



**ENERGA SA
Group**

**Condensed interim
consolidated
financial statements
prepared in accordance
with IAS 34
for the nine-month
period ended
30 September 2016**

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	3-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2016 (unaudited)	3-month period ended 30 September 2015 (unaudited)	9-month period ended 30 September 2015 (unaudited)
Continuing operations				
Sales of products and goods for resale, including excise tax	1,494	4,415	1,531	4,884
<i>Excise tax</i>	(75)	(221)	(61)	(189)
Sales of products and goods for resale	1,419	4,194	1,470	4,695
Sales of services	998	3,117	1,041	3,199
Rental income	19	62	21	63
Revenue	2,436	7,373	2,532	7,957
Cost of sales	(1,957)	(6,387)	(2,087)	(6,412)
Gross profit on sales	479	986	445	1,545
Other operating income	28	81	17	61
Selling and distribution expenses	(81)	(243)	(82)	(237)
General and administrative expenses	(76)	(240)	(80)	(246)
Other operating expenses	(37)	(200)	(28)	(86)
Financial income	5	47	14	48
Financial costs	(56)	(222)	(73)	(215)
Share in the loss of an associate	(19)	(60)	-	-
Profit before tax	243	149	213	870
Income tax	(53)	(75)	(45)	(167)
Net profit for the period	190	74	168	703
Attributable to:				
Equity holders of the Parent Company	190	71	166	696
Non-controlling interest	-	3	2	7
Earnings per share (in PLN)				
- basic	0.46	0.17	0.40	1.68
- diluted	0.46	0.17	0.40	1.68

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2016 (unaudited)	3-month period ended 30 September 2015 (unaudited)	9-month period ended 30 September 2015 (unaudited)
Net profit for the period	190	74	168	703
Items that will never be reclassified to profit or loss	-	20	-	7
Actuarial gains and losses on defined benefit plans	(1)	24	-	8
Deferred tax	1	(4)	-	(1)
Items that are or may be reclassified subsequently to profit or loss	8	27	(1)	33
Foreign exchange differences from translation of foreign entities	(2)	2	1	(1)
Cash flow hedges	11	31	(3)	42
Deferred tax	(1)	(6)	1	(8)
Net other comprehensive income	8	47	(1)	40
Total comprehensive income	198	121	167	743
Attributable to:				
Equity holders of the Parent Company	198	118	165	736
Non-controlling interest	-	3	2	7

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 September 2016 (unaudited)	As at 31 December 2015
ASSETS		
Non-current assets		
Property, plant and equipment	12,993	12,912
Intangible assets	395	395
Goodwill	26	143
Shares in associates accounted for under the equity method	305	-
Deferred tax assets	391	260
Other non-current financial assets	114	60
Other non-current assets	106	103
	14,330	13,873
Current assets		
Inventories	693	513
Current tax receivables	7	47
Trade receivables	1,890	1,762
Portfolio of financial assets	2	322
Other current financial assets	58	38
Cash and cash equivalents	397	1,669
Other current assets	279	232
	3,326	4,583
TOTAL ASSETS	17,656	18,456

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	As at 30 September 2016 (unaudited)	As at 31 December 2015
EQUITY AND LIABILITIES		
Equity		
Share capital	4,522	4,522
Foreign exchange differences from translation of a foreign entity	2	-
Reserve capital	1,018	447
Supplementary capital	728	661
Cash flow hedge reserve	31	6
Retained earnings	2,384	3,134
Equity attributable to equity holders of the Parent Company	8,685	8,770
Non-controlling interest	47	44
	8,732	8,814
Non-current liabilities		
Loans and borrowings	2,303	2,475
Bonds issued	2,583	3,116
Non-current provisions	644	664
Deferred tax liabilities	594	591
Deferred income and non-current grants	521	531
Other non-current financial liabilities	12	25
	6,657	7,402
Current liabilities		
Trade payables	650	877
Current loans and borrowings	233	203
Bonds issued	59	76
Current income tax liability	13	2
Deferred income and grants	137	161
Short-term provisions	753	471
Other financial liabilities	134	193
Other current liabilities	288	257
	2,267	2,240
Total liabilities	8,924	9,642
TOTAL EQUITY AND LIABILITIES	17,656	18,456

