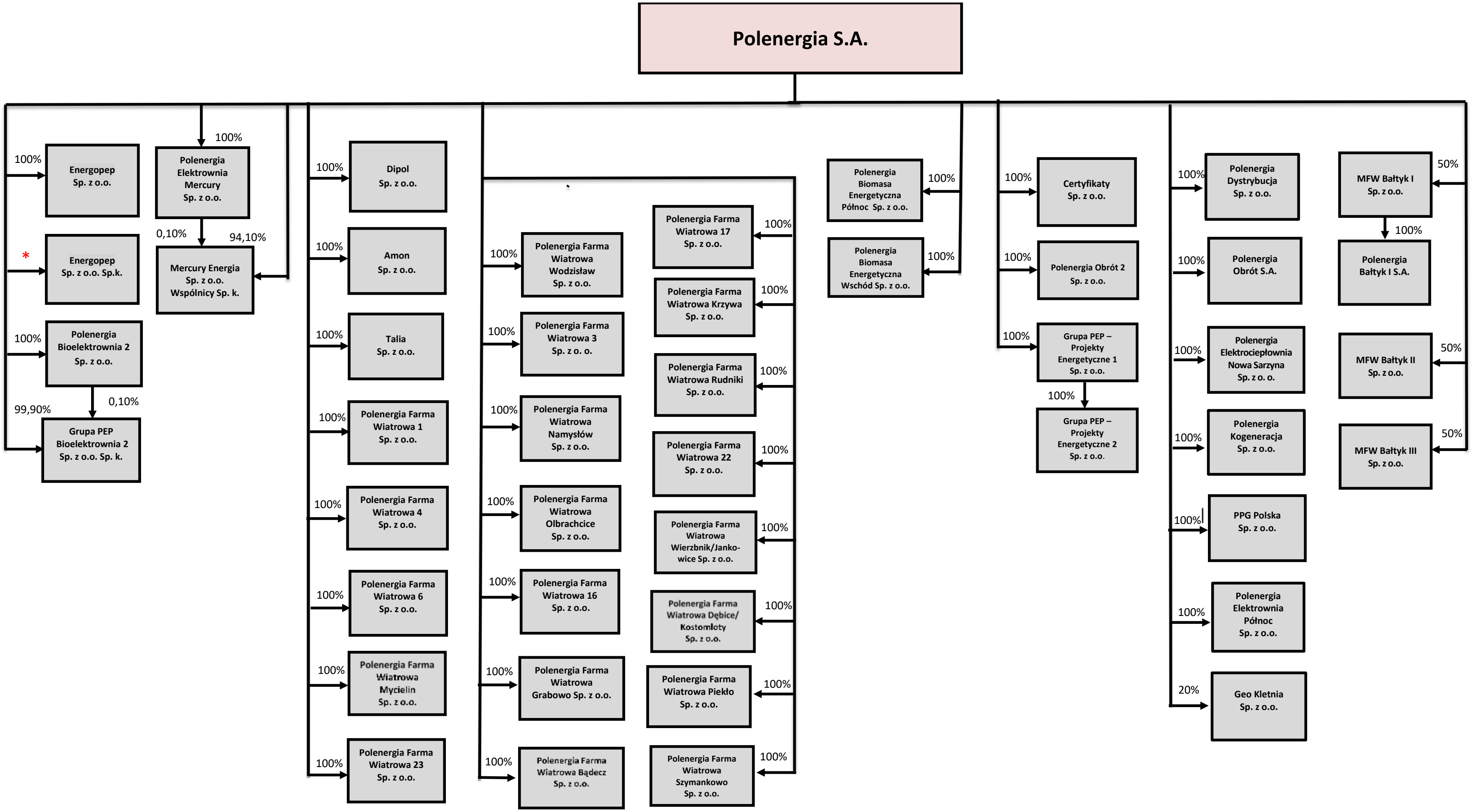
On 8 January 2019 Extraordinary General Meeting dismissed Mr. Kajetan D'Obyrn from the Supervisory Board and appointed Ms. Marjolein Helder and Mr. Sebastian Kulczyk Members of the Supervisory Board.

On 17 April 2019 Extraordinary General Meeting appointed Mr. Adrian Dworzyński Member of the Supervisory Board.

6. Going concern assumption

These consolidated financial statements have been prepared based on the going concern assumption for the Company and the Group companies in foreseeable future, that is for no fewer than 12 months following the reporting day, i.e. following 31 December 2019.

7. Organizational structure of the Group



*0,1% przysługuje spółce Energopep Sp. z o.o., 33,9 % POL-SA, 33% POL-D, 33% Dipol;

8. Accounting principles (policy) applied

The accounting principles (policies) applied in preparation of the financial statements are consistent with those applied in preparation of the Company financial statements for the year ended 31 December 2018, except for the adoption of new and amended standards referred to in Note 9a and Note 9b. The new accounting principles applied as of 1 January 2019 have been discussed in the relevant Notes.

8.1. New and modified standards and interpretations applied:

a) new and amended standards adopted by the Group

In the one-year reporting period commencing on 1 January 2019 the Group applied for the first time the following standards and modifications of the standards:

- IFRS 16 *Leases*
- *Prepayment Features with Negative Compensation* -Amendments to IFRS 9
- *Long-term Interests in Associates and Joint Ventures* - Amendments to IAS 28
- *Annual Improvements to IFRS Standards* 2015–2017 Cycle
- *Plan Amendment, Curtailment or Settlement* -Amendments to IAS 19
- IFRIC 23 *Uncertainty over Income Tax Treatments.*

The Group also decided to earlier adopt the following modifications:

- Definition of “Material” - Amendments to IAS 1 and IAS 8.

The Group changed the rules it applies due to the adoption of IFRS 16. The Group decided to retroactively apply the new rules together with the aggregate impact of applying such standard recognized on the first day of its application as at 1 January 2019. Such impact has been presented in Note 9. Other abovementioned amendments had no impact on the amounts disclosed in previous periods and no material impact should be expected also on the current period or any future periods.

b) new standards and interpretations not yet applied

A number of new accounting and interpretation standards have been publish that are not mandatory for reporting periods ending on 31 December 2019 and that have not been adopted by the Group earlier. The Group believes those standards will have no material impact on the entity in this or in future reporting periods, nor on any foreseeable future transactions.

8.2. The rules underlying the consolidated financial statements

These consolidated financial statements have been prepared in accordance with the International Accounting Standards/ International Financial Reporting Standards (IAS/IFRS) approved by the European Union and cover a 12-month period commencing on 1 January 2019 and ending on 31 December 2019 and a comparable period between 1 January 2018 and 31 December 2018. According to the applicable provisions of law, financial statements for the financial year ended on 31 December 2019 together with the comparable data for the financial year ended on 31 December 2018 were subject to an audit by chartered auditor.

These consolidated financial statements have been prepared in accordance with the historical cost method, except for the following material items in the balance sheet:

financial instrument derivatives which have been measured at fair value.

IFRS include standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Some entities within the Group keep their own accounting books in line with the accounting policies (principles) set forth by the Accounting Act of 29 September 1994 (the "Act") as amended and rules issued based on such Act ("Polish Accounting Standards"). These consolidated financial statements include adjustments which have not been included in the Group entities' accounting books, in order to align the financial statements of such entities with the requirements of IFRS.

8.3. Significant measures based on professional judgment

Certain information provided in these consolidated financial statements are based on the Group's assessment and professional judgment. So derived estimates may often not reflect the actual performance. The assumptions and assessments that were of biggest importance during the measurement and recognition of assets and liabilities include:

- grid connection fee revenues which are distinct performance obligation, therefore they are recognized as revenue at the time a grid connection invoice is issued. This approach reflects best the economic sense of such transaction. When evaluating the grid connection service and the grid availability service from the perspective whether they are separate performance commitments, the Management Board considered the following arguments: (i) the amount of the grid connection fee is regulated by URE, (ii) the customer who will pay the connection fee to Polenergia Dystrybucja Sp. z o.o. has no obligation to purchase energy from Polenergia Dystrybucja Sp. z o.o. (as it may be bought with other energy suppliers). As a result, revenues from the grid connection fee are recognized at a certain point in time where the customer requests Polenergia Dystrybucja Sp. z o.o. connect him/her to the grid. If the market practice changes, i.e. such revenues are recognized in time throughout the economic useful life of the assets, such practice shall be taken into account when recognizing revenues. As refers recognition of the connection fee revenue under IFRS 15, no market practice has yet been established unequivocally, however an approach has been considered, according to which the connection fees shall be recognized in time, i.e. over the useful life of the assets. According to the Group's estimates, the potential impact of the change of accounting policies in this respect on the consolidated financial statements as at 31 December 2019 would entail reduction of the retained profit balance of PLN 10.3 M corresponding to the recognition of future revenues of PLN 10.3 M.

In the year ended on 31 December 2019 no changes were made in determining the Group's judgment with respect to information disclosed in the consolidated financial statements, with the professional judgment-derived amounts being specified in Note 21.

8.4. Significant measures based on estimates

The underlying assumptions regarding the future and other key uncertainty factors as at the balance sheet date have been discussed below. They are connected with a material risk of significant adjustment of balance sheet assets and liabilities in the immediately following financial year and include:

- impairment of non-financial fixed assets (Note 16)
- classification of certificates of origin and the carbon emission reduction units (Note 49),
- depreciation rates - the depreciation rates are determined based on the expected useful economic life of tangible fixed assets and intangibles. The Group performs review of the adopted economic useful life periods annually, based on the current estimates.
- provisions for disputes, holiday leaves (Note 27)
- financial assets and liabilities under forward contracts (Note 23)
- funds to pay stranded costs and funds to pay consumption cost of received natural gas and cost of non-received natural gas ("gas costs"); a material impact on the Company's future business will be exerted by the Contract Terminating the Long-term Contract for the Supply

of Electrical Energy ("LTC") executed with PGE Polska Grupa Energetyczna S.A. (former Polskie Sieci Elektroenergetyczne S.A.) which was signed by the Management of Elektrociepłownia Nowa Sarzyna Sp. z o.o. Heat Plant on 28 December 2007, according to the Act adopted by the Polish Parliament on 29 June 2007 on the terms of paying the costs borne by the producers in connection with accelerated termination of long term contracts for the sale of capacity and electrical energy ("LTC Termination Act") By virtue of the Termination Act, the Company's long term contract was terminated on 31 March 2008 against compensation covering the stranded costs and the funds to pay the cost of received natural gas and the gas costs. The Act provides for the Company's compensation capped at PLN 777.5 M for stranded costs and PLN 340.7 M for gas costs. The Company calculates its stranded cost compensation as well as one covering the gas costs based on the formulae specified in articles 30, 31, 45 and 46 of the LTC Termination Act. Given the duration of the period the calculations pertain to, estimates are subject to fluctuation (as described in more detail in Note 4); the amounts recognized as at the balance sheet date are estimates according to the best knowledge of the Company and according to data available as at the reporting day,

- deferred tax - the Group recognized a deferred tax asset based on the assumption that tax gain will occur in the future permitting its application. Less successful tax gain performance in the future could lead to such assumption becoming unfounded (Note 26),
- impairment losses on non-financial fixed assets - The Group analyzed the indications of impairment of fixed assets, where such indications were found, the Group performed impairment tests for non-financial fixed assets (Note 16),
- trade receivables impairment losses - calculation and measurement of expected tax losses with regard to trade receivables is the area that requires significant judgment on the choice of proper methodology and input data. For a detailed description of the measurement methodology of expected credit losses applied by the Group see Note 8.19. In the models used by the Group mostly the historical information from the market data systems of the Group are used. However, material assumptions regarding adjustments for future factor impact are made.

In the year ended on 31 December 2019 no changes were made in determining the Group's estimates that would impact any information disclosed in the consolidated financial statements, with the estimates-derived amounts being specified in the notes referred to hereinabove.

8.5. Measurement currency and currency of the consolidated financial statements

The functional currencies of the parent company and other companies included in these consolidated financial statements as well as the reporting currency of these interim condensed consolidated financial statements is Polish Zloty.

8.6. Rules of consolidation

These consolidated financial statements includes the financial statements of Polenergia S.A. and the financial statements of its subsidiaries prepared in each case for the year ended on 31 December 2019. The financial statements of subsidiaries, upon incorporation of adjustments to align them to IFRS, are prepared for the same reporting period as applies to the financial statements of the parent company, using consistent accounting principles and based on single accounting principles applied to transactions and economic events of similar nature. In order to eliminate any discrepancies whatsoever, amendments are made to the applied accounting principles.

Subsidiaries are subject to full consolidation in the period since control has been gained over them by the parent company until such control ceases. The parent company exercises control over a subsidiary in the event it is exposed or is entitled to variable return on its involvement with such entity and is capable of exerting influence on such entity by way of exercising its power over it.

Subsidiaries are subject to full consolidation until control is transferred onto the group. Consolidation ceases the day control ceases to be exerted.

Obtaining control over an entity within the meaning of IFRS 3 is accounted for using the acquisition method. Identifiable assets and liabilities of a subsidiary as at the day it is included in the consolidated financial statements are recognized at fair value. The difference between the fair value of such assets and liabilities and the acquisition price determined also at fair value, shares giving no control and the fair value of previously held shares results in goodwill which is disclosed under an individual item of the consolidated balance sheet.

All material balances and transactions between the entities within the Group, including unrealized profits form transactions within the Group have been fully eliminated. Unrealized losses are eliminated, unless they prove any impairment.

8.7. Investments in Associates and jointly controlled entities

Shares and interests in associates are measured using the equity method. These are entities upon over which the parent company has, directly or through subsidiaries, significant influence and which are neither its subsidiaries nor joint ventures. The financial statements of associates are the basis for the measurement of the shares held by the Parent Company using the equity method. The associates and the Parent Company have the same financial year.

Investments in associates are recognized in the balance sheet at purchase price increased to include any subsequent changes of interest of the parent company in the net assets of those entities, less impairment losses, if any. The profit and loss account reflects the share in the business performance of associates. Also, adjustment of the carrying amount may be necessary in view of the change of the proportion of the interest in an associate resulting from any changes in other total comprehensive income of such entity A test of an investment in associates for impairment is held whenever there are indications that such impairment occurred or that any impairment loss disclosed in the preceding years is no longer required.

In case a change is recognized directly under equity of associates, the parent company recognizes its interest in every such change and, if applicable, discloses it in the statement of changes in equity.

8.8. Goodwill

Goodwill arising on acquisition of an entity is initially recognized at acquisition cost, equal to the excess of:

- the consideration transferred,
- the amount of any non-controlling interest in the acquiree, and
- if a business combination takes place in stages, the acquisition date fair value of the equity interest in the acquiree previously held by the acquirer

over net identifiable assets acquired and liabilities assumed as at the acquisition date.

Following the initial recognition, goodwill is carried at acquisition cost less any cumulative impairment losses. Goodwill is tested for impairment annually, or more frequently if there is any conditions for testing are met. Goodwill is not amortized.

As at the acquisition date the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the business combination. Each unit or a group of units to which goodwill has been allocated:

- corresponds to the lowest level in the Group at which goodwill is monitored for internal management purposes, and
- is no greater than a single operating segment defined in accordance with IFRS 8 Operating Segments.

Impairment of goodwill is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill has been allocated.

If the recoverable amount of a cash-generating unit is lower than its carrying amount, the impairment loss is recognized. In the event goodwill comprises part of a cash-generating unit and part of the cash-generating unit's business is sold, the goodwill attributable to the sold business is included in the carrying amount of the sold business for the purpose of calculating gains or losses on the sale of such part of business.

In such a case goodwill disposed of is measured based on the relative value of the operations disposed of and the value of the part of the cash-generating unit retained.

8.9. Intangible Assets

Intangible assets which have been separately acquired or produced (provided they meet the criteria for being recognized as development expenditure) are initially recognized at acquisition or production cost. The acquisition cost of intangible assets acquired in a business combination transaction is equivalent to their fair value as at the date of the combination. Following initial recognition, intangible assets are recognized at acquisition or production cost less accumulated amortization and impairment losses, if any. With the exception of capitalized development expenditure, expenditure on intangible assets produced by the Company is not capitalized and is charged to expenses in the period it was incurred.

The Group determines whether intangible assets have definite or indefinite useful lives. Intangible assets with definite useful lives are amortized over their useful lives and tested for impairment each time there is an indication of impairment. The amortization period and method with respect to intangibles with a definite useful life are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are disclosed by changing the amortization period or amortization method, as appropriate, and are accounted for as changes in accounting estimates. Amortization charges on intangible assets with definite useful lives are recognized under profit or loss in the category that corresponds to the function of a given intangible asset.

Intangible assets with indefinite useful lives and those which are not used are tested for impairment annually with respect to individual assets or at the level of the relevant cash generating unit.

Expected useful lives are as follows:

Patents, licenses	1 year
Software	2–5 years
Other intangible assets	5 years

Expenditure on research activities is charged to the profit and loss account at the time they are incurred. Development expenditure in connection with a given project are carried forward provided that they may be expected to be recovered in the future. After initial recognition of development expenditure, the historical cost model is applied which requires that assets be disclosed at acquisition cost less accumulated depreciation/amortization and accumulated impairment. Any expenditure carried forward is amortized over the expected period of generating sales revenue under a given project.

The development expenditure is reviewed for impairment annually in case a given asset has not yet been used, or more frequently if an indication of impairment has been identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

Gains or losses from derecognition of an intangible asset in the balance sheet are measured as the difference between net proceeds from the sale of the asset and its carrying amount, and are recognized in the profit and loss account upon their derecognition in the balance sheet.

8.10. Non-current fixed assets

Non-current fixed assets are measured at acquisition cost/production cost less depreciation and impairment losses, if any.

The initial value of non-current fixed assets is represented by their acquisition cost plus all costs directly related to such acquisition and bringing such assets to the working condition for its intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognized when incurred if relevant recognition criteria are fulfilled. Costs incurred after a non-current fixed asset has been placed in service, such as costs of maintenance or repair, are charged to the profit and loss account when incurred.

Upon acquisition, non-current fixed assets are divided into components of material value which can be assigned various economic useful lives. The overhaul cost is also deemed a component thereof.

non-current fixed assets other than land property are depreciated using the straight-line method over their estimated useful lives.

Buildings, structures, premises and civil engineering structures	25 years
Plant and equipment	2.5−25 years
Vehicles	2.5−5 years
Other non-current fixed assets	5−7 years

Residual values, useful lives and methods of depreciation of non-current fixed assets are reviewed annually and, if necessary, adjusted effective as of the beginning of the financial year just ended.

Individual fixed assets are recognized separately and depreciated over their useful lives.

Any item of non-current fixed assets can be derecognized in the balance sheet upon disposal or when no future economic benefits are expected from its further use. Any gains or losses on derecognition of an asset from the balance sheet (derived from the delta between net proceeds from its sale, if any, and the carrying amount of the asset) are disclosed in the profit and loss account of the period in which derecognition took place.

8.11. Non-current fixed assets under construction

Non-current fixed assets under construction are measured at the amount of aggregate costs directly attributable to their acquisition or production, less impairment losses, if any. Investment materials are also recognized as non-current fixed assets under construction. Non-current fixed assets under construction are not depreciated until completed and placed in service. Wind farm development expenditure is also recognized as non-current fixed assets under construction.

8.12. Borrowing costs

The costs of bank and other borrowings resulting from loans and borrowings incurred which may be directly attributed to acquisition, construction or production of a qualifying asset are capitalized as part of the acquisition or production cost of such asset. Borrowing costs comprise interest and foreign exchange gains or losses up to an amount equal to the adjustment to interest expense.

8.13. Impairment losses on non-financial fixed assets

An assessment is made by the Group as at the end of each reporting period whether there is any indication that any of non-financial fixed assets may be impaired. If it is found such indications exist, or if it is required to perform annual impairment test, the Group estimates the recoverable amount of a given asset or a cash-generating unit to which a given asset belongs.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less selling costs of such asset or unit, or its value in use. The recoverable amount is determined for individual assets, unless a given asset does not independently generate cash flows being largely independent from those generated by other assets or asset groups.

In the event the carrying amount of an asset exceeds its recoverable amount, impairment takes place and an impairment loss is recognized, reducing the asset's carrying amount to the established recoverable amount.
In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to a given asset. Impairment losses with respect to assets in continuing operations are recognized in those expense categories which are consistent with the function of the impaired asset.

As at end of each reporting period the Group makes an assessment whether there is any indication that the previously recognized impairment loss of an asset is redundant or whether it should be reduced. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if and to the extent there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such event, the carrying amount of the asset is increased up to its recoverable amount. Such increased amount may not exceed the carrying amount of the asset that would have been determined (after accumulated amortization/depreciation) if no impairment losses had been recognized on that asset in the preceding years. Reversal of an impairment loss is immediately recognized as income in the profit and loss account. Following reversal of an impairment loss, in subsequent periods the amortization/depreciation charge related to a given asset is adjusted so that its revised carrying amount, less its residual value, can regularly be written down over the remaining useful life of the asset.

8.14. Financial assets

The Group categorizes financial assets as follows:

- Financial assets measured at amortized cost,
- Financial assets measured at fair value through profit or loss,
- Financial assets measured at fair value under other comprehensive income,

The classification depends on the model the Group has adopted for financial instrument management and the terms of contractual cash flows from such instruments. The Group reclassifies investments in debt instruments only when the asset management model changes.

Recognition and derecognition

Financial assets are recognized whenever the Group becomes a party to contractual provisions of a given instrument. Financial assets are excluded from accounting books when the right to generate cash flows on account of such financial assets expired or were transferred and the Group transferred substantially all the risk and all benefits attributable to the ownership title.

Measurement as at the initial recognition

On initial recognition, financial assets are recognized by the Group at fair value plus – in the case of financial assets other than those measured at fair value through profit or loss – any transaction costs directly attributable to the purchase of such financial asset. Transaction costs attributable to financial assets measured at fair value through profit or loss are recognized in profit or loss.

Debt instruments - Financial assets measured at amortized cost

SPPI (solely payment of principal and interest) debt instruments are measured at amortized cost. Interest revenue is measured using the effective interest rate method and disclosed under "interest revenue" under profit or loss. Impairment losses are recognized in line with the accounting principle referred to in Note 8.14 and presented under item "impairment of financial assets". In particular, the Group classifies the following under that category:

- trade receivables,
- loans that meet the SPPI requirement test which are disclosed, in line with the business model, as "held in order to generate cash flows",
- cash and equivalent,

Short-term trade receivables other than lease receivables referred to in more detail in Section 8.17 are measured at amounts due less impairment losses.

If the effect of the time value of money is material, the receivable is measured by discounting expected future cash flows to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money. If the discount method is applied, any increase in the amount of the receivables reflecting the passage of time is recognized as financial income.

Debt instruments - Financial assets measured at fair value through profit or loss

Those assets which do not meet the measurement criteria at amortized cost or at fair value under other comprehensive income are measured at fair value through profit or loss.

Under this category the Group classifies derivatives, except those allocated to hedge accounting.

Equity instruments - Financial assets measured at fair value through other comprehensive income

Following the initial recognition, the Group measures all equity instrument investments at fair value. The Group chose to present gains and losses from change of the fair value of equity instruments under other comprehensive income. Such choice results in gains and losses on account of changes of the fair value not being reclassified subsequently to profit or loss when the investment is no longer recognized. Dividends on such investments are recognized under profit or loss when the right of the Group to receive distribution is established. Impairment losses (and their reversal) with respect to equity investments measured at fair value thorough other comprehensive income are not presented independently from other changes of fair value.

8.15. Hedge accounting

According to IAS 39, the Group hedges cash flows against interest rate fluctuations related to future loan repayments (by way of exchanging the floating interest rate under a loan agreement for a fixed interest rate) and against exchange rate volatility related to foreign currency loan repayments. The hedging instruments include derivatives, interest rate swap and a currency forward.

For more information on hedge accounting, see Note 41.

During the period ended on 31 December 2019, in accordance with its adopted ‘Hedge Accounting Guidelines’, the Group measured hedge effectiveness both ex-post (retrospectively) and ex-ante (prospectively), using the dollar offset method.

For accounting purposes, effectiveness is measured using the hypothetical derivative method. Such method compares the changes in the fair value of an Interest Rate Swap (IRS) designated as a hedging instrument and the changes in the fair value of a hypothetical IRS transaction on a cumulative basis from the inception of the hedging relationship. The terms of such hypothetical IRS transaction are identical to those of the hedged item and its fair value at the inception of the hedging relationship is nil.

Hedge ineffectiveness is calculated by comparing the cumulative change in the fair value of the hedging IRS and the cumulative change in the fair value of the ‘ideal’ hypothetical IRS transaction, in each case starting from the inception of the hedging relationship.

Subsequent to the inception of the hedging relationship, gains or losses arising on remeasurement of the fair value of the hedging instrument are recorded based on determination what portion of the change in its carrying amount reflects the effective portion of the hedge. This is made from time to time as at each date of preparation of financial statements/end of reporting period date on a cumulative basis from the hedge commencement date until a given day. The Company determines the effective and ineffective portions of the hedge taking into account changes in its “pure” fair value, which is its fair value less the accrued portion of the nearest forthcoming interest payments under a derivative.

The effective portion of the change in the fair value of the hedging instrument is recognized in other comprehensive income, while the ineffective portion is recognized in profit and loss account.

For information on the fair value of the financial derivatives disclosed in the balance sheet, see Note 41.

8.16. Joint arrangements

Investments in joint arrangements are classified as either a joint operation or a joint venture, depending on the contractual rights and obligations of each investing party. The Group has performed an assessment of its joint arrangements and classified them as joint ventures. Joint ventures are measured using the equity method.

According to such method, interests in joint ventures are initially recognized at cost and subsequently adjusted to reflect the share of the Group in the profit or loss and in the changes of other comprehensive income in the period following acquisition. When the Group's share in losses of a joint venture is equal to or exceeds the Group's interest in such joint venture (including all long-term shares which, in fact, are part of the net investment), the Group ceases to recognize any further losses, unless it has incurred liabilities or has made payments on behalf of the joint ventures.

Unrealized gains on transaction between the Group and its joint ventures are eliminated to the extent reflecting the Group's shares in such joint ventures. Also unrealized losses are eliminated, unless a transaction provides evidence of impairment of the transferred asset. Where necessary, the accounting principles applied by joint ventures have been changed to align the presentation with the accounting principles applicable by the Group.

8.17. Lease

As explained in Note 8.1 hereinabove, the Group changed its accounting principles with respect to the lease contracts where the Group is the Lessor. The effect of such change has been described in Note 9.

Accounting policy applied to the year 2018

Until 2018, lease of tangible fixed assets used to be classified as financial lease or operating lease.

Finance leases, which transfer substantially all the risks and rewards incidental to the ownership of the leased asset onto the Group, used to be recognized in the balance sheet at the inception of the lease at the lower of: the fair value of the non-current asset leased or the present value of the minimum lease payments. Lease payments had been apportioned between the finance charge and the reduction of the outstanding liability under lease so as to produce a fixed interest rate on the remaining balance of the liability. The finance charge had been taken directly to profit and loss account.

Non-current fixed assets in use under finance leases used to be depreciated over the shorter of their estimated useful life and the lease term.

Lease contracts under which the lessor retained substantially all risks and rewards resulting from the ownership of the leased asset had been classified as operating leases. Operating lease payments had been recognized as an expense in the profit and loss account over the lease term on a straight-line basis.

Accounting policy applied to the year 2019

The Group as a lessee

As of 1 January 2019 the lease is recognized as an asset under the right of use, with a corresponding liability as at the day such lease was given to the Group.

The Group holds on lease office spaces, land and vehicles. Usually, contracts are entered into for a definite term, between 4 and 22 years, with an option to extend such contract, as referred to hereinbelow. With respect to contracts for an indefinite term, the Group estimates the lease term based on the anticipated useful life of the leased assets.

Recognition of lease payables

Lease payables are measured at their present value at initial recognition. Lease payables include the NPV of the following lease payments:

- fixed lease payments less any lease incentives receivable,
- variable lease payments dependent on market indices,
- amounts expected to be paid as guaranteed residual value of the leased asset,
- purchase option exercise price, provided sufficient certainty exists as to such exercise,
- penalties for termination of lease if the lessee may exercise termination option.

Lease payments related to the lease extension option are also included in the measurement of liability, provided that sufficient certainty exists that such option will be realized.

Lease payments are discounted at the incremental lease discount rate, or in the event it is impossible to easily determine such rate, the lessee's incremental rate is applied. The Group has assumed that the incremental discount rate should reflect the cost of such financing as would be incurred to purchase the leased asset. When estimating the discount rate, the Group considered the following contractual features: type, tenor, currency and potential spread the Group would have to pay to any financial institution providing financing.

Short-term lease (not exceeding 12 months) and such lease where the value of the underlying asset is low - fare not recognized as well as financial liabilities and relevant right-of-use assets. Respective lease payments are recognized as an expense over the lease term on a straight-line basis.

Lease payables have been recognized in the balance sheet under Other payables. Interest on lease payables have been recognized in the profit and loss account under other finance costs.

Recognition of the right-of-use assets

The right-of-use assets are measured at cost which includes:

- the initial measurement amount,
- any lease payments made on or before the commencement date less the lease incentives received,
- any upfront direct costs,
- reclamation costs

The right-of-use assets are recognized in the balance sheet under the same item where the base assets owned by the Company would be recognized. Depreciation of the right-of-use assets has been recognized under the profit and loss account under the same items where costs of the similar type are recognized.

8.18. Inventories

Inventories are measured at the lower of acquisition/production cost and net realizable value. Costs incurred in bringing materials inventories to their present location and condition are included in and increase the cost of the inventories and measured at acquisition cost determined using the weighted average formula.

Net realizable value is the selling price realizable as at the end of the reporting period, net of VAT and excise duty, less any rebates, discounts and other similar items and less the costs to complete and costs to sell.

Being assets held for sale in the course of core operations certificates of origin units are recognized as inventories.

8.19. Impairment of financial assets

IFRS 9 requires that the expected loss on financial assets is estimated notwithstanding whether or not any indications giving rise to such impairment loss occurred. Said standard provides for a 3-stage classification of financial assets, impairment-wise: (1) Stage 1 – where credit risk has not increased significantly since initial recognition and where entities are required to determine ECL based on a 12-month insolvency risk; (2) Stage 2 – where credit risk has increased significantly since initial recognition and where entities are required to determine ECL based on the lifetime insolvency risk; (3) Stage 3 – where a financial asset is credit impaired. This standard permits certain simplified classification of short-term receivables and recognize them under Stage 2.

The 3-stage model is applied to all financial assets excepting short term trade receivables for which the Group uses impairment losses throughout the entire lifetime of a given financial instrument.

Homogenous/fragmented trade receivables which have been estimated, upon a portfolio analysis, to be unimpaired (Stage 2) - estimation of impairment , if any, is based on the application of an impairment matrix against historical data adjusted for future impacts.

Trade receivables from individually significant entities (customers buying large volume of goods in a given segment, cooperation based on long-term contracts) - estimation of impairment, if any, is based on an analysis of trade receivables from individual customers.

The entity also applies the 3-stage model to cash, however in this case, the Management Board believes that impairment is immaterial.

8.20. Other non-financial assets

Receivables from the state budget are presented as other short-term receivables, except for corporate income tax receivable, disclosed as a separate item of the statement of financial position.
The Group recognizes prepayments where costs relate to future reporting periods. Accrued expenses are recognized at probable amounts of current-period liabilities.

8.21. Cash and cash equivalents

Cash and cash equivalents disclosed in the consolidated statement of cash flows comprise cash in hand, bank deposits maturing in up to three months, treasury bills and bonds not classified as investing activities. Cash at bank deposits meet the SPPI test and the “held to collect” business model test, therefore they are measured at amortized cost less the impairment loss determined as per the expected loss model.

8.22. Capital

Share capital is recognized at its amount defined in the parent’s Statutes and entered in the court register. Any difference between the fair value of consideration received and the par value of shares is recognized in statutory reserve funds under share premium account. Where shares are repurchased, relevant payment amounts are charged to equity and disclosed in the balance sheet as treasury shares.

Other capital reserves have been accumulated through contributions from profits generated in previous financial years and through revaluation of derivatives hedging future cash flows (for further information on the hedges, see Note 41).

8.23. Provisions

Provisions are recognized if Group companies have an obligation (legal or constructive) resulting from past events and when it is certain or highly probable that an outflow of funds embodying economic benefits will be required to settle such obligation, and when a reliable estimate can be made of the amount of such obligation.

Where expenditure required to settle the obligation is expected by the Group to be reimbursed by another party (e.g. under an insurance agreement), the reimbursement is recognized as a separate asset only when virtual certainty exists that it will be actually received. Cost related to a given provision is recognized in profit or loss net of any recoveries. If the effect of the time value of money is material, the amount of a provision is determined by discounting the projected future cash flows to their present value, using a pre-tax discount rate reflecting the current market estimates of the time value of money, as well as any risk associated with a given obligation. If the discount method is applied, an increase in the provision as a result of the passage of time is recognized as finance costs.

Emission allowances provision

The Group recognizes a provision for emission allowances if it has a deficit of allowances. A surplus of allowances received free of charge over actual emissions, if any, is recognized as an off-balance-sheet item.

Provision for length-of-service awards and retirement pays

In accordance with the company remuneration systems, the Group employees are entitled to length-of- service awards and retirement pays . Length-of-service awards are paid after a specific period of employment. Retirement pays are one-off benefits, paid out when an employee retires. Amounts of such benefits and awards depend on the length of service and the average remuneration of the employee. The Company recognizes a provision for future length-of-service award and retirement pay obligations in order to allocate costs to the periods to which they relate. According to IAS 19, length-of-service awards are classified as other long-term employee benefits, whereas retirement pays are classified as defined post-employment benefit plans. Accrued obligations are equal to the amount of discounted future payments, taking into account employee turnover, and relate to the period ending on the reporting date. Information on demographics and employee turnover is based on historical data.

8.24. Interest-bearing bank loans, borrowings and other debt instruments

All bank loans, borrowings and other debt instruments are initially recognized at fair value net of transaction costs associated with such loan or borrowing.

After initial recognition, interest-bearing loans, borrowings and other debt instruments are measured at amortized cost using the effective interest rate method.

Amortized cost includes the cost of obtaining the loan or the borrowing, as well as any discounts or premiums obtained in connection with the liability.

Any gains or losses are taken to profit and loss account when the liability is derecognized or accounted for using the effective interest rate method.

If contractual terms of a financial liability are modified in a way that does not result in derecognition of the existing liability, the gain or loss is immediately recognized in profit or loss at an amount equal to the difference between the present value of modified and original cash flows, discounted using the original effective interest rate.

8.25. Trade creditors and other payables

Short-term trade payables are recognized at nominal amounts payable. Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading, and financial liabilities initially designated as financial liabilities at fair value through profit or loss. Financial liabilities are classified as held for trading if they have been acquired for the purpose of being sold in the near future. Derivative financial instruments, including separated embedded derivatives, are also classified as held for trading, unless they are considered as effective hedges. Financial liabilities may be designated as financial liabilities measured at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases, (ii) the liabilities are part of a group of financial liabilities that are managed and measured based on fair value, according to a documented risk management strategy, or (iii) the financial liabilities contain embedded derivative instruments which should be presented separately.

Financial liabilities other than financial instruments measured at fair value through profit or loss are measured at amortized cost using the effective interest rate method.

The Group derecognizes a financial liability when it has been extinguished, that is when the obligation specified in the contract has either been discharged or cancelled or has expired. When an existing debt instrument between the same parties is replaced by another instrument whose terms are substantially different, the Group treats such replacement as if the former financial liability was extinguished and recognizes a new liability. Similarly, material modifications to the terms of a contract concerning an existing financial liability are presented by the Group as the original liability being extinguished and a new financial liability being recognized. Any differences in the respective carrying amounts arising in connection with such replacement are charged to the profit and loss account.

Other non-financial liabilities include, in particular, value added tax payable to tax authorities and liabilities under prepayments received, to be settled through the supplies of merchandise, services or fixed assets. Other non-financial liabilities are recognized at their amounts due.

8.26. Revenue from Contracts with Customers

The principles in IFRS 15 refer to any and all revenue yielding contracts. The core principle of the new standard is that revenue is recognized at the moment of transfer of control over the goods or services to a customer in the amount of the transaction price. Any goods or services which are sold in packages but can be identified separately in a package must be recognized individually, on top of that any discounts and rebates affecting the transaction price must in principle be allocated to individual elements of the package. The review showed that the new standards have not changed the way revenue is recognized.