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Parent Company							Non-controlling interest	Total equity
	Share capital	Foreign exchange differences from translation of a foreign entity	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings	Total		
As at 1 January 2016	4,522	-	447	661	6	3,134	8,770	44	8,814
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	20	20	-	20
Foreign exchange differences from translation of foreign entities	-	2	-	-	-	-	2	-	2
Cash flow hedges	-	-	-	-	25	-	25	-	25
Net loss for the period	-	-	-	-	-	71	71	3	74
Total comprehensive income for the period	-	2	-	-	25	91	118	3	121
Retained earnings distribution	-	-	571	67	-	(638)	-	-	-
Dividends	-	-	-	-	-	(203)	(203)	-	(203)
As at 30 September 2016 (unaudited)	4,522	2	1,018	728	31	2,384	8,685	47	8,732
As at 1 January 2015	4,522	-	447	607	(17)	2,957	8,516	37	8,553
Actuarial gains and losses on defined benefit plans	-	-	-	-	-	7	7	-	7
Foreign exchange differences from translation of foreign entities	-	(1)	-	-	-	-	(1)	-	(1)
Cash flow hedges	-	-	-	-	34	-	34	-	34
Net profit for the period	-	-	-	-	-	696	696	7	703
Total comprehensive income for the period	-	(1)	-	-	34	703	736	7	743
Retained earnings distribution	-	-	-	54	-	(54)	-	-	-
Dividends	-	-	-	-	-	(596)	(596)	-	(596)
Purchase of shares in subsidiaries	-	-	-	-	-	1	1	(1)	-
As at 30 September 2015 (unaudited)	4,522	(1)	447	661	17	3,011	8,657	43	8,700

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	9-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2015 (unaudited)
Cash flows from operating activities		
Profit/(loss) before tax from continuing operations	149	870
Profit/(loss) before tax on discontinued operations and disposal of non-current assets classified as held for sale	-	-
Adjustments for:		
Share in the loss of an associate	60	-
Foreign currency (gains)/losses	3	(4)
Amortization and depreciation	704	678
Net interest and dividends	183	197
Loss on investing activities, including goodwill impairment allowance	459	27
Changes in working capital:		
Change in receivables	(104)	(7)
Change in inventories	(180)	(380)
Change in payables excluding loans and borrowings	(185)	(339)
Change in prepayments and accruals	(139)	(139)
Change in provisions	265	299
	1,215	1,202
Income tax paid	(164)	(150)
Net cash from operating activities	1,051	1,052
Cash flows from investing activities		
Disposal of property, plant and equipment and intangible assets	16	11
Purchase of property, plant and equipment and intangible assets	(1,152)	(1,117)
Proceeds from deposits above 3m	-	13
Establishment of deposits above 3m	-	(14)
Sale of participation units in the ENERGA Trading fund	320	233
Purchase of shares in entities measured by the equity method	(364)	-
Other	3	3
Net cash from investing activities	(1,177)	(871)
Cash flows from financing activities		
Proceeds from loans and borrowings	350	332
Repayment of loans and borrowings	(521)	(136)
Redemption of debt securities	(578)	-
Dividends paid	(203)	(596)
Interest paid	(180)	(192)
Other	(7)	(1)
Net cash from financing activities	(1,139)	(593)
Net increase/(decrease) in cash and cash equivalents	(1,265)	(412)
Cash and cash equivalents at the beginning of the period	1,658	1,911
Cash and cash equivalents at the end of the period	393	1,499

ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY INFORMATION**1. General information**

The ENERGA SA Capital Group (the "Group") consists of **ENERGA Spółka Akcyjna** ("Parent Company", "Company") with its registered office in Gdańsk and its subsidiaries (see Note 2). The condensed interim consolidated financial statements of the Group covers the nine-month period ended 30 September 2016 and contains appropriate comparative data. The Parent Company is entered in the Register of Entrepreneurs of the National Court Register held by the District Court Gdańsk-Północ, 7th Commercial Division of the National Court Register under number KRS 0000271591. The Parent Company's REGON statistical number is 220353024.

The primary activities of the Group are as follows:

1. distribution and sales of electricity and heat,
2. production of electricity and heat,
3. trading in electricity.

As at 30 September 2016, the Polish State Treasury is the parent and ultimate controlling party of the Company and the ENERGA SA Group.

2. Composition of the Group and its changes**2.1. Composition of the Group at the end of the reporting period**

As at 30 September 2016, the Group consists of ENERGA SA and the following subsidiaries:

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 September 2016	31 December 2015
Distribution Segment					
1	ENERGA-OPERATOR SA	Gdańsk	distribution of electricity	100	100
2	ENERGA-OPERATOR Eksploatacja Elbląg Sp. z o.o.	Elbląg	grid operation	100	100
3	ENERGA-OPERATOR Eksploatacja Gdańsk Sp. z o.o.	Gdańsk	grid operation	100	100
4	ENERGA-OPERATOR Eksploatacja Kalisz Sp. z o.o.	Kalisz	grid operation	100	100
5	ENERGA-OPERATOR Eksploatacja Płock Sp. z o.o.	Płock	grid operation	100	100
6	ENERGA-OPERATOR Eksploatacja Słupsk Sp. z o.o.	Słupsk	grid operation	100	100
7	ENERGA-OPERATOR Eksploatacja Toruń Sp. z o.o.	Toruń	grid operation	100	100
8	ENERGA-OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.	Koszalin	technical customer service	100	100
9	Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.	Słupsk	contracting and design	100	100
10	Energetyka Kaliska – Usługi Techniczne Sp. z o.o.	Kalisz	contracting and design	100	100
11	ZEP - Centrum Wykonawstwa Specjalistycznego Sp. z o.o.	Płock	contracting and design	100	100
12	Zakład Budownictwa Energetycznego Sp. z o.o.	Koszalin	contracting and design	100	100
13	ENERGA-OPERATOR Logistyka Sp. z o.o.	Płock	logistics and supply	100	100
14	Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o. w likwidacji (in liquidation) ¹	Toruń	supply	-	100
Sales Segment					
15	ENERGA-OBROT SA	Gdańsk	trading in electricity	100	100

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 September 2016	31 December 2015
16	ENERGA Obsługa i Sprzedaż Sp. z o.o.	Gdańsk	customer service	100	100
17	ENERGA Oświetlenie Sp. z o.o.	Sopot	lighting services	100	100
18	ENERGA SLOVAKIA s.r.o.	Bratislava	trading in electricity	100	100
19	Enspirion Sp. z o.o. (formerly: ENERGA Innowacje Sp. z o.o.)	Gdańsk	organization and management of development of innovative power projects	100	100
20	EOB PGK1 Sp. z o.o.	Gdańsk	financing services	100	100
21	EOB PGK2 Sp. z o.o.	Gdańsk	financing services	100	100
Generation Segment					
22	ENERGA Wytwarzanie SA	Gdańsk	production of energy	100	100
23	ENERGA Elektrownie Ostrołęka SA	Ostrołęka	production of energy	89.64	89.64
24	ENERGA Kogeneracja Sp. z o.o.	Elbląg	production of energy	100	100
25	ENERGA Ciepło Ostrołęka Sp. z o.o.	Ostrołęka	distribution of heat	100	99.99
26	ENERGA Serwis Sp. z o.o.	Ostrołęka	repairs and maintenance services	94.81	94.81
27	ENERGA Ciepło Kaliskie Sp. z o.o.	Kalisz	distribution of heat	91.24	91.24
28	ENERGA Invest SA	Gdańsk	investment project management	100	100
29	ZEC Żychlin Sp. z o.o. ¹	Żychlin	distribution of heat	-	100
30	Elektrownia Ostrołęka SA	Ostrołęka	production of energy	100	100
31	AEGIR 4 Sp. z o.o.	Gdańsk	production of energy	100	100
32	BORA Sp. z o.o. ¹	Gdańsk	production of energy	-	100
33	Ekologiczne Materiały Grzewcze Sp. z o.o.	Gdańsk	consulting activity	100	100
34	Elektrownia CCGT Gdańsk Sp. z o.o.	Gdańsk	production of energy	100	100
35	Elektrownia CCGT Grudziądz Sp. z o.o.	Grudziądz	production of energy	100	100
Others Segment					
36	ENERGA Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting, payroll and administrative services	100	100
37	ENERGA Finance AB (publ)	Stockholm	financing activity	100	100
38	ENERGA Informatyka i Technologie Sp. z o.o.	Gdańsk	information and communication technologies	100	100

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				30 September 2016	31 December 2015
39	RGK Sp. z o.o.	Gdańsk	financing services and property management	100	100
40	ENSA PGK1 Sp. z o.o.	Gdańsk	financing services	100	100
41	ENSA PGK2 Sp. z o.o.	Gdańsk	financing services	100	100
42	ENSA PGK3 Sp. z o.o.	Gdańsk	financing services	100	100
43	ENSA PGK4 Sp. z o.o.	Gdańsk	financing services	100	100
44	ENSA PGK5 Sp. z o.o.	Gdańsk	financing services	100	100
45	ENSA PGK6 Sp. z o.o.	Gdańsk	financing services	100	100
46	ENSA PGK7 Sp. z o.o.	Gdańsk	financing services	100	100
47	ENSA PGK8 Sp. z o.o.	Gdańsk	financing services	100	100

¹ See Note 2.2.

Additionally, the Group holds 15.7% stake in the associate Polska Grupa Górnicza Sp. z o.o. ("PGG") with its registered office in Katowice (see description in note 2.2.). Shares in PGG are measured by the Group by the equity method.

2.2. Changes in the composition of the Group and investments in associates in the reporting period

2.2.1. Polska Grupa Górnicza

On 28 April 2016, the subsidiary ENERGA Kogeneracja Sp. z o.o. signed an Investment Agreement defining the terms and conditions of the financial investment in Polska Grupa Górnicza Sp. z o.o. As part of the investment in PGG, ENERGA Kogeneracja Sp. z o.o. undertook to make payments to the newly-issued shares in PGG in the total amount of PLN 500 m, which will ultimately allow the company to subscribe for 17.1% of PGG's share capital (the number of shares corresponds to the number of voting rights). At the end of the current reporting period, capital contribution of PLN 361 m was made, which results in the subscription of 15.7% of PGG's share capital (the number of shares corresponds to the number of voting rights). Under the Investment Agreement, the next tranches of capital contributions are as follows:

- PLN 83 m – by 3 November 2016 (as at the date of preparing these statements, the tranche has been paid, which gives a 16.6% share in PGG's share capital),
- PLN 56 m – by 1 February 2017.

Disbursement of the remaining tranches is conditional upon, among others, the absence of default on terms and conditions of the bonds issued by PGG.