The Group generates revenues from the following sources:

Revenue from connection fees

In the year ended on 31 December 2019 the Group was recognizing connection fee revenue on a one-off basis when such revenue was generated (i.e. utility connection took place), in line with the accounting policy, similarly to previous years. (for detailed information see Note 8.3).

Revenue from sale of energy, heat, pellets and green certificates

Revenue from sale of products and merchandise, including electricity, heat and pellets, is recognized in time and are a performance obligation. Revenue from the sale of energy on the basis of future contracts carried out by physical energy supply are described in note 8.27. The Group recognizes revenue on a monthly basis or at the moment of physical energy supply..

Sale of services

Revenue from sale of services is recognized on a monthly basis and is a performance commitment.

8.27. Other revenues

The Group generates other revenues from:

Recognition of compensation for stranded costs and cost of gas

Compensation for stranded costs, which the Group is entitled to receive under the LTC Termination Act (for details, see Note 9.3 and Note 44), is recognized in correspondence with revenue from sale of products. Such revenue is recognized on a systematic basis over the accounting period pro rata to the estimated operating profit or loss from sale of electricity, capacity and system-related services, net of accumulated depreciation of the fixed assets employed in such operations.

In any given accounting period the revenue may not exceed the lower of the two: (a) cumulative compensation receivable as determined, estimated in accordance with the rules of final settlement provided for in Art. 31.1 of the LTC Termination Act, and (b) the maximum amount of compensation that an entity may receive in accordance with Schedule 2 to the LTC Termination Act.

In a corresponding entry, compensation for stranded costs is recognized as receivable from Zarządca Rozliczeń S.A Prepayments of compensation for stranded costs, made in equal quarterly instalments in cash, are recognized as a decrease in receivables disclosed in prior periods. The balance shown in the settlement account of Zarządca Rozliczeń S.A. as at each reporting date is the best estimate of receivables owed to or payables due from the Company, reflecting the amounts of compensation actually received.

Compensation for the costs referred to in Art. 44 of the LTC Termination Act that are incurred by gas-fired units ("cost of gas") is recognized in correspondence with revenue from sale of products. The amount of such revenues is recognized on a systematic basis over the reporting period, based on actual quantities of electricity and costs of gas and coal. Whenever actual data is not available as at the reporting date, the most up-to-date estimates are used instead. Other policies of recognizing and accounting for compensation for cost of gas are the same as those applied to recognition of compensation for stranded costs.

Recognition of carbon emission allowances

Free carbon emission allowances were neither recognized in the balance sheet when they were allotted nor in subsequent periods.

Revenue from sale of allowances acquired for resale is recognized as revenue, and the cost of allowances sold is recognized as COGS (raw materials and energy consumed). If emission allowances held by the Group as at end of the reporting period do not fully cover its actual CO2 emissions in a given year, the Group recognizes a provision for the costs of covering the deficit.

Futures and forward contracts

Contracts to buy and sell electricity entered into by Polenergia Obrót fall outside the scope of IFRS 9 as they have been exempted from that standard as the 'own use' purchase/sale due to the fact that electricity traded under the contracts is readily convertible into cash (take place through physical energy supply).

Futures contracts to buy or sell of energy which are unrealized as at the balance sheet date are recognized by the Group as derivatives and accounted for in accordance with standards applicable to derivative instruments, as electricity traded under the contracts is readily convertible into cash.

In consequence, unrealized contracts as at the balance sheet date are measured at fair value, with changes in fair value recognized in the profit and loss account. Gains or losses on the measurement of outstanding contracts as at the reporting date are recognized on a net basis under Other revenue or selling expenses, as appropriate. Measurement is performed with respect to the outstanding part of the contracts broken down into a current portion to be completed within 12 months from the reporting date, and a long term portion to be completed in subsequent years.

Typically, such transactions are performed through physical delivery of energy and settled on a gross basis.

Transactions under electricity sale contracts which are settled during the year through physical delivery of electricity are disclosed as Revenue from contracts with clients in the amounts receivable under the contracts (i.e. on contract settlement, revenue is adjusted for the previously recognized gains or losses from remeasurement of the electricity sale derivatives).

Cost of electricity purchase contracts which are settled during the year through physical purchase of electricity is presented under “COGS - cost of goods sold” at the purchase price (i.e. on contract settlement, cost is adjusted for the previously recognized gains or losses from remeasurement of electricity purchase derivatives).

Interest

Interest gains are recognized gradually as interest accrues (using the effective interest rate method, where the effective interest rate is one which discounts future cash flows over the estimated life of the financial instruments) relative to the net carrying amount of a given financial asset.

Dividends

Dividends are recognized when the shareholders’ rights to receive distribution are established.

Subsidies on account of certificates of origin

Due to the short operating cycle and high turnover, green energy certificates of origin are measured at fair value and recognized under cost of goods sold as revenue from the granted certificates of origin and current assets (inventories) when energy is generated, to the extent it is probable that the Group will receive the related economic benefits.

Subsidized tangible fixed assets

If there is reasonable certainty that subsidies will be received and that all related conditions will be met, subsidies are recognized at fair value.

If a subsidy relates to a cost item, it is recognized as income in matching with the expenses it is intended to compensate for. Where the subsidy relates to an asset, its fair value is credited to a deferred income account and subsequently it is released to the profit and loss account under other operating revenues over the expected useful life of the relevant asset in equal annual instalments.

8.28. Taxes

Current tax

Current tax asset and income tax payable for the current period and for previous periods are measured at the amount expected to be paid to (or recovered from) tax authorities, using the tax rates and tax legislation that have been enacted or substantively enacted as at the end of the reporting period.

Deferred tax

For the purposes of financial reporting, deferred tax is calculated using the balance-sheet liability method in relation to temporary differences existing as at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts as disclosed in the financial statements.

A deferred tax liability provision is recognized for all taxable temporary differences:

- except where the deferred tax liability provision arises from the initial recognition of goodwill or the initial recognition of an asset or liability attributable to a transaction other than business combination and, at the time of the transaction, affecting neither the pre-tax profit/loss nor the taxable profit or loss, and
- in the case of taxable temporary differences attributable to investments in subsidiaries or associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled by the investor and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, as well as unused tax credits and unused tax losses brought forward, to the extent it is probable that taxable income will be available against which the deductible temporary differences, tax credits and tax losses can be utilized:

- except to the extent that the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability attributable to a transaction other than business combination, and, at the time of the transaction, affects neither the pre-tax profit/loss nor the taxable profit or the tax loss, and
- in the case of deductible temporary differences attributable to investments in subsidiaries or associates and interests in joint ventures, deferred tax asset is only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of a deferred tax asset is reviewed as at the end of each reporting period and is gradually reduced to the extent it is no longer probable that sufficient taxable income will be generated to allow the deferred tax asset to be realized in full or in part. As at the end of each reporting period, any unrecognized deferred tax asset is reassessed and recognized to the extent that it is probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liability provisions are calculated using tax rates expected to be effective at the time of realization of the asset or liability, based on tax rates (and tax legislation) effective at the end of the reporting period or tax rates (and tax legislation) which at the reporting date are certain to be effective in the future.

Income tax on items posted directly to equity is recognized in equity rather than in the profit and loss account.

Deferred tax assets and deferred tax liability provisions are offset by the Group if and only if has a legally enforceable right to offset current tax asset and income tax payable, and the deferred tax relates to the same taxpayer and the same tax authority.

Value added tax

Revenue, expenses, assets and liabilities are recognized net of VAT, except in the following cases:

- where the value added tax paid on the purchase of assets or services is not recoverable from the tax authorities; in such a case it is recognized as part of the acquisition price of a given asset or as part of the cost item, and
- in the case of receivables and payables which are recognized inclusive of VAT.

The net amount of the value added tax which is recoverable from or payable to tax authorities is disclosed in the balance sheet under receivables or payables, as appropriate.

8.29. Earnings per share

Earnings per share for each reporting period are calculated by dividing the net profit attributable to the shareholders of the parent for a given period by the weighted average number of shares outstanding in the period.

Diluted earnings per share for a period are calculated as the quotient of net profit adjusted for changes in net profit attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible into ordinary shares) and the weighted average number of ordinary shares outstanding in the period (adjusted for the effect of dilutive options and dilutive redeemable preferred shares convertible into ordinary shares, including warrants under the management stock option plan).

8.30. Contingent assets and liabilities

A contingent liability is understood as an obligation to make a payment or provide a service which may arise upon the occurrence or non-occurrence of certain future events. Contingent liabilities are not recognized in the balance sheet, however information on contingent liabilities is disclosed, unless the probability of the outflow of resources embodying economic benefits is negligible.

A contingent liability is:

- a plausible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but has not been recognized in the financial statements because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to perform the obligation, or

(ii) the amount of the obligation (liability) cannot be measured with sufficient reliability.

Contingent receivables are not recognized in the balance sheet, but information on contingent receivables is disclosed if the inflow of resources embodying economic benefits is likely to occur.

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8.31. Seasonality and cyclical nature of operations

The Group operates on the industrial power outsourcing market. The Group's key customers use heat and electricity supplied by the Group for production purposes at their industrial facilities. Heat and electricity supply business is not subject to seasonal fluctuations. Wind conditions which determine the output of wind farms are uneven during the year In autumn and winter they are significantly better than in spring and summer The Group resolved to build wind farms in locations selected based on professional wind measurements confirmed by independent and reputable experts. However, there can be no assurance that the actual wind conditions will not be different than those used in the Group’s models for specific investment projects.

8.32. Foreign currency transactions

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the rate of exchange prevailing on the transaction date.

Cash, bank borrowings and other monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency as at the end of the reporting period date at the exchange rate prevailing on the transaction date (for entities having the Polish zloty as their functional currency, the average rate quoted by the NBP is used). Foreign exchange differences on translation and settlement of items are recognized in finance income or cost, as appropriate. Changes in the fair value of derivatives designated as hedging instruments for hedge accounting purposes are recognized in accordance with the applicable hedge accounting policies (see Note 41).

The following exchange rates were used for measurement purposes:

	31.12.2019	**31.12.2018**
USD	3.7977	3.7597
EUR	4.2585	4.3000
GBP	4.9971	4.7895

9 Changes of the accounting principles (policy) applied

Lease

This Note clarifies the impact of adopting IFRS 16 Lease on the Group’s consolidated financial statements.

As of 1 January 2019 the Group adopted a new financial reporting standard IFRS 16 “Lease”. According to the transition provisions in IFRS 16, the new principles were adopted retrospectively, with recognition of the cumulative effect of initial implementation of the new standard under equity as at 1 January 2019. Consequently, there has been no adjustment of the comparative data for the financial year 2018 (modified retrospective approach).

The Group recognizes lease payables due to lease that was earlier classified under “operating lease” in line with the principles of IAS 17 Leases. Such payables have been measured at the present value of the outstanding lease payments as at the inception of IFRS 16 application. Discounting using the incremental borrowing rate of the Company as at 1 January 2019 was applied.

As at 1 January 2019 the discount rates derived by the Group were within the range of (depending on the terms of contract):

for PLN-denominated contracts: between 3.86% and 6.18%

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for EUR-denominated contracts: 4.54 %

The risk-free rate (RFR) has been estimated based on treasury bonds.

Application of estimates and judgments

Implementation of IFRS 16 requires certain estimates, judgments and calculations which impact on the measurement of finance lease liabilities and right-of-use assets. They include, without limitation:

- assessment of lease payments as fixed, variable or de facto fixed,
- assessment whether a given contract provides for a lease in line with IFRS 16,
- determination of term of contracts (including indefinite term contracts and extendable contracts),
- determination of the discount rate applied to future cash flows,
- determination of the depreciation rate.

Application of practical expedients

At the initial application of IFRS 16 the Group has taken advantage of the following practical expedients permitted by the standard:

- a single discount rate shall be applied to the lease contract portfolio which share similar characteristics,
- operating lease contracts with the outstanding lease term not exceeding 12 months as at 1 January 2019 have been recognized as short term lease,

Impact on the financial position report as at 1 January 2019

The impact of IFRS 16 implementation on the recognition of additional financial liabilities and relevant right-of-use assets is shown in the tables below:

Operational lease	31.12.2019	31.12.2018
Up to one year	-	6 574
1 - 5 years	-	28 050
In excess of 5 years	-	55 820
Total	**-**	**90 444**

Operating lease commitments disclosed as at 31 December 2018	**90 444**
Discounted using the lesse's incremental borrowing rate of at the date of initial application	56 345
Finance lease liabilities recognised as at 31 December 2018	563
Lease liability recognised as at 1 January 2019	**56 908**
Of which are:	
Current liabilities	5 732
Non-current lease liabilities	51 176

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Right-of-use assets under lease	1.01.2019
Land real estate	52 432
Perpetual usufruct of the land	269
Other real estate	3 090
Plant and machinery	103
Vehicles	438
Other	13
Total	**56 345**
including short-term liability	5 546
including long-term liability	50 799

Impact on equity

The implementation of IFRS 16 has no impact on retained profit and equity as at 1 January 2019 in view of the recognition of the right-of-use assets and lease liabilities in identical amounts.

Impact on financial ratios

As practically all lease contracts have been recognized in the Group's balance sheet, implementation of IFRS 16 by the Group has impacted its ratios, including debt to equity ratio. In addition, following implementation of IFRS 16, measurement of profit changed (including, without limitation, operating profit, EBITDA), as well as operating cash flows. The Group reviewed the impact of those changes on the compliance with the covenants in loan agreements to which the Group is a party and identified no risk of breach of said covenants. The Group reviewed the impact of IFRS 16 on the deferred tax and identified no differences as at the inception date.

Disclosure of revenues from certificates of origin granted and other revenues

In 2019 the Group changed its accounting policy in terms of disclosure of revenues from:

1) certificates of origin granted with a view to more realistically reflect the economic content of the transaction - as reduction of the cost of goods sold;
2) funds to pay the stranded costs and gas costs - under Other Revenues
3) measurement of future contracts for the purchase/sale of electricity and gas - under Other Revenues;
4) the carbon dioxide emission allowance - under Other Revenues.

In prior periods the abovementioned revenue sources used to be recognized under "Sales revenues/ Revenues from contracts with clients". The change was made with a view to more realistically reflect the economic content of the transaction.

The change of policy has had a significant impact on the comparative data, that is why the Group has decided to revise such comparative data. Such impact on comparative data is shown in the table below:

	before change 31.12.2018	change	after change 31.12.2018
Sales revenues	3 448 712	(3 448 712)	-
Revenues from contracts with clients	-	3 261 688	3 261 688
Other revenues	-	187 024	187 024

	before change 31.12.2018	change	after change 31.12.2018
- selling certificates of orgin	-	(59 336)	(59 336)
- income from granted certificates of orgin	-	59 336	59 336

Description of policies in terms of recognition of certificates and policies in terms of sale of certificates has been provided in Note 8.27.

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10 Adjusted EBITDA and Adjusted Net Profit

Neither the level of EBITDA, nor the adjusted EBITDA nor the adjusted net profit allocated to the parent company shareholders have been defined in IFRS, hence these figures may be derived differently by other entities.

EBITDA and ADJUSTED EBITDA

	For 12 months ended	
	31.12.2019	31.12.2018
Profit before tax	136 879	40 693
Fianancial revenues	(5 767)	(5 700)
Financial costs	49 535	60 794
Depreciation/Amortization	101 453	95 523
Profit on loss of control over subsidiaries	(20 204)	(11 983)
Development - related impairment loss	17 280	8 393
Goodwill - related impairment loss	-	40 000
Biomass - related impairment loss	(46)	28 886
Reversal of impairment loss related to wind farms in operation	-	(67 488)
EBITDA	**279 130**	**189 118**
Purchase price allocation:		
Long term contract measurement	-	(681)
Adjusted EBITDA	**279 130**	**188 437**

ADJUSTED NET PROFIT atributed to parent shareholders

	For 12 months ended	
	31.12.2019	31.12.2018
NET PROFIT attributed to parent shareholders	**109 011**	**3 404**
Unrealized foreign exchange net (gains)/losses	35	102
(Income)/Cost from measurement of long-term borrowings	1 372	7 108
(Net profit) on loss of control over subsidiaries	(20 204)	(7 199)
Development - related impairment loss	17 280	8 393
Goodwill - related impairment loss	-	40 000
Biomass - related impairment loss	(46)	29 879
Reversal of impairment loss related to wind farms in operation	-	(54 665)
Purchase price allocation:		
Depreciation/Amortization	10 128	10 128
Long term contract measurement	-	(681)
Tax	(1 920)	(1 791)
Adjusted NET PROFIT attributed to parent shareholders	**115 656**	**34 678**

EBITDA, adjusted EBITDA and adjusted net profit attributable to owners of the parent are not defined in the accounting standards

The Group presents data on its EBITDA, adjusted EBITDA and the adjusted net profit allocated to the parent company shareholders in order to present the Group's results to the exclusion of certain elements that have no impact on the core business of the Group and that lead to no cashflows in the reporting period.

Neither the level of EBITDA, nor the adjusted EBITDA nor the adjusted net profit allocated to the parent company shareholders have been defined in IFRS, hence these figures may be derived differently by other entities.

The Group defines EBITDA as profit before tax less the financial revenue plus financial expense plus depreciation plus impairment losses of non-financial fixed assets (including goodwill). This definition is aimed, in the first place, at ensuring comparative nature of the key parameter for the industry in which the Issuer and its Group operates, in view of the fact that in these financial statements the Group excluded profit from loss of control over subsidiaries from EBITDA.

The Adjusted EBITDA index is determined by eliminating from EBITDA any impact of economic events not affecting the core business of the Group and having no connection with cash flows in the reporting period including, in particular:

- Accounting for the purchase price as at the acquisition day (eliminating the profit recognized as at the acquisition day on account of formerly existing relations, elimination of cost/revenue on forward contract clearance recognized at fair value as at the acquisition day),
- Costs of financing other than debt financing at the level of project companies,
- Operating result resulting from the change in the Group's strategy.