PGG is in the business of coal production and it offers access to extensive resources of energy fuels, which may be used by the Group's production entities. The registered office of PGG is in Katowice, Poland.

Even though it has less than 20 percent of votes in PGG, the Group believes that it exerts significant influence on the entity. The Investment Agreement provides for a number of mechanisms, which enable investors to monitor PGG's financial standing on an ongoing basis, including fulfillment of its business plan and undertaking of optimization activities, among others when market conditions change to the worse. These rights are exercised by PGG's Supervisory Board, while according to the Agreement, each shareholder in PGG has the right to appoint, dismiss and suspend one Supervisory Board member (as a personal entitlement). For this reason, it was decided that the number of Supervisory Board members is of key importance in determining that the Group exerts significant influence on PGG.

PGG is a privately held company and therefore there are no quotations for its share prices.

As the acquisition transaction took place during the current reporting period, the work associated with allocating the price of shares purchased in PGG have not yet been completed. Accordingly, these consolidated financial statements present only the preliminary amounts corresponding to the book value following the conversion of PGG's figures to International Financial Reporting Standards adopted for application in the EU. The fair values will be determined within 12 months of the investment acquisition date and the impact of these changes will be fully recognized retrospectively.

Preliminary settlement of the acquisition

Group's share in identifiable net assets	361
Share acquisition price plus transaction costs	364
Goodwill	3

2. Composition of the Group and its changes (cont.)

2.2.2. Other changes in the composition of the Group

On 28 September 2016, ENERGA Wytwarzanie SA transferred the ownership of a block of Elektrownia Ostrołęka SA shares under an agreement to ENERGA SA.

On 31 August 2016, ENERGA Invest SA acquired Bora Sp. z o.o. through a transfer of all the assets of the acquired company to the acquiring company without increasing the share capital of the acquiring company (resolution of the Extraordinary General Meeting adopted on 17 August 2016, KRS 31 August 2016).

On 20 June 2016, ENERGA SA acquired all shares in Enspirion Sp. z o.o. from ENERGA-OBRÓT SA on the basis of a share sale agreement.

As of 6 April 2016, ENERGA Kogeneracja Sp. z o.o. became the only shareholder of ENERGA Ciepło Ostrołęka Sp. z o.o. by purchasing 3 shares from a shareholder, a natural person.

On 1 February 2016, ENERGA Kogeneracja Sp. z o.o. (acquiring company) merged with ZEC Żychlin Sp. z o.o. Sp. z o.o. (acquired company) without increasing the share capital of the acquiring company. Following the merger, ZEC Żychlin Sp. z o.o. was deleted from the National Court Register.

On 25 January 2016, the Court of Registration removed Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o. w likwidacji (in liquidation) from the National Court Register.

3. Composition of the Parent Company's Management Board

In the period from 1 to 3 January 2016, the Management Board of the Parent Company was as follows:

- Roman Pionkowski – President of the Management Board,
- Seweryn Kędra – Vice-President of the Management Board for Financial Matters.

On 29 December 2015, the Company's Supervisory Board adopted a resolution to appoint as of 4 January 2016 the Company's Management Board for the 5th term of office comprised of:

- Dariusz Kaśków – President of the Management Board,
- Mariusz Rędaszka – Vice-President of the Management Board for Financial Matters,
- Roman Pionkowski – Vice-President of the Management Board for Development Strategy, dismissed as of 26 February 2016.

On 1 February 2016, the Company's Supervisory Board adopted a resolution to appoint Mr. Grzegorz Ksepko to the Company's Management Board as of 1 February 2016 to serve as the Vice-President of the Management Board for Corporate Matters.

On 19 March 2016, the Company's Supervisory Board adopted a resolution to appoint to the Company's Management Board as of 21 March 2016: Ms. Mariola Zmudzińska to serve as the Vice-President of the Management Board for Investor Relations and Mr. Przemysław Piesiewicz to serve as the Vice-President of the Management Board for Development Strategy.

4. Approval of the financial statements

These condensed interim consolidated financial statements were approved for publication by the Company's Management Board on 14 November 2016.

5. Basis for preparation of the financial statements

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives.

These condensed interim consolidated financial statements are presented in millions of Polish zloty ("PLN m") and have been prepared based on the assumption that the Group would continue as a going concern in the foreseeable future.

As at the date of these condensed interim financial statements there is no evidence indicating significant uncertainty as to the ability of the Group to continue its business activities as a going concern.

5.1. Statement of compliance

These condensed interim consolidated financial statements of ENERGA SA Group have been prepared in accordance with the International Accounting Standard 34 "Interim financial reporting" as adopted by the European Union. They do not include all the information required for a complete set of financial statements compliant with the International Financial Reporting Standards ("IFRS"). However, selected notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2015.

5.2. Functional and presentation currency

The functional currency of the parent company and other Polish companies covered by these condensed interim consolidated financial statements and the presentation currency of these condensed interim consolidated financial statements is the Polish zloty, except for ENERGA SLOVAKIA s.r.o. and ENERGA Finance AB (publ) where the functional currency of their financial statements is euro. For the purpose of these financial statements, the underlying accounts of the above-mentioned companies have been translated into PLN as follows: data in the statement of financial position, except equity - exchange rates at the reporting date; equity - exchange rates at the date of transaction and data in the statement of profit or loss - at the weighted average exchange rate for the financial period. Exchange differences from translation were captured in other comprehensive income.

6. Material items subject to judgment and estimates

In the current reporting period no changes were made in the methods used to make material estimations. Changes of estimates resulted from events that occurred during the reporting period.

The preparation of the condensed interim consolidated financial statements in accordance with the International Accounting Standard 34 "Interim financial reporting" as adopted by the European Union ("EU") requires the Management Board to adopt certain assumptions and estimates that affect the amounts reported in these condensed interim consolidated financial statements and notes thereto. The assumptions and estimates are based on the Management Board's best knowledge of current and future activities and events. However actual results may differ from those anticipated.

7. Significant accounting policies

The accounting policies of the Group are applied on a continuous basis.

7.1. Standards and interpretations adopted for the first time in 2016

The following amendments to the existing standards published by the International Accounting Standards Board (IASB) and endorsed in the EU came into force in 2016:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions - endorsed in the EU on 17 December 2015 (applicable to annual periods beginning on or after 1 February 2015),
- Amendments to various standards "Annual Improvements to IFRS (2010-2012 cycle)" – changes introduced during the annual cycle of improvements to IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) aimed mainly at removing inconsistencies agreeing on the wording - endorsed in the EU on 17 December 2015 (applicable to annual periods beginning on or after 1 February 2015),
- Amendments to IFRS 11 "Joint Arrangements" (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Acceptable methods of amortization and depreciation (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture – Bearer Plants" (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to various standards "Annual Improvements to IFRS (2012-2015 cycle)" – changes introduced during the annual cycle of improvements to IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) aimed mainly at removing inconsistencies agreeing on the wording (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2016).

These amendments to the standards have had no significant impact on the Group's accounting policies applied so far.

7.2. Standards and interpretations adopted by the IASB but not yet endorsed in the EU

IFRS as endorsed in the EU do not currently differ from the regulations adopted by the International Accounting Standards Board, with the exception of the following standards, amendments to standards and interpretations, which as at the date of approving these financial statements have not yet been adopted for application:

- IFRS 9 "Financial Instruments" (applicable to annual periods beginning on or after 1 January 2018),
- IFRS 14 "Regulatory Deferral Accounts" (applicable to annual periods beginning on or after 1 January 2016),
- IFRS 15 "Revenue from Contracts with Customers" with clarifications (applicable to annual periods beginning on or after 1 January 2018),
- IFRS 16 "Leases" (applicable to annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sales or contributions of assets between an investor and its associate/joint venture (no effective date specified),
- Amendments to IAS 12 "Income Taxes" – Detailed regulation of the recognition of deferred tax assets for unrealised losses (applicable to annual periods beginning on or after 1 January 2017),
- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (applicable to annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" – Applying changes introduced by IFRS 9 "Financial Instruments" (applicable to annual periods beginning on or after 1 January 2018),

New standards IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" introduce significant changes as compared to the currently applicable standards. After a tentative analysis, the Group expects these changes not to have a significant influence on its financial statements, which will be confirmed after this matter is examined more thoroughly.

The new standard IFRS 16 "Leases" changes the rules for recognizing agreements that satisfy the definition of a lease. From the Group's point of view, the main change is the requirement to recognize the right to use an asset and a financial liability in the lessee's statement of financial position – both in the case of agreements that meet the criteria of finance leases and operating leases. This change will increase the value of assets and liabilities. The Group has not yet conducted a detailed analysis of the impact that the new standard will exert on the consolidated financial statements.

The Group does not expect the remaining amendments to IFRSs mentioned above to have a material influence on its financial statements.

8. Explanations regarding the seasonality and cyclicity of operations in the period under review

Sales and distribution of electricity and heat during the year are subject to seasonal fluctuations. The volume of energy sold and distributed, and consequently revenue, rise during the winter months and fall in the summer months. This is dependent on the ambient temperature and length of the day. The extent of fluctuations is determined by low temperatures and shorter days in winter and higher temperatures and longer days in summer. The seasonal nature of electric energy sales and distribution applies to a greater extent to small individual customers than to industrial sector clients.

NOTES ON OPERATING SEGMENTS**9. Operating segments**

The Group presents segment information in accordance with IFRS 8 Operating Segments. The Group is organized and managed within operating segments, which are divided according to the types of products offered. The Group's disclosures are made for the following operating segments:

- Distribution – distribution of electricity by ENERGA-OPERATOR SA (Distribution System Operator), as well as operations directly associated with the distribution operations conducted by other Group companies;
- Generation – production of electricity from conventional and renewable sources, production and distribution of heat and maintenance and repair activity, related directly to the production of energy;
- Sales - trading in electricity (wholesale trading and retail sales) and lighting services.
- Other - shared services centers in the accounting, HR and salary, administration and ITC areas as well as financing activity and real estate management areas. The Parent Company has also been classified as belonging to the other segment.