The Group defines Adjusted Net Profit attributable to shareholders of the parent as net profit clear of any effects of the following economic events:

- Accounting for the purchase price as at the acquisition day (elimination of depreciation/amortization of adjustments made in connection with fair value measurement of acquired fixed assets, elimination of the profit recognized as at the acquisition day in connection with previously existing relations, elimination of cost/revenue on forward contract clearance recognized at fair value as at the acquisition day), including the effect of deferred tax on the above items),
- Impairment losses on non-financial fixed assets, including goodwill
- Effect of measurement of long-term receivables under wind farm sale transactions (discount).
- Net finance profit/loss related to measurement of borrowings using the amortized cost method (the spreading over time of historically incurred commissions on financing obtained),
- Unrealized foreign exchange gains or losses (this item has not been included in the forecast),
- Costs of financing other than debt financing at the level of project companies,
- Operating result resulting from the change in the Group's strategy,
- Impact of income tax on the economic events listed above.

11 Operating segments

For management purposes, the Group has made an analysis aimed at identifying relevant segments. As a result of such analysis, the following operating segments have been identified, being identical with the reporting segments:

- conventional energy segment, involving production of heat and electricity,
- development and implementation segment comprising the development and construction of wind farms and a conventional power plant,
- wind power segment comprising the generation of electricity and certificates of origin,
- distribution segment comprising the distribution and sale of electricity to commercial, industrial and household customers,
- electricity and certificates of origin trading segment.

After the development of the biomass segment comprising the production of pellet from energy plants had been abandoned, the Management Board resolved to refrain from identifying such segment and to include the results of those operations under “Unallocated” item.

The Management Board has been separately monitoring the operating performance of the segments in order to make decisions regarding allocation of resources, evaluation of the effects of such allocation and the operating performance. The basis for the evaluation of the operating performance is operating profit or loss plus depreciation/amortization, which are, to some extent, measured differently than the operating profit or loss in the consolidated financial statements, as indicated in the table below. Income tax is monitored at the Group level and is not allocated to segments. Unallocated assets comprise the Company’s cash.

Transaction prices used in transactions between the operating segments are determined on an arm’s length basis, similarly to the transactions with non-related parties. Any and all consolidation adjustments are allocated to individual segments.
The Warsaw Commodity Clearing House is the only customer with whom the Group generated no less than 10% of total revenues of the Group - this is true of the Energy Trading and Sales segments. 99.9% of assets of the segments are located in Poland.

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For 12 months ended 31.12.2019	Wind Power	Conventional Energy	Trading and energy sales	Distribution	Developer and implementation activity	Unallocated *)	Purchase price allocation	Total
Revenues from contracts with clients	211 478	221 657	1 944 004	93 773	7	20 167	-	2 491 086
Other revenues	-	96 714	8 777	-	-	-	-	105 491
Net sales profit (loss)	**114 639**	**69 201**	**24 767**	**14 124**	**(561)**	**87**	**(10 128)**	**212 129**
General overheads	(3 063)	(7 202)	(10 445)	(6 218)	(414)	(11 092)	-	(38 434)
Interest income/(expense)	(40 541)	(337)	(131)	(1 986)	150	3 511	-	(39 334)
Gain on loss of control over subsidiaries	-	-	-	-	-	20 204	-	20 204
Financial revenue/(expense) on unrealized f/x differences	73	(25)	(63)	-	-	(28)	-	(43)
Other financial revenue/(expense)	(3 386)	(856)	(2 037)	(280)	613	1 555	-	(4 391)
Other operating revenue/(expense)	3 787	(1 881)	396	2 164	(17 309)	(409)	-	(13 252)
Profit/loss before tax	**71 509**	**58 900**	**12 487**	**7 804**	**(17 521)**	**13 828**	**(10 128)**	**136 879**
Income tax	-	-	-	-	-	(29 763)	1 920	(27 843)
Net profit/loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**109 036**
EBITDA **)	178 708	80 653	14 805	15 076	(1 004)	(9 108)	-	279 130
Segment assets	1 313 718	239 999	165 016	144 052	132 808	-	-	1 995 593
Unallocated assets	-	-	-	-	-	484 168	-	484 168
Total assets	**1 313 718**	**239 999**	**165 016**	**144 052**	**132 808**	**484 168**	**-**	**2 479 761**
Segment liabilities	862 840	51 862	121 444	83 793	17 540	-	-	1 137 479
Unallocated liabilities	-	-	-	-	-	27 036	20 002	47 038
Total liabilities	**862 840**	**51 862**	**121 444**	**83 793**	**17 540**	**27 036**	**20 002**	**1 184 517**
Depreciation/Amortization	63 345	20 535	87	5 006	-	2 352	10 128	**101 453**

*) HQ costs not allocated to other segments and biomass

**) EBITDA - definition in Note 10

(PLN K)

For 12 months ended 31.12.2019		Wind Power	Conventional Energy	Trading and energy sales	Distribution	Developer and implementation activity	Unallocated *)	Total
- revenue from sale and distribution of electricity	over time	151 397	199 639	1 889 063	87 177	-	-	2 327 276
- revenue from certificates of orgin	over time	60 068	(26)	16 300	-	-	10	76 352
- revenue from sale of heat	over time	-	21 855	-	-	-	-	21 855
- revenue from consulting and advisory services	over time	-	-	-	-	-	4 863	4 863
- revenue from lease and operator services	over time	-	-	-	1 666	-	-	1 666
- revenue from sale of merchandise	point in time	-	-	-	-	-	35	35
- revenue from sale of pellets	over time	-	-	-	-	-	15 051	15 051
- revenue from lease	over time	13	-	-	-	7	195	215
- revenue from sale and distribution of gas	over time	-	-	30 646	4 903	-	-	35 549
- other revenue	point in time	-	189	7 995	27	-	13	8 224
Total revenue from clients		**211 478**	**221 657**	**1 944 004**	**93 773**	**7**	**20 167**	**2 491 086**
- revenues from the valuation of futures contracts	over time	-	-	8 024	-	-	-	8 024
- revenues from the stranded costs and cost of gas	over time	-	96 714	-	-	-	-	96 714
- revenues from CO2 emission allowances	point in time	-	-	753	-	-	-	753
Total other revenue		**-**	**96 714**	**8 777**	**-**	**-**	**-**	**105 491**
Total sales revenues		**211 478**	**318 371**	**1 952 781**	**93 773**	**7**	**20 167**	**2 596 577**

(PLN K)

restated data

For 12 months ended 31.12.2018	Wind Power	Conventional Energy	Trading and energy sales	Distribution	Developer and implementation activity	Unallocated *)	Purchase price allocation	Total
Revenues from contracts with clients	149 093	173 811	2 830 510	86 181	7	3 584	681	3 261 688
Other revenues	-	174 293	12 731	-	-	-	-	187 024
Net sales profit (loss)	**36 372**	**95 757**	**(3 798)**	**13 082**	**(410)**	**(406)**	**(9 447)**	**129 205**
General overheads	(2 582)	(6 397)	(12 251)	(5 786)	(302)	(12 872)	-	(41 612)
Interest income/(expense)	(43 595)	(1 423)	(5 539)	(1 743)	112	8 980	-	(43 350)
Gain on loss of control over subsidiaries	-	-	-	-	-	11 983	-	11 983
Financial revenue/(expense) on unrealized f/x differences	(647)	121	317	84	(1)	-	-	(126)
Other financial revenue/(expense)	(10 794)	(790)	(1 255)	(149)	(54)	1 515	-	(11 618)
Other operating revenue/(expense)	72 523	(1 107)	(1)	2 545	(8 270)	(433)	(40 000)	(3 789)
Profit/loss before tax	**51 277**	**86 161**	**(22 527)**	**8 033**	**(8 925)**	**8 767**	**(49 447)**	**40 693**
Income tax	-	-	-	-	-	(39 103)	1 791	(37 312)
Net profit/loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3 381**
EBITDA **)	95 742	109 901	(15 984)	14 459	(587)	(12 966)	681	189 118
Segment assets	1 279 535	267 236	814 570	127 648	78 879	-	-	2 579 700
Unallocated assets	-	-	-	-	-	465 266	9 316	474 582
Total assets	**1 279 535**	**267 236**	**814 570**	**127 648**	**78 879**	**465 266**	**9 316**	**3 054 282**
Segment liabilities	900 184	86 812	770 389	71 368	2 665	-	-	1 837 112
Unallocated liabilities	-	-	-	-	-	3 989	27 440	31 429
Total liabilities	**900 184**	**86 812**	**770 389**	**71 368**	**2 665**	**3 989**	**27 440**	**1 868 541**
Depreciation/Amortization	56 917	21 648	66	4 618	-	747	10 128	**95 523**

*) HQ costs not allocated to other segments and biomass

**) EBITDA - definition in Note 10

In the period ended on 31 December 2018 the major items not connected with cash flows include depreciation of non-financial fixed assets in the segments: Biomass - PLN 28,886 k, Development and Implementation - PLN 8,395 k and goodwill - PLN 40,000 k. In addition, in the period in question reversal of the impairment loss on non-financial fixed assets in the segment of Wind Power was made in the amount of PLN 67,488 k.

(PLN K)

restated data

For 12 months ended 31.12.2018		Wind Power	Conventional Energy	Trading and energy sales	Distribution	Developer and implementation activity	Unallocated *)	Purchase price allocation	Total
- revenue from sale and distribution of electricity	over time	102 868	138 720	2 570 236	78 700	-	-	-	2 890 524
- revenue from certificates of orgin	over time	46 201	13 676	16 533	-	-	-	681	77 091
- revenue from sale of heat	over time	-	21 215	-	-	-	-	-	21 215
- revenue from consulting and advisory services	over time	-	-	-	-	-	3 415	-	3 415
- revenue from lease and operator services	over time	-	-	-	937	-	-	-	937
- revenue from sale of merchandise	point in time	-	-	-	-	-	-	-	860
- revenue from sale of pellets	over time	-	-	-	-	-	-	-	16 909
- revenue from lease	over time	14	-	-	-	7	140	-	161
- revenue from sale and distribution of gas	over time	-	-	237 778	6 520	-	-	-	244 298
- other revenue	point in time	10	200	5 963	24	-	29	-	6 278
Total revenue from clients		**149 093**	**173 811**	**2 830 510**	**86 181**	**7**	**3 584**	**681**	**3 261 688**
- revenues from the valuation of futures contracts	over time	-	-	3 943	-	-	-	-	3 943
- revenues from the stranded costs and cost of gas	over time	-	174 293	-	-	-	-	-	174 293
- revenues from CO2 emission allowances	point in time	-	-	8 788	-	-	-	-	8 788
Total other revenue		**-**	**174 293**	**12 731**	**-**	**-**	**-**	**-**	**187 024**
Total sales revenues		**149 093**	**348 104**	**2 843 241**	**86 181**	**7**	**3 584**	**681**	**3 448 712**

(PLN K)

12 Earnings per share

	For 12 months ended	
	31.12.2019	31.12.2018
Net profit	109,011	3,404
Average weighted number of ordinary shares	45,443,547	45,443,547
Profit per ordinary share (in PLN)	2.40	0.07

	For 12 months ended	
	31.12.2019	31.12.2018
Average weighted number of ordinary shares	45,443,547	45,443,547
Effect of dilution	-	-
Diluted weighted average number of ordinary shares	45,443,547	45,443,547

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13 Non-current fixed assets

31.12.2019	land	building, premises and civil and water engineering	plant and machinery	vehicles	other non-current fixed asstes	non-current fixed assets under construction	total non-current fixed assets
1. Gross value of non-current fixed assets at beginning of period	**7 026**	**587 994**	**1 394 568**	**3 353**	**(342)**	**267 170**	**2 259 769**
impact of the implementation of IFRS 16	52 701	3 090	103	438	13	-	56 345
Gross value of non-current fixed assets at beginning of period	**59 727**	**591 084**	**1 394 671**	**3 791**	**(329)**	**267 170**	**2 316 114**
a) increases (due to)	**-**	**32 456**	**20 689**	**2 725**	**41**	**77 981**	**133 892**
- purchase	-	196	8 673	2 739	21	77 967	89 596
- transfers	-	27 303	12 016	-	20	-	39 339
- other	-	4 957	-	(14)	-	14	4 957
b) reductions (due to)	**-**	**(3 179)**	**(9 209)**	**(895)**	**(1 121)**	**(39 733)**	**(54 137)**
- sale and retirement	-	-	(9 803)	(895)	(8)	-	(10 706)
- other	-	(2)	(5)	-	(1 113)	(78)	(1 198)
- transfers	-	(3 177)	599	-	-	(39 655)	(42 233)
2. Gross value of non-current fixed assets at end of period	**59 727**	**620 361**	**1 406 151**	**5 621**	**(1 409)**	**305 418**	**2 395 869**
3. Cumulative depreciation at beginning of period	**-**	**(114 765)**	**(337 501)**	**(2 359)**	**995**	**(106)**	**(453 736)**
- current period depreciation	(3 069)	(24 212)	(63 014)	(732)	130	-	(90 897)
- reductions (due to)	-	770	10 827	824	607	-	13 028
- sale and retirement	-	-	9 019	824	8	-	9 851
- transfers	-	770	1 808	-	599	-	3 177
3. Cumulative depreciation at end of period	**(3 069)**	**(138 207)**	**(389 688)**	**(2 267)**	**1 732**	**(106)**	**(531 605)**
4. Impairment losses at beginning of period	**-**	**(8 355)**	**(6 850)**	**(46)**	**(44)**	**(201 467)**	**(216 762)**
- increase	-	-	-	-	-	(17 515)	(17 515)
- reduction	-	-	-	46	-	716	762
6. Impairment losses at end of period	**-**	**(8 355)**	**(6 850)**	**-**	**(44)**	**(218 266)**	**(233 515)**
7. Net value of non-current fixed assets at beginning of period	**7 026**	**464 874**	**1 050 217**	**948**	**609**	**65 597**	**1 589 271**
impact of the implementation of IFRS 16	52 701	3 090	103	438	13	-	56 345
Net value of non-current fixed assets at beginning of period	**59 727**	**467 964**	**1 050 320**	**1 386**	**622**	**65 597**	**1 645 616**
8. Net value of non-current fixed assets at end of period	**56 658**	**473 799**	**1 009 613**	**3 354**	**279**	**87 046**	**1 630 749**

In the year ended on 31 December 2019 the Group experienced cost of external financing qualifying for capitalization on the initial value of non-current fixed assets totaling PLN 265 k, land and buildings worth PLN 499,585 k were encumbered with a mortgage securing repayment of loans, total depreciation cost for the right-of-use assets were PLN 4,918 k, with an increase in interest expenses on lease payables which amounted to PLN 916 k.

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31.12.2018	land	building, premises and civil and water engineering	plant and machinery	vehicles	other non-current fixed asstes	non-current fixed assets under construction	prepayments for non-current fixed assets under construction	total non-current fixed assets
1. Gross value of non-current fixed assets at beginning of period	**7 797**	**589 682**	**1 397 655**	**4 829**	**459**	**431 466**	**626**	**2 432 514**
a) increases (due to)	**-**	**7 315**	**15 643**	**462**	**239**	**21 317**	**-**	**44 976**
- purchase	-	2 193	8 963	450	225	21 317	-	33 148
- transfers	-	5 122	6 680	12	14	-	-	11 828
b) reductions (due to)	**(771)**	**(9 003)**	**(18 730)**	**(1 938)**	**(1 040)**	**(185 613)**	**(626)**	**(217 721)**
- sale and refirement	(771)	(9 003)	(19 116)	(1 552)	(255)	-	-	(30 697)
- other	-	-	-	-	(767)	(173 578)	(626)	(174 971)
- transfers	-	-	386	(386)	(18)	(12 035)	-	(12 053)
2. Gross value of non-current fixed assets at end of period	**7 026**	**587 994**	**1 394 568**	**3 353**	**(342)**	**267 170**	**-**	**2 259 769**
3. Cumulative depreciation at beginning of period	**-**	**(94 137)**	**(283 261)**	**(3 035)**	**347**	**(106)**	**-**	**(380 192)**
- current period depreciation	-	(22 353)	(61 710)	(536)	5	-	-	(84 594)
- reductions (due to)	-	1 725	7 470	1 212	643	-	-	11 050
- sale and refirement	-	3 373	12 052	1 212	236	-	-	16 873
- other	-	(1 648)	(4 587)	-	412	-	-	(5 823)
- transfers	-	-	5	-	(5)	-	-	-
3. Cumulative depreciation at end of period	**-**	**(114 765)**	**(337 501)**	**(2 359)**	**995**	**(106)**	**-**	**(453 736)**
4. Impairment losses at beginning of period	**-**	**(24 771)**	**(58 715)**	**(24)**	**(11)**	**(177 951)**	**-**	**(261 472)**
- increase	-	(8 303)	(8 184)	(157)	(50)	(24 795)	-	(41 489)
- reduction	-	24 719	60 049	135	17	1 279	-	86 199
6. Impairment losses at end of period	**-**	**(8 355)**	**(6 850)**	**(46)**	**(44)**	**(201 467)**	**-**	**(216 762)**
7. Net value of non-current fixed assets at beginning of period	**7 797**	**470 774**	**1 055 679**	**1 770**	**795**	**253 409**	**626**	**1 790 851**
8. Net value of non-current fixed assets at end of period	**7 026**	**464 874**	**1 050 217**	**948**	**609**	**65 597**	**-**	**1 589 271**

In the 12-month period ended 31 December 2019, the Group incurred borrowing costs qualifying for capitalization under initial value of non-current fixed assets, totaling PLN 225 k.

In the 12-month period ended 31 December 2018, land and buildings worth PLN 464,685 thousand were encumbered with mortgages securing repayment of credit facilities.

The carrying amount of vehicles used under lease contracts as at 31 December 2018 was PLN 1,491 k.

On 23 May 2018, the Group acquired the infrastructure of the Krzęcin Wind Farm. As at 31 December 2018 the non-current fixed assets of said project amounted to PLN 2,135 k.

As a result of the sale transaction referred to in Note 18, the amount of such non-current fixed assets decreased by PLN 130,835 k.