The key measures used by the ENERGA SA Management Board to assess the performance of the segments is net profit and EBITDA, i.e. operating profit /(loss) (calculated as the profit /(loss) before tax adjusted by the share of profit of the associate, financial income and financial costs) plus amortization and depreciation and impairment losses on non-financial non-current assets (mainly property, plant and equipment, intangible assets and goodwill). The EBITDA calculation method changed in the current reporting period. In the previous periods, EBITDA was not adjusted for impairment losses on non-financial non-current assets. This modification chiefly aims to enhance transparency and simplify analyses by ensuring comparability for the key parameter in the industry in which the Group operates. Comparative data have been restated accordingly.

The rules applied to the determination of segment results and measure the segment's assets and liabilities are consistent with the rules used to prepare the consolidated financial statements.

Transactions between segments are settled on market terms.

The Group does not present information by geographic segments since its operations conducted for international clients and its international assets do not have a significant impact on the Group's results.

The tables below show the allocation of revenues and expenses for the period from 1 January to 30 September 2016 and the assets and liabilities as at 30 September 2016 by individual reporting segments, together with appropriate comparative information.

9. Operating segments (cont.)

9-month period ended 30 September 2016 (unaudited) or as at 30 September 2016 (unaudited)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenues							
Sales to external clients	3,045	3,767	556	5	7,373	-	7,373
Inter-segment sales	32	251	232	102	617	(617)	-
Total segment revenues	3,077	4,018	788	107	7,990	(617)	7,373
EBITDA	1,310	63	195	(38)	1,530	(1)	1,529
Amortization and depreciation	546	27	133	13	719	(15)	704
Impairment losses on non-financial non-current assets	-	-	441	-	441	-	441
Operating profit or loss	764	36	(379)	(51)	370	14	384
Net finance income/expense	(84)	3	55	856	830	(1 005)	(175)
Share in result of an associate	-	-	-	-	-	(60)	(60)
Profit or loss before tax	680	39	(324)	805	1,200	(1 051)	149
Income tax	(128)	(11)	49	15	(75)	-	(75)
Net profit or loss	552	28	(275)	820	1,125	(1 051)	74
Assets and liabilities							
Cash and cash equivalents	4	13	3	377	397	-	397
Total assets	12,597	2,848	4,496	13,631	33,572	(15,916)	17,656
Financial liabilities	3,931	7	1,220	5,714	10,872	(5,694)	5,178
Total liabilities	6,433	2,089	1,699	6,261	16,482	(7,558)	8,924
Other segment information							
Capital expenditures	875	76	184	78	1,213	(98)	1,115

9. Operating segments (cont.)

9-month period ended 30 September 2015 (unaudited) (restated) or as at 31 December 2015	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenues							
Sales to external clients	3,100	4,068	786	3	7,957	-	7,957
Inter-segment sales	37	129	266	136	568	(568)	-
Total segment revenues	3,137	4,197	1,052	139	8,525	(568)	7,957
EBITDA	1,338	116	306	(4)	1,756	(30)	1,726
Amortization and depreciation	529	25	121	14	689	(11)	678
Impairment losses on non-financial non-current assets	-	-	11	-	11	-	11
Operating profit or loss	809	91	174	(18)	1,056	(19)	1,037
Net finance income/expense	(98)	13	(53)	893	755	(922)	(167)
Profit or loss before tax	711	104	121	875	1,811	(941)	870
Income tax	(148)	(20)	(23)	21	(170)	3	(167)
Net profit or loss	563	84	98	896	1,641	(938)	703
Assets and liabilities							
Cash and cash equivalents	708	115	227	619	1,669	-	1,669
Total assets	12,259	2,461	4,589	12,811	32,120	(13,664)	18,456
Financial liabilities	3,670	255	1,512	5,835	11,272	(5,402)	5,870
Total liabilities	5,994	1,580	2,052	6,076	15,702	(6,060)	9,642
Other segment information							
Capital expenditures	719	39	245	30	1,033	(37)	996

NOTES TO CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**10. Property, plant and equipment and goodwill**

In the current reporting period, the Group:

- incurred expenditures towards property, plant and equipment in the amount of PLN 1,041 m (PLN 946 m in the corresponding period of 2015);
- sold and scrapped property, plant and equipment with a total carrying value of PLN 25 m (PLN 29 m in the corresponding period of 2015);
- recognized impairment losses on property, plant and equipment in the amount of PLN 434 m (PLN 11 m in the corresponding period of 2015) and reversed impairment losses on property, plant and equipment in the amount of PLN 110 m (no reversal of impairment losses in the corresponding period of 2015). The reversal of the impairment losses referred to the value of fixed assets under construction in the Elektrownia Ostrołęka SA subsidiary. The impairment loss of PLN 122.6 m was recognized in 2012 after the Ostrołęka C power plant project was frozen. The reversal of the impairment loss was caused by the progress of work aimed at building a 1000 MW coal-fired unit in Ostrołęka.
- recognized impairment losses on goodwill in the amount of PLN 117 m (no impairment losses in the corresponding period of 2015).