(PLN K)

14 Intangible Assets

31.12.2019	concessions, patents, licenses and similar entitlements obtained, including:	software	intangible assets from purchase price allocation	total intangibles
1. Gross value of intangible assets at beginning of period	**8 697**	**763**	**58 000**	**66 697**
a) increase (due to)	371	37	-	371
- purchase	55	37	-	55
- other	316	-	-	316
2. Gross value of intangible assets at end of period	**9 068**	**800**	**58 000**	**67 068**
3. Cumulative depreciation at begining of period	**(4 487)**	**(56)**	**(42 744)**	**(47 231)**
- current period depreciation	(692)	(85)	(9 864)	(10 556)
4. Cumulative depreciation at end of period	**(5 179)**	**(141)**	**(52 608)**	**(57 787)**
5. Impairment losses at beginning of period	**-**	**-**	**-**	**-**
- increase	-	-	-	-
- reduction	-	-	-	-
6. Impairment losses at end of period	**-**	**-**	**-**	**-**
7. Net value of intangible assets at beginning of period	**4 210**	**707**	**15 256**	**19 466**
8. Net value of intangible assets at end of period	**3 889**	**659**	**5 392**	**9 281**

31.12.2018	development	concessions, patents, licenses and similar entitlements obtained, including:	software	intangible assets from purchase price allocation	total intangibles
1. Gross value of intangible assets at beginning of period	**865**	**8 349**	**728**	**58 000**	**67 214**
a) increase (due to)	-	356	35	-	356
- purchase	-	122	35	-	122
- other	-	234	-	-	234
b) reductions (due to)	(865)	(8)	-	-	(873)
- sale and retirement	(865)	(8)	-	-	(873)
2. Gross value of intangible assets at end of period	**-**	**8 697**	**763**	**58 000**	**66 697**
3. Cumulative depreciation at begining of period	**(727)**	**(3 461)**	**24**	**(32 880)**	**(37 068)**
- current period depreciation	(39)	(1 026)	(80)	(9 864)	(10 929)
b) reductions (due to)	766	-	-	-	766
- sale and retirement	766	-	-	-	766
4. Cumulative depreciation at end of period	**-**	**(4 487)**	**(56)**	**(42 744)**	**(47 231)**
5. Impairment losses at beginning of period	**-**	**-**	**-**	**-**	**-**
- increase	(99)	-	-	-	(99)
- reduction	99	-	-	-	99
6. Impairment losses at end of period	**-**	**-**	**-**	**-**	**-**
7. Net value of intangible assets at beginning of period	**138**	**4 888**	**752**	**25 120**	**30 146**
8. Net value of intangible assets at end of period	**-**	**4 210**	**707**	**15 256**	**19 466**

(PLN K)

15 Goodwill

	31.12.2019	31.12.2018
- Goodwill from consolidation at baginning of period	**69 613**	**184 613**
- Decrease of goodwill from impairment losses	-	40 000
- Decrease of goodwill from sale of assets	-	75 000
Total goodwill	**69 613**	**69 613**

As at 31 December 2019 goodwill amounted to PLN 69.6 m and was attributable to the following cash-generating units (segments):

- PLN 25 m - distribution - including the companies Polenergia Dystrybucja and Polenergia Kogeneracja;
- PLN 44 m - trading - including the company Polenergia Obrót.

Goodwill impairment test

As at 31 December 2019 an impairment test was performed on the goodwill which showed no impairment of the asset in question. The test was performed with respect to fixed assets and intangibles plus goodwill for those operating segments to which, as at 31 December 2019, goodwill had been allocated. The utility value underlies the measurement of the recoverable value of individual cash generating centers.

The test was performed based on the present value of estimated operating cash flows. Calculations were performed based on detailed forecasts for the entire lifetime of the companies.
Key assumptions impacting the estimation of the utility value adopted in the test as at 31 December 2019 and for individual segments:

- Energy prices: the wholesale energy price path until 2022 is based on quotations for forward contracts (CAGR ca. 3.9%). Beyond 2022 the Compound Annual Growth Rate of ca. 2.8% was assumed based on the available forecasts of an independent business advisor.
- Green certificate prices: in 2020 they are derived from the internal forecasts of the Company. Beyond 2021 the Compound Annual Growth Rate of ca. -1.4% was assumed based on the available forecasts of an independent business advisor.

(PLN K)

Company worth in segment	Key assumptions	Level of discount rate assumed in test as at: 31.12.2019	Level of discount rate assumed in test as at: 31.12.2018
Distribution	The WRA figure adopted for the forecast is based on the level which incorporates historical capex plus capex intended for the years 2020-2026. In distribution, the weighted average cost of capital has been assumed at the regulatory level of WACC published by the regulatory authority URE. In subsequent years changes in WACC have been assumed resulting from the variation of interest rates on the market. Average energy sales margins in real terms have been assumed at the historic margin levels. Driven by the market practice and the fact that long-term forecasts are (due to the features of the tested assets) more reliable (when compared to any measurement based on residual value), the issuer's management assumed a period exceeding 5 years for the purpose of the analysis. In the distribution segment, the period of detailed projections refers to the years 2020-2050.	5,48% Polenergia Dystrybucja 5,06% Polenergia Kogeneracja	5,48% Polenergia Dystrybucja 5,06% Polenergia Kogeneracja
Trading	The margin in trading in 2020 assumes implementation of the commercial strategy based on short-term trading and structured transactions. The margin on assets covers the extension of PPAs to include other wind assets. Additional margin in the areas connected with partial return to proprietary trading, geographical expansion in trading and more intense involvements in renewable energy sources. Driven by the market practice and the fact that long-term forecasts are (due to the features of the tested assets) more reliable (when compared to any measurement based on residual value), the issuer's management assumed a period exceeding 5 years for the purpose of the analysis. In the trading segment, the period of detailed projections refers to the years 2020-2050.	9.65%	9.65%

The assumptions made are in line with the long-term projection used by the Group.

Recoverable values for distribution and trading segments exceed the values of fixed assets and intangibles increased to include goodwill. As at 31 December 2019 an impairment test was performed which showed no impairment of goodwill in those segments.

Based on the available projections, sensitivity tests have been performed. The tests have proven that impact on the utility value of the tested assets is exerted mainly by the fluctuations of the discount rate (WACC) and fluctuations of electricity prices.
According to the estimates of the Management Board, in Distribution and Trading the increase of the WACC by 1 percentage point or a change of the electricity price by 1% with no further changes of the remaining drivers will not entail any changes in the Company's balance sheet total.

16 Impairment losses on non-financial fixed assets

The Group has been monitoring the financial standing of its project on an ongoing basis, with particular attention paid to the macroeconomic environment, legal regime and market situation of the cash generating units and has been analyzing their recoverable values. In line with the policy applied in this respect, the Group made a decision during the year about an impairment loss in the development and implementation segment.

Impairment loss in the development and implementation segment

On 30 December 2019 the Company made a decision about an impairment loss of the property, plant and equipment under construction in the company Polenergia Farma Wiatrowa Bądecz sp. z o.o. ("Bądecz Project") which belongs to the "Development and Implementation" segment. The recoverable value corresponding to fair value less costs to sell as at 31 Dec. 2019 was PLN 0.00. Therefore, the impairment loss amount is PLN 15.9 m. The impairment loss is a non-cash charge. Such loss was charged to operating profit/loss of the Group under Other operating expenses, which, in line with the adopted definition, did not affect EBITDA.

The decision made is a consequence of the risk assessment in relation to the implementation of the Bądecz Project.

The Group also recognized other impairment loss on property, plant and equipment under construction in relation to the "Development and implementation" segment in the amount of PLN 2.0 m.

Asset impairment test held on 31 December 2019

The Group analyzed the indications of impairment of fixed assets and, where such indications were found, the Group performed impairment tests for tangible fixed assets and intangibles. Such tests were performed at the level of individual cash generating units, in relation to the "Conventional energy" segment, with conclusions given below. For those cash generating units in which goodwill was recognized as a result of the contributing the Neutron Group structures to the Group, the process of impairment tests has been discussed earlier in these Statements.

The test performed as at 31 December 2019 required that useful value be estimated of cash flow generating units based on their future cash flows which were subsequently adjusted using a discount rate to reflect the present value.

The test was performed based on the present value of estimated operating cash flows. Calculations were performed based on detailed forecasts for the entire lifetime of the company. Macroeconomic and segment-related assumptions adopted in the forecasting process are updated as often as any indications occur in the market for updating same. The forecasts incorporate also any changes of law known as at the day of the test.

(PLN K)

Key assumptions adopted in the test as at 31 December 2019 include:

Segment	Key assumptions	Discount rate assumed in test as at: 31.12.2019	Discount rate assumed in test as at: 31.12.2018
Conventional Energy	It was assumed that ENS would continue operation until 2040, of which: – until May 2020 inclusive, this heat and power plant will operate based on the support scheme in terms of compensation of stranded costs with revenues from sale of electricity and heat and system-related services on top of them. – since 2021 the plant will yield revenues from the capacity market, sales of electricity, heat and system-related services. The heat sales revenue forecast is based on the contractual prices negotiated with the Company's contactors. The drop in the heat volume in 2020 by 5% has been provided for, as well as the steady level following 2020. Revenues from sale of electricity are based on the EE price forecast assumed for the entire Group with due regard to the stranded cost scheme in 2020 which is inversely related to the level of margin on the EE production. Revenues from the capacity market in the years 2021-2024 have been based on the results of the 2018 and 2019 auctions. It has been assumed that in the years 2025-2040 revenues will continue on a steady level in real terms. In the years 2020 and 2021 there is a substantial slump in the assumed production of electricity due to the shift of the business model from the fixed working profile to one assuming limited production in flexible profile and rendering capacity availability services and system-related services. The cost of capital has been assumed at the level featured in regulated business. Driven by the market practice and the fact that long-term forecasts are (due to the features of the tested assets) more reliable (when compared to any measurement based on residual value), the issuer's management assumed a period exceeding 5 years for the purpose of the analysis. In the conventional energy segment, the period of detailed projections refers to the years 2020-2040.	6.31%	6.31%

Based on the available projections, sensitivity tests have been performed. The tests have proven that impact on the utility value of the tested assets is exerted mainly by the fluctuations of the discount rate (WACC) and fluctuations of electricity prices or capacity market revenues throughout the forecast period. Below are the estimated changes in asset measurement based on the changes of the key assumptions.

Segment	Feature	Change	Impact on asset value (PLN m)	
			Loss of value	Increase of value
Conventional Energy	Change in revenues from the capacity market following 2024.	- PLN 10 k/MW/year	(0.5)	
		+ PLN 10 k/MW/year		*none*
	WACC change	+ 0.1 p.p.	*none*	
		- 0.1 p.p.		*none*

17 Long term financial assets

	31.12.2019	31.12.2018
- held in other entities	10 159	22 538
- share or stock in non-listed companies	423	226
- loans given **)	5	3 419
- long term contracts *)	9 731	18 893
Total long term financial assets	**10 159**	**22 538**

*) measured at fair value through profit or loss

**) measured at amortized cost

18 Financial assets measured using the equity method

On May 22nd 2018, the Company and Statoil Holding Netherlands B.V. (“Statoil”) entered into a final agreement to transfer the ownership of 50% of shares (the “SPV Shares”) held by the Company in each of the following companies: (i) MFW Bałtyk II Sp. z o.o. (formerly: Polenergia Bałtyk II sp. z o.o. and (ii) MFW Bałtyk III Sp. z o.o. (formerly: Polenergia Bałtyk III sp. z o.o.) (hereinafter collectively referred to as “SPV” or “Bałtyk II”, “Bałtyk III”), which pursue offshore wind farm projects (“Project”) in the Baltic Sea. Shares in the SPVs are to be sold as part of the parties’ cooperation involving joint implementation of the Project, as agreed on by the parties (“Transaction”).

On the same day, the ownership of the SPV Shares was transferred to Statoil Holding Netherlands. Also on the same day, the following agreements were concluded: (i) Development and Execution Services Agreements between each of the SPVs and Statoil New Energy Service Centre B.V. (an entity of the Statoil Group) providing for the development and execution of offshore wind farm projects on the Baltic Sea, (ii) maintenance agreements between each of the SPVs and the Company, and (iii) shareholder agreements for each of the SPVs, between the Company, Statoil Holding Netherlands and each of the SPVs, respectively.

Concurrently, Polenergia S.A. issued a call option for 50% of shares in Polenergia Bałtyk I S.A. subsidiary to Statoil, hence it was assumed that an event of loss of control over Bałtyk I company had taken place, as such option is a substantial potential voting right on the part of Statoil. The call option is considered a substantial potential voting right as Statoil may exercise it at any time between 22 May 2018 and 31 December 2018 at a price which shall be no higher than the fair value of the shares covered by the option and, in addition, Statoil would benefit from acquisition synergies Statoil is not barred from exercising such option in any way whatsoever. As at 31 December 2018 this option was not exercised, however on 20 December 2018 a preliminary contingent agreement for the sale of 50% of the shares in Polenergia Bałtyk I S.A. subsidiary. The execution of the final transfer contract was contingent upon the fulfilment of certain conditions precedent, including: (i) each party obtaining unconditional consent of the President of the Competition and Consumer Protection Authority to close the transaction and (ii) obtaining a valid and binding registration with the Court of Registration of a resolution concerning transformation of SPV from joint stock company into a limited liability company.

(PLN K)

On 20 December 2019 the Company entered into the final contract with Wind Power AS for the sale of 50% of shares in the Company's subsidiary MFW Bałtyk I Sp. z o.o. which as at the day of the foregoing transaction was the sole shareholder of the company Polenergia Bałtyk I S.A.

Gain on such transaction has been disclosed in the consolidated profit or loss account as a separate item "Gain on loss of control over subsidiaries" under continuing operations and has been determined as follows:

	31.12.2019	31.12.2018
Selling price of 50% shares (cash received)	34 007	115 771
Cost of selling 50% shares	(14 183)	(244 926)
Net assets	380	141 138
Profit on loss of control over subsidiaries	**20 204**	**11 983**

The table below shows the carrying amount of the Group's investments in joint ventures:

	Bałtyk III	Bałtyk II	Bałtyk I	Razem
Open balance as at 1 January	**67 836**	**65 636**	**28 366**	**161 838**
Capital contribiutions	1 962	4 026	-	**5 988**
Cost of selling 50% shares	-	-	(14 183)	**(14 183)**
Closing balance as at 31 December	**69 798**	**69 662**	**14 183**	**153 643**

As at 31 December 2019 and as at 31 December 2018 net assets of the subsidiaries (MFW Bałtyk II sp. z o. o., MFW Bałtyk III sp. z o. o., Polenergia Bałtyk I S.A.) comprised:

31.12.2019	Bałtyk III	Bałtyk II	Bałtyk I	Total
Non-current fixed assets - capital expenditure for wind farm under construction	84 831	71 513	27 819	**184 163**
Other receivables	2 059	2 139	190	**4 388**
Cash	9 156	9 396	887	**19 439**
Liabilities	(11 538)	(11 391)	(1 218)	**(24 147)**
Accruals	(10)	(10)	(31)	**(51)**
Total net assets	**84 498**	**71 647**	**27 647**	**183 792**

31.12.2018	Bałtyk III	Bałtyk II	Bałtyk I	Total
Non-current fixed assets - capital expenditure for wind farm under construction	64 266	52 028	27 813	**144 107**
Other receivables	1 166	1 264	680	**3 110**
Cash	17 515	12 646	58	**30 219**
Liabilities	(2 095)	(2 043)	(249)	**(4 387)**
Accruals	(50)	(28)	(39)	**(117)**
Total net assets	**80 802**	**63 867**	**28 263**	**172 932**

The subsidiaries (MFW Bałtyk II sp. z o. o., MFW Bałtyk III sp. z o. o., Polenergia Bałtyk I S.A.) in the year ended on 31 December 2019 carried out no operating business, hence they generated no substantial profits/losses and as a result they had no impact on the measurement of the shares using the equity method.

19 Long term receivables

	31.12.2019	31.12.2018
- receivables from other entities	3 842	4 146
- lease	1 856	2 160
- other receivables	1 986	1 986
Net long term receivables	**3 842**	**4 146**

(PLN K)

20 Inventories

	31.12.2019	31.12.2018
- materials and merchandise	10 804	12 806
- certificates of origin	27 335	22 136
- prawa majątkowe	151	-
- prepayments for deliveries	41	29
Total net inventories	**38 331**	**34 971**
- inventory remeasured write-downs	559	559
Total gross inventories	**38 890**	**35 530**

21 Short term receivables

	31.12.2019	31.12.2018
- trade receivables	85 667	116 010
- from related entities	4 038	3 579
- from ather entities	81 629	112 431
- income tax receivable	789	5 849
- other receivables	45 662	59 863
- budget payments receivable	15 191	11 673
- lease	431	362
- LTC settelment	11 379	22 475
- other	18 661	25 353
Total net short-term receivables	**132 118**	**181 722**
- receivables remeasured write-downs	2 770	2 077
Total gross short-term receivables	**134 888**	**183 799**

For related party transactions see Note 43.

Trade receivables bear no interest and are typically payable within 7– 45 days.

As at 31 December 2019, impairment losses on uncollectible trade receivables were increased up to PLN 2.770 k compared to PLN 2,077 k as at 31 December 2018.

Below is a classification of trade receivables into impairment model stages:

	Total	Step 2	Step 3
Gross value as at 1.1.2019	118 087	114 824	3 263
Arisen	85 195	85 195	-
Paid	(114 845)	(114 893)	48
Gross value as at 31.12.2019	88 437	85 126	3 311

The default ratios and the calculation of impairment losses as at 31 December 2019 have been presented in the table below:

(PLN K)

	Total	Receivavles from individual customers Current 0-30 days	30-60 days	60-90 days	>90 days
31.12.2019	15 904	14 492	-	157	1 255
Expected credit losses	1 180	-	-	-	1 180
31.12.2018	12 697	10 971	229	70	1 427
Expected credit losses	1 083	-	-	-	1 083

	Total	Receivavles from corporate customers Current 0-30 days	30-60 days	60-90 days	>90 days
31.12.2019	72 533	70 349	97	31	2 056
Expected credit losses	1 590	-	-	-	1 590
31.12.2018	105 390	100 369	3 144	41	1 836
Expected credit losses	994	-	-	-	994

22 Short term prepaid expenses

	31.12.2019	31.12.2018
- insurance	3 241	2 790
- subscriptions	1 207	32
- maintenance	454	1 232
- real estate tax, perpetual usufruct charges, lease payments	3	42
- accrued revenue	1 022	738
- accrued commissions	165	649
- other	342	444
Total prepayments and accrued income	**6 434**	**5 927**

23 Short term financial assets

Futures and forward contracts to buy or sell electricity entered into by Polenergia Obrót S.A., a subsidiary, are classified as derivatives and are accounted for in accordance with standards applicable to derivative instruments. Accordingly, such contracts are measured at fair value, with changes in fair value recognized under the profit and loss account. Gains or losses on the measurement of contracts are disclosed on a net basis under revenue or selling expenses. Measurement is performed with respect to the outstanding part of the contracts broken down into a current portion to be completed within 12 months from the reporting date, and a long term portion to be completed in subsequent years.