11. Impairment tests for property, plant and equipment and goodwill

In connection with changes occurring in its market and regulatory environment in 2016, such as the declining prices of certificates of origin of energy, persisting low prices for electricity in forward and SPOT contracts and introduction of the Act on wind farm investments, the Group has identified certain indications, which may result in a decline of recoverable amount of property, plant and equipment of the companies in the Generation Segment.

The impairment tests for cash generating units ("CGUs") were performed using the income method, determining the value in use based on the discounted value of estimated cash flows from operating activities, taking into account, among others, the following assumptions:

- a) price forecasts have been adopted for electricity, coal, CO₂ allowances and for certificates of origin, based on a report on the Polish market prepared for the Group by an independent agency in April 2016; the forecast was prepared with the timeframe until 2035;
- b) assumptions adopted for costless CO₂ emission allowances for 2015-2021 as specified in the Regulation of the Council of Ministers of 31 March 2014 (Item 439) and 8 April 2014 (Item 472),
- c) assumptions made for capital expenditures at the levels allowing for maintenance of the production capacity of the existing non-current assets after replacement investments, including capital expenditures to adjust industrial emission levels to the requirements of the Industrial Emission Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010,
- d) support maintained for production of energy from the existing renewable sources in accordance with the Renewable Energy Sources Act of 20 February 2015,
- e) support system maintained for high-efficient cogeneration throughout the forecast period,
- f) Operating Reserve maintained throughout the forecast period,
- g) the length of forecasts for the individual CGUs has been adopted in such a way to ensure that the cash flow used to calculate residual value was as similar as possible to the cash flows expected in the coming years (in the case of CGU Ostrołęka B, projections were extended to consider the negative effect of the termination of support in the form green certificates).

Wind farms ("CGU Karcino, Karścino, Bystra, Myślino, Parsówek")

The impairment tests for the wind farms were conducted as at 31 May 2016. The value in use was calculated on the basis of financial projections for the full useful life period of the wind farms, that is 25 years. The discount rates at the pre-tax weighted-average cost of capital (WACC) used for calculation fell within the range from 6.76% to 7.52% (6.13% after tax).

Based on the results of the tests, the Group has found no need to recognize impairment losses on the wind farms in the amount of PLN 324 m. The tests have also shown the necessity to write down the entire goodwill coming from the acquisition of the wind farm portfolio in 2013, in the amount of PLN 117 m.

Wind projects

The impairment tests for the wind farms were conducted as at 31 May 2016. The value in use was calculated for 4 wind projects on the basis of financial projections for the full useful life period of the projected farms, that is 25 years, assuming that the auction system comes into effect. The discount rates at the pre-tax weighted-average cost of capital (WACC) used for calculation fell within the range from 7.03% to 8.29%. Based on the results of the tests, the Group has found no need to recognize impairment losses on the tested wind projects in the amount of PLN 14 m.

Moreover, after the Act on wind farm investments came into effect and the minimum distance between a wind farm and residential buildings was introduced, it was determined that the remaining wind projects cannot be executed. Accordingly, an impairment loss was recognized for these projects in the amount of PLN 68 m.

After impairment losses, the value of the projected wind farms amounts to PLN 11.9 m.

Ostrołęka B Power Plant ("CGU Ostrołęka B")

The impairment test for CGU Ostrołęka B was conducted as at 31 March 2016. The value in use was calculated on the basis of financial projections for the period of April 2016 - December 2023 and residual value. To calculate value in use of CGU Ostrołęka B, a discount rate was applied, which was equal to the weighted average cost of capital (WACC) at 6.91% (6.49% after tax). The growth rate used to extrapolate cash flow projections beyond the period covered by detailed planning was adopted at the level of 2.0% which does not exceed the average long-term inflation growth rates in Poland.

Based on the results of the test, the Group has found no need to change the impairment losses on CGU Ostrołęka B.

11. Impairment tests for property, plant and equipment and goodwill (cont.)**Photovoltaic farms ("CGU PV Delta, PV Czernikowo")**

The impairment tests for the photovoltaic farms were conducted as at 31 March 2016. The value in use was calculated on the basis of financial projections for the full useful life period of the farms, that is 25 years. The discount rates at the pre-tax weighted-average cost of capital (WACC) used for calculation fell within the range from 6.69% to 6.71% (5.73% after tax).

Based on the results of the tests, the Group has found no need to recognize impairment losses on the photovoltaic farms in the amount of PLN 11.2 m.

Sensitivity analysis

The estimated impact of the change of selected parameters on the overall valuation of the above-mentioned assets is presented below. The sensitivity analyses show that the factors with the highest impact on the estimated value in use of the above CGUs are: electricity prices, coal prices and discount rates. In case of their negative change, impairment losses may have to be recognized for the total amount specified below.

The sensitivity analysis takes into account the change of the factors over the entire forecast period.