(PLN K)

	For 12 months ended	
	31.12.2019	31.12.2018
Result of measurement of derivatives	(7 543)	3 456

Financial instrument category

31.12.2019	Level 2	Total
Short term assets	74 214	74 214
Long term assets	9 731	9 731
Total	**83 945**	**83 945**

31.12.2019	Level 2	Total
Short term liabilities	71 832	71 832
Long term liabilities	7 587	7 587
Total	**79 419**	**79 419**

Net fair value	**4 526**	**4 526**

The table above includes information on financial assets and liabilities the Group measures at fair value and classifies at specific levels of the fair value hierarchy:

- Level 1 – quoted prices in active markets for identical assets or liabilities (no adjustment),
- Level 2 – assets and liabilities measurement inputs other than quoted market prices included under Level 1 that are observable for the variables from active markets,
- Level 3 – assets and liabilities measurement inputs determined otherwise than based on the variables from active markets.

Derivatives are pairs of futures contracts (long and short positions) entered into on stock exchanges for speculative purposes and measured with the model using market parameters, i.e. the market price of an instrument discounted using relevant interest rates. The impact of unobserved data, if any, was immaterial to the measurement of derivatives (level 2).

The aggregate effect of the EE and gas market prices increase by 1% will make the gross sales profit increase by PLN 13 k. The calculation was performed with respect to futures and forward contracts to buy or sell electricity, classified as derivatives measured at fair value.

24 Cash and equivalent

	31.12.2019	31.12.2018
Cash and equivalent	345 705	311 857
- cash at hand and in bank	345 705	311 857
Total cash and equivalent	**345 705**	**311 857**

For more information on restricted cash of PLN 41,643 k, see Note 38 (2018: PLN 40,049 k).

Cash at banks earns interest at floating rates linked to interest rates for overnight deposits. Short-term deposits are placed for various periods, from one day to one month, depending on the Group's immediate cash requirement, and earn interest at interest rates determined for them.

(PLN K)

25 Share capital and statutory reserve funds/capital reserves

Major shareholders

Shareholders holding 5% or more of the total number of shares as at the date of issue of these consolidated financial statements include:

No	Shareholder	Number of shares held	Number of votes	Shareholding
1	Mansa Investments Sp. z o.o. *)	23 467 043	23 467 043	51,64%
2	Capedia Holding Limited **)	7 266 122	7 266 122	15,99%
3	Nationale Nederlanden OFE	2 570 000	2 570 000	5,66%
4	Generali OFE	3 000 000	3 000 000	6,60%
5	Aviva OFE Aviva Santander	3 732 687	3 732 687	8,21%
6	Other	5 407 695	5 407 695	11,90%
	Total	**45 443 547**	**45 443 547**	**100,00%**

*) Kulczyk Holding S.à r.l. holds 100 % of shares in Mansa Investments sp. z o.o.
**) The parent company for Capedia Holding Limited is China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF.

Shares of all series carry equal preferred rights and have been fully paid up.

Undistributed profit and limitations on dividend distributions

Under the Polish Commercial Companies Code, the parent is required to create statutory reserve funds to cover losses. After each financial year, at least 8% of net profit disclosed in the standalone financial statements of the parent should be contributed to the statutory reserve fund, until the fund reaches at least one-third of the parent's share capital. While it is the General Meeting that resolves how to spend such statutory reserve funds and capital reserves, part of statutory reserve funds equal to one-third of the share capital i.e. PLN 30.296, may only be spend to cover the loss disclosed in the standalone financial statements and may not be distributed for any other purpose. The 2018 loss was covered from statutory reserve funds, i.e. from the share premium.

Non-controlling interest

	31.12.2019	31.12.2018
As at the beginning of period	**903**	**926**
- share in subsidiaries profi/loss	25	(23)
As at the end of period	**928**	**903**

Dividends paid and proposed

No dividend was distributed by the parent in the 12-month period ended on 31 December 2019. No dividend is intended to be distributed by the parent in 2020.

(PLN K)

26 Income tax

	For 12 months ended 31.12.2019	For 12 months ended 31.12.2018
Current income tax	22 060	19 698
Current income tax charge	22 051	19 678
Adjustments to prior years current income tax	9	20
Deffered income tax	5 783	17 614
Related to temporary differences and their reversal	5 783	17 614
Income tax charged to the profit and loss account	27 843	37 312

	Balance sheet	Profit and loss account	Capital	Balance sheet
Deferred income tax	**01.01.2018**			**31.12.2019**
Deferred income tax provision				
Tangible fixed assets	78 971	11 366	-	90 337
Intangible assets	3 524	(1 874)	-	1 650
Receivables	11 615	(907)	-	10 708
Cash	(598)	(5)	-	(603)
Loans and borrowings	(4 004)	(484)	-	(4 488)
Lease receivables	236	(44)	-	192
Liabilities	(4 694)	(467)	-	(5 161)
Other	2 170	(2 628)	-	(458)
Inventories	935	396	-	1 331
Deferred income tax provision before tax	**88 155**	**5 353**	**-**	**93 508**
Compensation				**(25 092)**
Deferred income tax provision				**68 416**
Deferred income tax assets				
Tangible fixed assets	4 835	(3 434)	-	1 401
Inventories	(188)	6	-	(182)
Receivables	1 108	182	-	1 290
Borrowings	(4 098)	(16)	-	(4 114)
Liabilities	1 826	11 633	(249)	13 210
Provisions	4 085	(1 265)	-	2 820
Retained assets	12 348	(6 984)	-	5 364
Prepayments	9 550	(552)	-	8 998
Deferred income tax asset	**29 466**	**(430)**	**(249)**	**28 787**
Compensation				**(25 092)**
Deferred income tax assets				**3 695**
Deferred income tax expense		**5 783**		
Net deferred tax (assets)/provision	**58 689**		**249**	**64 721**

The temporary difference results mainly from accelerated tax depreciation/amortization.

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	31.12.2019	31.12.2018
Deferred income tax liability		
with maturity following 12 months	98 399	90 342
with maturity within 12 months	(4 891)	(2 187)
Deferred income tax asset		
with maturity following 12 months	15 861	14 911
with maturity within 12 months	12 926	14 555
Deferred income tax liabilities (assets)	**64 721**	**58 689**

EFFECTIVE TAX RATE

	For 12 months ended	
	31.12.2019	31.12.2018
Income tax charged to the profit and loss account, including	**27 843**	**37 312**
Current tax	22 060	19 698
Deferred tax	5 783	17 614
Profit (Loss) before tax	**136 879**	**40 693**
Tax on gross profit at effective tax rate of 19%	26 007	7 732
Adjustments to prior years current income tax	9	329
Non-deductible costs:	**2 016**	**29 281**
- permanent differences	987	679
- asset from tax losses in the Special Economic Zone	(225)	629
- temporary difference on which no tax asset/provision is established *)	1 254	27 973
Non-taxable income:	**(189)**	**(30)**
- other	(189)	(30)
Income tax in the profit and loss account	**27 843**	**37 312**

*) in 2019 this item reflects predominantly non-recognition of an asset related to the impairment losses on non-financial fixed assets, while in 2018 it concerned mainly non-recognition of a deferred tax asset related to impairment losses on non-financial non-current assets, non-recognition of a deferred tax asset if there is a risk related to deduction of losses in the future, as well as the effect of sale of MWF Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o.

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27 Provisions

	31.12.2019	31.12.2018
Long term provisions		
- pension plan and related provision	1 253	1 163
- litigation provision	21 139	21 139
Total long term provisions	**22 392**	**22 302**
Short term provisions		
- pension plan and related provision	212	214
- accrued holiday leave provision	1 684	1 298
- litigation and grid losses provision	212	1 793
- other provisions	-	7 282
Total short term provisions	**2 108**	**10 587**

Change in long term and short term provisions

	31.12.2019	31.12.2018
Provisions at beginning of the period	**32 889**	**26 563**
- recognition of provisions	607	7 463
- reversal of provisions	(8 996)	(1 094)
- application provisions	-	(43)
Provisions at end of the period	**24 500**	**32 889**

The long-term provision for litigation originates from the prudent approach to the case vs. Eolos Sp. z o.o. described in more detail in in Note 31.

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28 Bank loans and other borrowing liabilities

31.12.2019

Bank	Company	Long term liability	Short term liability	Ineterst rate	Maturity	Security
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	0	0	WIBOR 1W / 1M + margin	31.07.2020	Registered pledge over bank accounts, registered pledge over assets, pledge over Borrower's shares, assignment of claims over project documents, statement of voluntary submission to enforcement
PEKAO SA	Polenergia Obrót S.A.	0	139	WIBOR 1M + margin	30.09.2020	Assignment of claims under sale agreements, powers of attorney over bank accounts, statement of voluntary submission to enforcement
ING Bank Śląski S.A.	Polenergia Dystrybucja Sp. z o.o.	51 991	2 955	WIBOR 3M + margin	19.11.2027	Pledge over assets, pledge over Borrower's shares, statement of voluntary submission to enforcement
Raiffeisen Bank International AG (Spółka Akcyjna) Oddział w Polsce	Dipol Sp. z o.o.	9 854	4 923	EURIBOR 1M + margin	31.12.2021	Mortgage over real property, registered pledge over assets, pledge over Borrower's shares, powers of attorney over bank accounts, assignment of claims under project contracts, frozen funds in tge special-purpose rezerve account, surety of up to PLN 6,338 thousand issued by Polenergia S.A. (yet in the relevant documentation Polenergia S.A. made a carve-out that in the sponsor's opinion said surety was non effective). EUR denominated facility
Konsorcjum bankowe ('Raiffeisen Bank International AG (Spółka Akcyjna) Oddział w Polsce, PKO BP S.A., SANTANDER Bank Polska S.A., DNB Bank Polska S.A.)	Amon Sp. z o.o.	92 207	2 186	WIBOR 3M + margin	31.12.2026	Registered pledge over assets, pledge over shares of the Borrower and Talia Sp. z o.o., assignment of claims (under project contracts, lease contracts, maintenance contract), financial and registered pledge on receivables on bank accounts and powers of attorney for such accounts, contract for transfer of the right to funds on Agent's Account, surety issued by Polenergia S.A. (jointly with Talia Sp. z o.o.), up to PLN 6,700 thousand, mutual surety issued by Talia Sp. z o.o., subordination of Polenergia S.A. 's claims and Talia Sp.z.o.'s claims to Lender's claims, statement of colantary submussion to enforcement
Konsorcjum bankowe ('Raiffeisen Bank International AG (Spółka Akcyjna) Oddział w Polsce, PKO BP S.A., SANTANDER Bank Polska S.A., DNB Bank Polska S.A.)	Talia Sp. z o.o.	54 877	1 607	WIBOR 3M + margin	31.12.2026	Registered pledge over assets, pledge over shares of the Borrower and Amon Sp. z o.o., assignment of claims (under project contracts, lease contracts, maintenance contract), financial and registered pledge on receivables on bank accounts and powers of attorney for such accounts, contract for transfer of the right to funds on Agent's Account, surety issued by Polenergia S.A. (jointly with Amon Sp. z o.o.), up to PLN 6,700 thousand, mutual surety issued by Amon Sp. z o.o., subordination of Polenergia S.A. 's claims and Amon Sp. z o.o. 's claims to Lender's claims, statement of colantary submussion to enforcement
PEKAO SA	Grupa PEP - Biomasa Energetyczna Wschód Sp. z o.o.	0	3 579	WIBOR 3M + margin	30.09.2022	Mortgage over real property, registered pledge over assets, pledge over Borrower's shares, assignment of claims under project contracts, financial pledge and powers of attorney over bank accounts, statement of volontary submission to enforcement
Europejski Bank Odbudowy i Rozwoju	Grupa PEP - Farma Wiatrowa 1 Sp. z o.o.	112 228	5 763	WIBOR 3M + margin	29.12.2032	Mortgage over real propery, registered pledge over assets, pledge over Bottowers' shares, assignment of claims under project contracts, equity contribution agreement and sponsors' support agreement, subordination of equity contribution agreement, statement of volontary submission to enforcement
Konsorcjum bankowe (EBOiR, BOŚ S.A.)	Grupa PEP - Farma Wiatrowa 4 Sp. z o.o.	200 868	10 455	WIBOR 3M + margin	29.12.2032	Mortgage over real propery, registered pledge over assets, pledge over Bottowers' shares, assignment of claims under project contracts, equity contribution agreement and sponsors' support agreement, subordination of equity contribution agreement, statement of volontary submission to enforcement
Europejski Bank Odbudowy i Rozwoju	Grupa PEP - Farma Wiatrowa 6 Sp. z o.o.	60 457	3 105	WIBOR 3M + margin	29.12.2032	Mortgage over real propery, registered pledge over assets, pledge over Bottowers' shares, assignment of claims under project contracts, equity contribution agreement and sponsors' support agreement, subordination of equity contribution agreement, statement of volontary submission to enforcement
Konsorcjum bankowe (EBOR, BOŚ S.A., Bank of China, ALIOR BANK S.A.)	Polenergia Farma Wiatrowa Mycielin Sp. z o.o.	149 918	15 303	WIBOR 3M + margin	15.09.2029	Registered pledge over assets, pledge over Bottowers' shares, assignment of claims under project contracts, equity contribution agreement and sponsors' support agreement, subordination of equity contribution agreement, statement of volontary submission to enforcement
Total		**732 400**	**50 015**			

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31.12.2018

Bank	Company	Long term liability	Short term liability	Ineterst rate	Maturity	Security
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	0	11 450	3M WIBOR + margin	04.2019	Mortgage over real property, pledge over assets, pledge ober Borrower's shares, statement of voluntary submission to enforcement
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	0	26 200	3M WIBOR + margin	04.2019	Mortgage over real property, pledge over assets, pledge ober Borrower's shares, statement of voluntary submission to enforcement
PEKAO SA	Polenergia Obrót S.A.	0	28 894	1M WIBOR + margin	30.09.2019	Assignment of claims under sale agreements, powers of attorney over bank accounts, statement of voluntary submission to enforcement
ING Bank Śląski S.A.	Polenergia Dystrybucja Sp. z o.o.	40 619	1 964	3M WIBOR + margin	19.11.2027	Pledge over assets, pledge over Borrower's shares, statement of voluntary submission to enforcement
Raiffeisen Bank Polska SA	Dipol Sp. z o.o.	14 921	4 519	1M WIBOR + margin	31.12.2021	Mortgage over real property, registered pledge over assets, pledge over Borrower's shares, powers of attorney over bank accounts, assignment of claims under project contracts, frozen funds in tge special-purpose rezerve account, surety of up to PLN 6,338 thousand issued by Polenergia S.A. (yet in the relevant documentation Polenergia S.A. made a carve-out that in the sponsor's opinion said surety was non effective). EUR denominated facility
Konsorcjum bankowe (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Amon Sp. z o.o.	106 731	1 308	3M WIBOR + margin	31.12.2026	Registered pledge over assets, pledge over shares of the Borrower and Talia Sp. z o.o., assignment of claims (under project contracts, lease contracts, maintenance contract), financial and registered pledge on receivables on bank accounts and powers of attorney for such accounts, contract for transfer of the right to funds on Agent's Account, surety issued by Polenergia S.A. (jointly with Talia Sp. z o.o.), up to PLN 6,700 thousand, mutual surety issued by Talia Sp. z o.o., subordination of Polenergia S.A. 's claims and Talia Sp.z.o.'s claims to Lender's claims, statement of colantary submussion to enforcement
Konsorcjum bankowe (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Talia Sp. z o.o.	67 032	875	3M WIBOR + margin	31.12.2026	Registered pledge over assets, pledge over shares of the Borrower and Amon Sp. z o.o., assignment of claims (under project contracts, lease contracts, maintenance contract), financial and registered pledge on receivables on bank accounts and powers of attorney for such accounts, contract for transfer of the right to funds on Agent's Account, surety issued by Polenergia S.A. (jointly with Amon Sp. z o.o.), up to PLN 6,700 thousand, mutual surety issued by Amon Sp. z o.o., subordination of Polenergia S.A. 's claims and Amon Sp. z o.o. 's claims to Lender's claims, statement of colantary submussion to enforcement
PEKAO SA	Grupa PEP - Biomasa Energetyczna Wschód Sp. z o.o.	0	4 823	1M WIBOR + margin	30.09.2022	Mortgage over real property, registered pledge over assets, pledge over Borrower's shares, assignment of claims under project contracts, powers of attorney over bank accounts, statement of volontary submission to enforcement
Europejski Bank Odbudowy i Rozwoju	Grupa PEP - Farma Wiatrowa 1 Sp. z o.o.	117 991	5 609	WIBOR 3M + marża	29.12.2032	Mortgage over real propery, registered pledge over assets, pledge over Bottowers' shares, assignment of claims under project contracts, equity contribution agreement and sponsors' support agreement, subordination of equity contribution agreemant, statement of volontary submission to enforcement
Konsorcjum bankowe (EBOR, BOŚ S.A.)	Grupa PEP - Farma Wiatrowa 4 Sp. z o.o.	211 323	10 185	3M WIBOR + margin	29.12.2032	Mortgage over real propery, registered pledge over assets, pledge over Bottowers' shares, assignment of claims under project contracts, equity contribution agreement and sponsors' support agreement, subordination of equity contribution agreemant, statement of volontary submission to enforcement
Europejski Bank Odbudowy i Rozwoju	Grupa PEP - Farma Wiatrowa 6 Sp. z o.o.	63 562	3 022	3M WIBOR + margin	29.12.2032	Mortgage over real propery, registered pledge over assets, pledge over Bottowers' shares, assignment of claims under project contracts, equity contribution agreement and sponsors' support agreement, subordination of equity contribution agreemant, statement of volontary submission to enforcement
Konsorcjum bankowe (EBOR, BOŚ S.A., Bank of China, ALIOR BANK S.A.)	Polenergia Farma Wiatrowa Mycielin Sp. z o.o.	170 080	14 270	3M WIBOR + margin	15.09.2029	Mortgage over real propery, registered pledge over assets, pledge over Bottowers' shares, assignment of claims under project contracts, equity contribution agreement and sponsors' support agreement, subordination of equity contribution agreemant, statement of volontary submission to enforcement
Total		**792 259**	**113 119**			

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On 26 April 2019 and 20 December 2019 Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. executed annexes to the loan agreement of 29 July 2011 with ING Bank Śląski S.A. extending the availability of the revolving loan until the final date of 30 June 2020, i.e. until the end of the month immediately preceding the final repayment date of the loan falling on 31 July 2020. The overdraft cap was reduced down to PLN 20,000 k.

On 30 September 2019 Polenergia Obrót S.A. ("POLO") executed an annex extending the tenor of the multi-purpose overdraft dated 18 August 2015 with Bank Polska Kasa Opieki S.A. ("PEKAO") until 20 September 2020. At the same time, according to the agreement, PEKAO increased the overdraft cap up to PLN 40,000 k.

On 20 November 2019 Polenergia Dystrybucja Sp. z o.o. ("POL DYST") made drawdowns of the first and the second tranche of the loan totaling PLN 6,650 k under another tranche of the investment loan ("TRANCHE D") granted to POL DYST by ING Bank Śląski S.A. ("ING") in accordance with the annex executed by the Company and ING on 21 November 2018.

On 10 December 2019 Polenergia Farma Wiatrowa Mycielin Sp. z o.o. ("Mycielin"), in connection with the distribution performed and in accordance with the loan agreement executed on 2 April 2015, made a prepayment of the loan in the amount of PLN 4,896.88 k and, as a result, the repayment schedule changed in that the prepayment amount reduced the last instalment to be repaid.

On 22 October 2019 Polenergia Farma Wiatrowa 17 Sp. z o.o. ("FW17") entered into an agreement with ING Bank Śląski S.A. („ING") for the financing of the photovoltaic plant construction. The agreement covers the aggregate amount of PLN 44,500 k split into two investment tranches: the refinancing tranche of PLN 15,500 k with final maturity on 30 June 2034 and the construction tranche of PLN 24,500 k with final maturity on 30 June 2035, plus the VAT financing - oriented overdraft of PLN 4.500 k with final maturity on 31 December 2021. As at 31 December 2019 FW17 made no drawdowns of the loan under any of the tranches.

On 5 November 2019 Polenergia Farma Wiatrowa Szymankowo Sp. z o.o. („Szymankowo") executed a loan agreement with a syndicate of banks comprising mBank S.A., European Bank For Reconstruction and Development, ING Bank Śląski S.A. ("Syndicate") for the financing of the wind farm construction in the total amount of PLN 127,000 k. Under the above-mentioned agreement, the Syndicate provides two tranches of the loan: the investment tranche of PLN 107,000 k with final maturity on 10 June 2037 and the VAT financing tranche of PLN 20,000 k with final maturity on 30 June 2022. As at 31 December 2019 Szymankowo made no drawdowns of the loan under any of the tranches.

29 Trade payables and other liabilities

SHORT TERM LIABILITIES

	31.12.2019	31.12.2018
- bank loans and borrowings	50 015	113 119
- trade payables	74 339	129 391
- from other entities	74 339	129 391
- income tax payable	5 565	345
- other liabilities	96 293	646 593
- budget payments receivable	14 933	7 232
- prepayments for deliveries	502	6 006
- lease liabilities	3 697	186
- futures and forward contracts measurement	71 832	628 377
- payroll payable	1 527	1 374
- special funds	22	32
- other	3 780	3 386
Total short term liabilities	**226 212**	**889 448**

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OTHER LONG TERM LIABILITIES

	31.12.2019	31.12.2018
- futures and forward contracts measurement*)	7 587	11 916
- risk hedging	2 236	3 472
- investment liabilities	1 500	1 500
- lease libilities	54 798	-
- other financial libilities	-	377
Total other long term liabilities	**66 121**	**17 265**

*) for more information on the measurement of forward contracts, see Note 23.

**) for more information on liabilities under settlement of long-term contracts, see Note 44.

Trade payables bear no interest and are typically settled within 14 days. Other liabilities bear no interest, either.

30 Accruals

	31.12.2019	31.12.2018
Long term accruals and deferred income		
- deferred income - grants	50 100	53 367
Total long term accruals and deferred income	**50 100**	**53 367**

Short term accruals and deferred income

	31.12.2019	31.12.2018
- future bonuses, salaries and wages	8 495	6 694
- third party services	3 596	2 713
- accrued holiday	410	420
- deferred income - grants	3 190	3 196
- capex for non-current fixed assets	285	500
- other	792	594
Total short term accruals and deferred income	**16 768**	**14 117**

31 Contingent liabilities

Guarantees and sureties granted

As at 30 June 2019 the Group has not issued any third party guarantees.

Litigation

On 8 March 2019 the District Court in Warsaw allowed the action filed by Nationale Nederlanden PTE SA for declaring invalidity of part of Resolution No. 2 of the Company Extraordinary General Meeting dated 13 July 2018, i.e. with respect to the amendment to Art. 10.2 letter (a) of the Statutes made under item 4) of the a/m Resolution. The Company filed an appeal against said judgment requesting that it be set aside and pointing out to the breach of substantive and procedural law. During the hearing on 28 January 2020 the Court of Appeals dismissed the appeal filed by Polenergia S.A. The judgment is valid and binding. The outcome of this litigation has no impact on the financial statements.

In October 2019 the Company Polenergia S.A. filed an action to the District Court in Warsaw for payment of PLN 956 k on account of the lease of a gas turbine that had not been paid for. This case is pending.

On 25 July 2019 the District Court in Gdańsk issued a partial and preliminary judgment in the case instituted by the Company's subsidiary Amon Sp. z o.o. versus Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. In such judgment the Court granted the claim of Amon Sp. z o.o. in that part which referred to the ruling ineffective the notices of termination made by the company Polska Energia – Pierwsza Kompania Handlowa of the Contract for the Sale of Proprietary Interest in Certificates of Origin Confirming Generation of Electrical Energy in a Renewable Energy Source - Wind Farm in Łukaszów dated 23 December 2009 and the Contract for the Sale of Electrical Energy Generated in a Renewable Energy Source - Wind Farm in Łukaszów dated 23 December 2009, entered into with Amon. Thus, said termination notices have no legal effect of terminating both contracts, which consequently, after the expiry of the termination period, i.e. following 30 April 2015 shall remain in full force with respect to all their provisions and they shall be binding upon parties. The Court also determined that in principle the claims for damages raised by Amon against PKH on account of non-performance by PKH of the Contracts for the Sale of Proprietary Interest were justified. Said judgment in not yet valid and binding and may be complained against. On February7, 2020 the Management Board received information that Polska Energia - Polska Kompania Handlowa sp. z o.o. filed an appeal against the partial and preliminary judgment of 25 July 2019 of the Regional Court in Gdańsk, IX Commercial Division, accepting the claim of the Issuer's subsidiary Amon sp. z o.o. seated in Łebcz.

On 20 August 2019 the Company's subsidiary Amon Sp. z o.o. filed a claim against a subsidiary of Tauron Polska Energia S.A. - Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o in view of the breaking of long-term contracts for the sale of energy and proprietary interest entered into by PKH with Amon. Amon claims payment of PLN 29,009 k as compensation, together with interest and litigation cost. The filing of a new action by Amon results from the fact that with the partial and preliminary judgment dated 25 July 2019 the District Court in Gdańsk granted the claim of Amon in that part which referred to the ruling ineffective the notices of termination made by PKH of the contracts for the sale of energy and proprietary interest.

In addition, the Company's subsidiary Talia sp. z o.o. filed with the District Court in Gdańsk the third modification of its action against PKH in view of the breaking of long-term contracts for the sale of energy and proprietary interest entered into by PKH with Talia Under the modification letter Talia claims payment of PLN 19,308,887.95 as compensation together with interest.

In consequence, Amon Sp. z o.o. currently claims payment of PLN 69,487 k, with Talia Sp. z o.o. claiming PLN 46,078 k.

The District Court in Katowice, in the case instituted by the Company's subsidiaries Amon Sp. z o.o. and Talia Sp. z o.o. against Tauron Polska Energia S.A. in view of the breaking of long-term contracts for the sale of energy and proprietary interest entered into by a subsidiary of Tauron, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. with Amon and Talia, scheduled the initial hearing for 24 January 2020, with subsequent hearings scheduled for 2 March and 16 March 2020 and summoned witnesses to appear at the hearings.

In the case instituted by Eolos Sp. z o.o. against the Company's subsidiaries Certyfikaty Sp. z o.o. and Polenergia Obrót S.A., two hearings were held before the District Court in Warsaw on 27 September 2019 and on 13 December 2019. During the hearing on 13 December 2019, the Court obligated both Parties to provide their specific positions, with due regard to the case law of the Supreme Court referred to by the Court with respect to the claim by Eolos. The deadline for the submission of the letter by Eolos expired, however the letter has not yet been delivered. The next hearing has been scheduled for 8 April 2020.

In 2019 the Company's subsidiary Polenergia Biomasa Energetyczna Północ Sp. z o.o. entered into court settlements in the proceedings for payment of the amounts of PLN 420 k and PLN 65 k. The provisions of the settlement agreements stipulated that in the first case the amount due of EUR 90 k was paid in six instalments. In the other case payment has been split into three instalments, two of which have already been paid, the remaining on of PLN 30 k has been scheduled for the end of October 2020. In addition, Polenergia Biomasa Energetyczna Północ Sp. z o.o. in the course of the mediation process, on 2 January 2020, entered into a settlement agreement under which the other party was payed PLN 150 k by 31 January 2020.

On 7 November 2019 the Court of Appeals in Gdańsk dismissed the appeal lodged by one of the electricity suppliers versus the Company's subsidiary Polenergia Dystrybucja Sp. z o.o., which in turn means that the entire judgment of the District Court in Gdańsk dated 4 September 2018 in the case for the recovery of overpayment for energy supplied becomes effective and binding and that the payment of PLN 548 k is required, of which the undisputed part has already been paid.

The Supreme Court dismissed the cassation complaint of the other party against the judgment of the Court of Appeals in Gdańsk dated 7 February 2018 in the case instituted by the Company's subsidiary Polenergia Elektrownia Północ Sp. z o.o. for payment of liquidated damages upon a breach of contract. Based on the abovementioned judgement, the collection enforced by the bailiff resulted in recovery of almost the entire amount due.

In December 2019 the Company's subsidiary Polenergia Elektrownia Północ Sp. z o.o. filed an action to the District Court in Gdańsk for payment of liquidated damages of PLN 500 k.

On 11 December 2019 the Court of Appeals in Poznań sustained the judgment of the District Court in Konin dated 9 May 2019 with respect to the obligation to remedy a damage inflicted upon the Company's subsidiary Energopep Sp. z o.o. Sp. k. by two defendants in those proceedings. The obligation to remedy the damage involves the amount of PLN 512 k. The Court in Poznań also altered the judgment of the court of the first instance by way of conditionally suspending the imprisonment penalty for a probation period of 5 years, while entrusting the oversight over the defendants in such period to a probation officer. On 4 April 2019 a civil-law judgment was issued before the Court of Appeals in Poznań against one of the defendants for untimely filing for bankruptcy adjudicating PLN 100 k to Energopep Sp. z o.o. Sp. k. The defendant filed a cassation complaint against said judgment to the Supreme Court.

Capital expenditure

As at 31 December 2019, it is the Company's intention that the Polenergia Group's capital expenditure on fixed assets in 2020 should total ca. PLN 371 million. Such amount shall mainly be allocated to project development in the area of, without limitation, offshore and onshore wind power generation and the investment program implementation in the distribution segment.

Contractual obligations

On 5 November 2019 the subsidiary Farma Wiatrowa Szymankowo Sp. z o.o.

- entered into a contract with Siemens Gamesa Renewable Energy Sp. z o.o. („SGRE") and Siemens Gamesa Renewable Energy A/S for the delivery, deployment and launching of 11 wind turbines G132 HH 134 of 3.465 MW each (38.115 MW in total) („TSA"). The delivery and deployment of turbines and the launching of operation of the Wind Farm is envisaged for the period between August 2020 and March 2021.
- entered into a contract with SGRE for the servicing and availability of wind turbines ("SMA") SMA refers to the provision of servicing of such wind turbines for a term of 25 years following the go-live, including the scheduled inspections, repairs, supply of maintenance items and spare parts, remote oversight and other related activities. SGRE also guarantees the required availability level of turbines under the servicing agreement and should such requirements not be met, SGRE shall pay compensation to Farma Wiatrowa Szymankowo Sp. z o.o.
- entered into an agreement with Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego S.A. („PBDI") for the construction of Szymankowo Wind Farm with the capacity of 38.115 MW ("BoP"). Performance of said agreement is envisaged until June 2021. BoP provides for the performance by PBDI for the Wind Farm of: comprehensive construction works in terms of building the foundations and soil strengthening to accommodate wind turbines, making the roads suitable for oversize vehicle transport, upgrading the existing roads, building new service roads, assembly platforms and performing comprehensive assembly and power works, as well as the required construction works on the GPO 30/110 kV station, with medium-voltage, high-voltage cable network and optical fiber network necessary for the implementation of the Wind Farm.

(PLN K)

On 8 May 2019 the subsidiaries: Polenergia Farma Wiatrowa 1 Sp. z o.o. ("FW1"), Polenergia Farma Wiatrowa 4 Sp. z o.o. ("FW4"), Polenergia Farma Wiatrowa 6 Sp. z o.o. ("FW6") signed annexes to the Servicing Agreements with Siemens Gamesa Renewable Energy Sp. z o.o. The agreements provide for the servicing services - scheduled servicing, preventive servicing and curative servicing of the wind farms belonging to the Polenergia Group, i.e. the projects: Gawłowice, Rajgród and Skurpie. The agreements provide for the servicing of Siemens turbines of the capacity of 2.3 MW each, respectively: FW 1 – 21 turbines, FW 4 – 19 turbines, a FW 6 – 11 turbines. The annexes have extended the term of the Agreements until 31 January 2045. The estimated values of the agreements (with indexation provided for) are: FW 1 - ca. PLN 124.5 m, FW 4 - ca. PLN 112.6 m, and FW 6 -ca. PLN 65,2 m.

On 4 April 2019 the subsidiary Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o.(„ENS") acting under the framework agreement with the company PGNiG Supply & Trading GmbH Sp. z o.o. Oddział w Polsce („PST"), entered into a contract for the supply of gas fuel ("Gas Contract") for a one-year term (i.e. upon expiration of the 20-year agreement for the supply of fuel) since 1.01.2020 6:00 hours until 1.01.2021 6:00 hours. Under the Gas Contract ENS will be buying methane-rich natural gas as per the agreed volume and at an agreed market price throughout the entire supply term. The Gas Contract includes market provisions used in such type of contracts, including provisions regarding termination thereof and liquidated damages.

ON 29 March 2019 the subsidiaries Amon Sp. z o.o. („Amon") and Talia Sp. z o.o. („Talia") entered into servicing agreements with Siemens Gamesa Renewable Energy Sp. z o.o. The agreements provide for the servicing services - scheduled servicing, preventive servicing and curative servicing of two wind farms belonging to the Polenergia Group, i.e. the projects: Łukaszów and Modlikowice. The agreements provide for the servicing of Vestas turbines of the capacity of 2.0 MW each, respectively: Amon – 21 turbines and Talia – 12 turbines. The agreements have a term of 23 years with performance starting on 1 April 2019. They include market provisions used in such type of contracts, including provisions regarding termination thereof and liquidated damages. The estimated value of the Amon contract is PLN 77 m and of the Talia contract - PLN 54 m.

32 Sales revenue

		restated data
	For 12 months ended	
	31.12.2019	31.12.2018
- revenue from sale and distribution of electricity	2 327 276	2 890 524
- revenue from certificates of orgin	76 352	77 091
- revenue from sale of heat	21 855	21 215
- revenue from consulting and advisory services	4 863	3 415
- revenue from lease and operator services	1 666	937
- revenue from sale and distribution of gas	35 549	244 298
- revenue from sale of merchandise	35	860
- revenue from sale of pellets	15 051	16 909
- revenue from lease	215	161
- other	8 224	6 278
Total revenue from clients	**2 491 086**	**3 261 688**
- revenues from the valuation of futures contracts	8 024	3 943
- revenues from the stranded costs and cost of gas	96 714	174 293
- revenues from CO2 emission allowances	753	8 788
Total other revenue	**105 491**	**187 024**
Total sales revenue	**2 596 577**	**3 448 712**

Revenue from sale and distribution of electricity includes income from electricity sale derivatives.

(PLN K)

33 Cost according to type

	restated data	
	For 12 months ended	
	31.12.2019	31.12.2018
- depreciation	101 453	95 523
- materials and power consumption	196 606	194 884
- third party services	45 634	50 548
- taxes, duties and fees	21 682	29 267
- salaries	34 603	32 992
- social security and other benefits	4 899	4 303
- other cost by type	2 359	3 224
Total cost by type	**407 236**	**410 741**
- marchandise and materials sold (+)	2 027 742	2 951 101
- selling certificates of orgin	(58 684)	(59 336)
- income from granted certificates of orgin	47 138	59 336
- selling expenses (-)	(550)	(723)
- general overheads (-)	(38 434)	(41 612)
Total cost of goods sold	**2 384 448**	**3 319 507**

34 Other operating revenues

	For 12 months ended	
	31.12.2019	31.12.2018
- reversal of impairment losses, including:	1 422	70 214
- receivables remeasured write-downs	660	120
- non-current fixed assets impairment losses	762	70 094
- reversal of provisions, including:	1 615	565
- litigation provision	1 610	-
- site reclamation	-	300
- other	5	265
- other, including:	5 615	9 141
- compensation and additional payments	820	4 460
- grant settelment	3 233	3 202
- revenue fromlease of non-current fixed assets	-	38
- gains on disposal of non financial fixed assets	227	38
- other	1 335	1 403
Total other operating revenues	**8 652**	**79 920**

(PLN K)

35 Other operating expenses

	For 12 months ended	
	31.12.2019	31.12.2018
- asset impairment losses, including:	19 357	80 749
- receivables	1 361	305
- inventories	-	559
- non-current fixed assets	17 996	79 885
- other, including:	1 997	2 237
- penalties, fines compensation payable	174	-
- other development-related cost	298	277
- loss on disposal of non-financial fixed assets	5	47
- other	1 520	1 913
Total other operating costs	**21 354**	**82 986**

36 Financial income

	For 12 months ended	
	31.12.2019	31.12.2018
- financial income from interest on deposit and loans	4 656	4 734
- interest from lease	121	122
- f/x differences, including:	139	682
- unrealized	75	402
- realized	64	280
- valuation of financial liablities	-	146
- other surety - related fees	1	10
- other	850	6
Total financial revenue	**5 767**	**5 700**

37 Financial expenses

	For 12 months ended	
	31.12.2019	31.12.2018
- interest expenses	44 111	48 206
- f/x differences, including:	804	1 265
- unrealized	118	528
- realized	686	737
- commission an other fees	2 237	2 104
- measurement of financial liabilities *)	1 694	8 921
- other	689	298
Total financial cost	**49 535**	**60 794**

*) refers to bank loans measured at amortized cost

On 28 June 2018 the subsidiaries of the Company: Amon Sp. z o.o („Amon") and Talia Sp. z o.o. ("Talia") agreed and signed with a syndicate of financing banks (Raiffeisen Bank Polska S.A., Bank Zachodni WBK S.A., DNB Bank Polska S.A., and Powszechna Kasa Oszczędności Bank Polski S.A.) agreements amending the investment facility agreements of 1 June 2010 (described in more detail in Note 28). In the Group's opinion, the amendments substantially changed the previous agreement, which, according to IFRS 9, resulted in a one-off derecognition of such liability of PLN 7,913 thousand through profit or loss in 2018.

(PLN K)

38 Cash flows

Restricted cash	For 12 months ended 31.12.2019	31.12.2018
- cash frozen for loan repayment	28 115	19 067
- frozen cash for deposit	4 917	17 879
- frozen cash for long-term and mid-term refurbishment	3 273	2 780
- środki pieniężne na rachunkach VAT - split-payment	5 338	323
Total	**41 643**	**40 049**

39 Reconciliation of changes in liabilities due to financing operations

31.12.2019	Bank Loans	Lease	Total
As at the beginning of the period	**905 378**	**56 918**	**962 296**
Inflows from debt incurred	14 540	7 523	22 063
financing received	14 540	7 523	22 063
Interest accruing	38 699	927	39 626
Debt payments	(179 228)	(6 873)	(186 101)
prncipal repayments	(140 561)	(5 954)	(146 515)
interest paid	(38 667)	(919)	(39 586)
Exchange rate differences on debt denominated in foreign currency	(127)	-	(127)
Valuation	3 153	-	3 153
As at the end of the period	**782 415**	**58 495**	**840 910**

40 Objectives and policies of financial risk management

In addition to derivatives, the key financial instruments used by the Group include bank loans, cash and short-term deposits. The primary purpose of such financial instruments is to procure funds to finance the Group's operations. The Group also holds other financial instruments, such as trade payables and receivables arising in connection with its operations.

The Group enters into transactions involving derivative instruments, forward contracts (to hedge its currency and market price risks). The purpose of such transactions is to manage the currency risk and the risk of market prices (particularly in electricity trading) which arise in the course of the Group's operations and in connection with the sources of funding it uses.

The key risk types connected with the Group's financial instruments include: interest rate risk, liquidity risk, currency risk, and credit risk. The Management Board establishes and verifies rules for managing each of these types of risk; the rules are briefly discussed below. The Group also monitors the market price risk with respect to the financial instruments it holds.

Interest rate risk

The Group's exposure to the risk of market interest rates volatility concerns primarily its long-term financial liabilities.

The Group manages its interest expense by using debt financing based on variable interest rates. To hedge interest payments under its borrowings, the Group uses financial derivatives.

The table below presents sensitivity of the full-year profit before tax (in connection with floating-rate liabilities) to reasonably possible movements in interest rates, all other factors being equal. The effect on the Group's equity is not presented.

31.12.2019	Change	Change in profit/loss before tax within the consecutive 12 months in PLN K
WIBOR 1M	1%	(6 530)
EURIBOR 1M	1%	(126)
WIBOR 1M	-1%	6 530
EURIBOR 1M	-1%	126

31.12.2018	Change	Change in profit/loss before tax within the consecutive 12 months in PLN K
WIBOR 1M	1%	(6 955)
EURIBOR 1M	1%	(170)
WIBOR 1M	-1%	6 955
EURIBOR 1M	-1%	170

In the table below the fair value is determined of the Group's financial instruments exposed to the interest rate risk, according to ageing categories. The breakdown into individual years reflects the maturity of the loan

31.12.2019

INTEREST RATE RISK

Variable interest rate	*<1 year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Bank loans in PLN	45,092	44,051	46,204	52,060	58,948	521,283	767,638
Bank loans in EUR	4,923	9,854	-	-	-	-	14,777
Lease	3,680	3,346	3,817	3,474	3,408	40,770	58,495
Fixed interest rate	*< 1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*> 5 years old*	*Total*
Cash assets	345,705	-	-	-	-	-	345,705
Lease	8,576	232	256	282	311	995	10,652

31.12.2018

INTEREST RATE RISK

Variable interest rate	*<1 year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Bank loans in PLN	108,600	40,381	43,057	79,934	49,094	564,872	885,938
Bank loans in EUR	4,519	4,971	9,950	-	-	-	19,440
Fixed interest rate	*< 1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*> 5 years old*	*Total*
Cash assets	311,857	-	-	-	-	-	311,857
Lease	318	333	350	367	385	725	2,478

(PLN K)

Currency risk

The Group's currency risk boils down to the risk of fluctuations of the Euro exchange rate with respect to its short currency position under: bank deposits, investment commitments and investment loan facilities; this foreign exchange risk has not been identified as significant.

Credit risk

The Company executes transactions only with reputable companies enjoying sound credit standing. All customers willing to avail themselves of a supplier credit are subject to detailed credit check procedures. Moreover, thanks to ongoing monitoring of receivables, the Group's exposure to bad debt risk is insignificant.

With respect to the Group's other financial assets, such as cash and cash equivalents, financial assets available for sale and certain derivative instruments, credit risk is related to the counterparty's inability to pay, the maximum exposure to this risk being equal to the carrying amount of such instruments.

As the Group's investment projects rely to a large extent on external financing, there is significant debt concentration at the Group level. The existing loan agreements provide for a number of financial covenants which have to be met by the respective projects.

Given the current market environment, possible consequences of the Act on Wind Farm Projects and situation prevailing on the market of green certificates, there is a risk that the Group may breach the covenants with respect to certain projects.

The Group monitors the debt levels and compliance with covenants at individual companies on an ongoing basis and remains in contact with the financing institutions.

Cash at bank is held with creditworthy banking institutions.

Trade receivables are owed mainly by customers having good credit ratings with whom the Group maintains continued business relations.

Liquidity risk

The Group monitors the risk of its funds being insufficient to pay liabilities as they fall due through periodic liquidity planning. Such tool takes into account the maturities of investments and financial assets (e.g. accounts receivable, other financial assets) and forecast cash flows from operating activities.

The Group aims at balancing the continuity and flexibility of financing by using different funding sources, including account overdrafts, credit facilities, finance lease contracts and lease-to-own contracts.

The table below shows the Group's financial liabilities by maturity as at 31 December 2019 and 31 December 2018, based on maturity in terms of undiscounted contractual payments.

31.12.2019	Up to 3 months	From 3 months to 12 months	From 1 year to 5 years	In excess of 5 years	Total
Interest bearing loans and borrowings	21 405	65 609	343 427	631 838	**1 062 279**
Other liabilities	92 595	-	11 324	-	**103 919**
Liabilities for deliveries and sevices	74 339	-	-	-	**74 339**
Lease liabilities	3 857	2 222	22 726	61 356	**90 161**

(PLN K)

31.12.2018	Up to 3 months	From 3 months to 12 months	From 1 year to 5 years	In excess of 5 years	Total
Interest bearing loans and borrowings	84 523	177 057	398 166	675 205	**1 334 951**
Other liabilities	640 197	390	23 271	-	**663 858**
Liabilities for deliveries and sevices	129 391	-	-	-	**129 391**

41 Financial instruments

Fair values of financial instrument classes

The table below compares the carrying amounts and fair values of all of the Group's financial instruments, broken down into classes and categories of assets and liabilities.

	Category	Carrying amount		Fair Value	
		31.12.2019	31.12.2018	31.12.2019	31.12.2018
Financial asstes					
Futures and forward contracts	Level 2	83 945	661 276	83 945	661 276
Financial liabilities					
Bank	Level 2	782 415	905 378	782 415	905 378
SWAP	Level 2	2 236	3 472	2 236	3 472
Futures and froward contracts	Level 2	79 419	640 293	79 419	640 293

Level 2: The fair value is measured based on other inputs that are observable either directly or indirectly. As similar contracts are traded in an active market, the prices reflect results of actual transactions in similar derivative instruments. The fair value of loans is determined at amortized cost i.e. the discounted cash flow analysis at the assumed effective interest rate as a discount rate.

The fair value of receivables, short term and long term payables is similar to the carrying amount.

(PLN K)

Hedging instruments

Maturity date of hedging instrument	Hedged value	Interest rate hedged	Instrument
2021-06-15	115,620	3.07%	IRS
	115,620		

The fair value of the hedging instrument as at the reporting date was PLN 2,236 k, disclosed under long term liabilities.

The purpose of the hedging transactions is to mitigate the effect of interest rate movements on future, highly probable credit instalment payments.

Hedge accounting seeks to eliminate the risk of an accounting mismatch between the time when gains or losses on a hedging instrument and those on the hedged item are recognized. The result on a hedging transaction will be taken to profit or loss on exercise of the hedge.

As at 31 December 2019, the Group recognized PLN 1,049 thousand (2018: PLN 642 thousand) in other comprehensive income being a component of equity, on account of the effective portion of the hedging instrument's fair value.

42 Capital management

The primary objective behind the Group's capital management is to maintain good credit rating and safe capital ratios, in order to support the Group's operations and build shareholder value.

The Group manages its capital structure and modifies it in response to changes in the economic environment. To maintain or adjust its capital structure, the Group may introduce changes regarding dividend distribution, return capital to the shareholders, or issue new shares. In the year ended on 31 December 2019 and in the financial year ended on 31 December 2018, no changes were made in the objectives, policies and processes in this area.

The Group has been monitoring its capital position using the leverage ratio, calculated as the ratio of net debt to the sum of total equity and net debt. The Group's net debt includes interest-bearing borrowings and loans less cash and cash equivalents.

	31.12.2019	31.12.2018
Interest under borrowings	782,415	905,378
Less cash and cash equivalents	(345,705)	(311,857)
Net debt	**436,710**	**593,521**
Share capital	1,295,244	1,185,741
Total capital	**1,295,244**	**1,185,741**
Capital and net debt	**1,731,954**	**1,779,262**
Leverage ratios	25%	33%

(PLN K)

43 Information on significant related party transactions

Major transactions with jointly controlled parties in the period ended on 31 December 2019 include:

31.12.2019	Revenues	Receivables
Polenergia Bałtyk I S.A.	551	247
MFW Bałtyk II Sp. z o.o.	1,446	1,584
MFW Bałtyk III Sp. z o.o.	1,449	1,593
Total	**3,446**	**3,424**

Major transactions with related parties in the period ended on 31 December 2019 include:

31.12.2019	Revenues	Receivables
Kulczyk Holding Sarl	850	47
Polenergia International Sarl	465	477
Total	**1,315**	**524**

Major transactions with parties where personal relations exist in the period ended on 31 December 2019 include:

31.12.2019	Revenues	Costs	Receivables	Libilities
Ciech Sarzyna S.A.	22 751	1 841	2 929	177

For information on transactions with members of the parent's Management Board and Supervisory Board, see Notes 46 and 47.

Transactions with related parties have been executed on arm's length terms.

The ultimate parent entity controlling the Group is Ms. Dominika Kulczyk.

The parent company that prepares consolidated financial statements is Kulczyk Holding Sarl.

44 Compensation for stranded costs and cost of gas

Compensation for stranded costs

Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o., a subsidiary, calculates stranded costs for the period April 2008 – May 2020 ("adjustment period") using formulas specified in Art. 30 and Art. 31 of the LTC Termination Act. The estimate is based on the following items:

- the revised net carrying amount of tangible fixed assets related to generating power, as at 1 January 2007
- depreciation of power generating property, plant and equipment for the purposes of corporate income tax in the period 1 January 2007 − 31 March 2008,
- operating profit or loss in the adjustment period, calculated based on realized and forecast revenue from sale of electricity and operating expenses related to sales of electricity, adjusted for depreciation and amortization for the purposes of corporate income tax,
- net carrying amount of power generating tangible fixed assets after the end of the adjustment period.

(PLN K)

The maximum amount of stranded costs calculated as described above is allocated to individual years (including up to 2019) according to the Company's allocation method (based on operating profit or loss for a given year).

Due to the length of the period covered by the calculations, the estimated amounts may change; the amounts disclosed as at the end of the reporting period have been estimated based on the Company's best knowledge and data available on that date.

	For 12 months ended 31.12.2019
booked compensation of stranded costs	38 741

In 2019, the Company received from Zarządca Rozliczeń S.A. the following payments related to compensation for stranded costs:

	For 12 months ended 12/31/2019
advances for quarter 1- 4 of 2019	28,000
clearance for previous year	16,023
Total	**44,023**

Compensation for cost of gas

The amount of compensation for the cost of gas is estimated as the product of gross electricity generated by the Company in the period using gas fuel covered by the 'minimum take' clause, the difference between the Company's average cost of gas and the average cost of coal in coal-fired centrally managed generating units, and the adjustment coefficient referred to in the LTC Termination Act.

	For 12 months ended 31.12.2019
booked compensation of gas costs	57,973

In 2019, the Company received from Zarządca Rozliczeń S.A. the following payments related to compensation for gas costs:

	For 12 months ended 31.12.2019
advances for quarter 1- 4 of 2019	40,000
clearance for previous year	23,787
Total	**63,787**

45 Employment

As at 31 December 2019 and as at 31 December 2018 the Group's employees divided into professional groups and recalculated into full-time jobs included:

	31.12.2019	31.12.2018
Parent company Management Board	2	3
Parent company employees	52	53
Subsidiaries employees	131	139
Total headcount	**185**	**195**

maternity leave employees included

(PLN K)

46 Information on the total amount of remuneration and awards (in cash or in kind) paid or payable to members of the managing and supervising authorities of the parent

In the period ended on 31 December 2019 and the year ended on 31 December 2018, remuneration of members of the Management Board of the Parent and Subsidiaries, and of the members of the Supervisory Board was as follows:

Management Board	31.12.2019	31.12.2018
Michał Michalski	1 904	1 330
Robert Nowak	1 069	325
Iwona Sierżęga	702	-
Jacek Głowacki	1 126	2 208
Bartłomiej Dujczyński	-	1 567
Jacek Suchenek	-	444
Total	**4 801**	**5 874**

Certain Management Board members are party to a mutual agreement on termination of employment within the next 6–12 months. If a Management Board member being party to such agreement resigns, the Company is required to pay a severance benefit equal to 30% - 100% of the remuneration received by such Management Board member over the last 12 months. Following their resignation as members of the Management Board, Mr. Bartłomiej Dujczyński and Mr. Jacek Suchenek received appropriate severance pays.

Supervisory Board	31.12.2019	31.12.2018
Hans E. Schweickardt	78	-
Marta Schmude	70	-
Orest Nazaruk	70	36
Brian Bode	61	36
Marjolein Helder	52	-
Adrian Dworzyński	42	-
Arkadiusz Jastrzębski	11	36
Kajetan d'Obyrn	17	-
Michał Kawa	17	-
Dagmara Gorzelana	-	20
Tomasz Mikołajczak	-	29
Mariusz Nowak	-	19
Łukasz Rędziniak	-	19
Dawid Jakubowicz	-	19
Dominik Libicki	-	19
Total	**418**	**233**

47 Transactions with members of the Group's Management Board and Supervisory Board, their spouses, siblings, ascendants, descendants, or other closely related persons

In the year ended 31 December 2019, there were no transactions with members of the Management Board and Supervisory Board, their spouses, siblings, ascendants, descendants, or other closely related persons.

(PLN K)

48 Information on remuneration of a certified auditor or entity authorized to audit the financial statements

The table below shows the fees of the entity authorized to audit financial statements paid or payable for the year ended on 31 December 2019 and the year ended on 31 December 2018, broken down into the type of service:

Type of services	31.12.2019	31.12.2018
Audit and review of financial statements	566	553
Other services	12	12

49 Information on CO^2 emission allowances

Trade in emission allowances is an environmental policy instrument designed to reduce pollutant emissions. Poland's membership in EU and the Kyoto protocol require Poland to participate in the Emissions Trading Scheme. The emissions trading mechanism was introduced on 1 January 2005 with Directive 2003/87/EC of the European Parliament and of the Council, transposed into Polish legislation by virtue of the Act on Trading in Allowances for Emissions of Greenhouse Gases and Other Substances of 22 December 2004. The current period, EU ETS 2013-2020, is governed by the Act of 12 June 2015 on the System of Trading in Allowances for Greenhouse Gases Emission.

Plants owned by the Polenergia Group: EL Mercury (KPRU: PL 0879 05) and EC Nowa Sarzyna (KPRU: PL 0472 05) are combustion installations with a rated thermal input exceeding 20 MW participating in the EU Emissions Trading Scheme.

EC Nowa Sarzyna: according to Art. "10c" the installation of EC Nowa Sarzyna obtained CO2 allowance allotments, however due to the lack of investments in the National Investment Plan those free-of-charge allotments were not transferred to the account of the installation owner.

EC Nowa Sarzyna receive an allotment of free-of-charge allowances under Article "10a" for the years 2013-2020 in the respective numbers: from 34,256 (in 2013) to 22,495 (in 2020) EUA.

In 2019 EC Nowa Sarzyna emitted 332,351 tons of carbon dioxide (the report has been audited by an independent reviewer DNV).

As with the beginning of 2021 another payment period will begin, in May 2019 EC Nowa Sarzyna filed an application for an allotment of free-of-charge emission allowances for the years 2021 - 2025. Currently, the European Commission is in the process of verifying applications. Also, as required by the Act of 4 July 2019 on the Amendment of the Act on the System of Trading in Allowances for Greenhouse Gases Emission and certain other acts, EC Nowa Sarzyna requested and obtained (on 2 December 2019) approval of the monitoring methodology plan.

50 Material events after the reporting date

By the date of preparation of these consolidated financial statements, i.e. by 9 March 2020, no events occurred which would not have been disclosed in the accounting books of the reporting period.