Parameter	Amount and direction of change	Impact on overall appraisal value of tested CGUs [PLN m]		Change in impairment loss amount [PLN m]
		Increase in value	Decrease in value	
Discount rates	[+ 0.5 p.p.]	-	(80)	20
	[- 0.5 p.p.]	94	-	(21)
Electricity prices	[+ 1%]	89	-	(9)
	[- 1%]	-	(94)	92
Coal prices	[+ 1%]	-	(35)	35
	[- 1%]	35	-	-

If market conditions change, there is a risk that test results will be different in the future.

12. Cash and cash equivalents

Cash in the bank earns interest at variable interest rates negotiated with banks, the level of which depends on the interest rate applicable to overnight bank deposits. Short-term deposits are made for different periods, from one day to three months, depending on the Group's current cash requirements and earn interest at interest rates negotiated individually with banks.

The balance of cash and cash equivalents presented in the statement of cash flows comprises the following items:

	As at 30 September 2016 (unaudited)	As at 30 September 2015 (unaudited)
Cash at bank and in hand	289	702
Short-term deposits up to 3 months	108	857
Total cash and cash equivalents presented in the statement of financial position	397	1,559
Unrealized foreign exchange differences and interest	3	1
Current account overdraft	(7)	(61)
Total cash and cash equivalents presented in the statement of cash flows	393	1,499
<i>including restricted cash</i>	-	-

13. Earnings per share

There were no diluting instruments in the Parent Company and therefore diluted earnings per share are equal to basic earnings per share. The data used to calculate earnings per share are presented below.

	9-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2015 (unaudited)
Net profit or loss on continuing operations attributable to equity holders of the Parent Company	71	696
Net profit or loss on discontinued operations attributable to equity holders of the Parent Company	-	-
Net profit or loss attributable to common equity holders of the Parent Company	71	696
Number of shares at the end of the reporting period (millions)	414	414
Number of shares used to calculate earnings per share (millions)	414	414
Earnings or loss per share on continuing operations (basic and diluted) (in PLN)	0.17	1.68
Earnings or loss per share on discontinued operations (basic and diluted) (in PLN)	0.00	0.00

14. Dividends

	9-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2015 (unaudited)
Dividends declared in the period		
dividend declared by subsidiaries	-	-
dividend declared by the Parent Company	203	596
TOTAL	203	596
Dividends paid in the period		
dividends paid in the period by subsidiaries to non-controlling shareholders	-	-
dividends paid in the period by the Parent Company	203	596
<i>of which attributable to preferred shares</i>	71	209
TOTAL	203	596

On 24 June 2016, the Annual General Meeting adopted a resolution to distribute the 2015 profit, out of which PLN 203 m, i.e. PLN 0.49 per share, was allocated to a dividend for the Company's shareholders.

15. Provisions

15.1. Provisions for employee benefits

The Group recognizes provisions for post-employment benefits and jubilee bonuses in amounts calculated using actuarial methods. The amount of provisions recognized in these financial statements derives from the projection of provisions as at 30 September 2016, carried out by an independent actuary. The projection was based on the previously calculated amounts of provisions as at 31 December 2015 and based on the main assumptions used as at that date, except the updated discount rate, the expected salary growth rate and the expected growth rate of the energy equivalent. The discount rate used to project the provisions as at 30 September 2016 was assumed at 3.14% (2.88% as at 31 December 2015). The expected salary growth rate was adopted at 3% (4% as at 31 December 2015). The expected growth rate of the energy equivalent was determined on the basis of industry experts' reports from June 2016.

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	Restructuring	TOTAL
As at 1 January 2016	120	223	59	261	2	665
Current service cost	3	1	1	10	-	15
Actuarial gains and losses	(15)	(9)	-	(21)	-	(45)
Benefits paid	(3)	(5)	(2)	(16)	-	(26)
Interest costs	3	5	1	5	-	14
Used	-	-	-	-	(1)	(1)
As at 30 September 2016 (unaudited), of which:	108	215	59	239	1	622
Short-term	5	10	3	18	1	37
Long-term	103	205	56	221	-	585

15. Provisions (cont.)

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	Restructuring	TOTAL
As at 1 January 2015	108	209	71	241	18	647
Current service cost	3	1	2	10	-	16
Actuarial gains and losses	(2)	(5)	(1)	(4)	-	(12)
Benefits paid	(2)	(5)	(2)	(13)	-	(22)
Interest costs	2	5	1	5	-	13
Reversed	(1)	(1)	-	(2)	(6)	(10)
Used	-	-	-	-	(5)	(5)
Transfer from liabilities related to assets classified as held for sale	4	2	1	8	-	15
As at 30 September 2015 (unaudited), of which:	112	206	72	245	7	642
Short-term	3	10	3	18	7	41
Long-term	109	196	69	227	-	601

15.2. Other provisions

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Redemption of certificates	Other provisions	TOTAL
As at 1 January 2016	97	38	33	247	55	470
Interest costs	-	1	-	-	-	1
Recognized	13	21	31	539	40	644
Reversed	(12)	(1)	-	-	(1)	(14)
Used	(2)	-	(36)	(251)	(37)	(326)
As at 30 September 2016 (unaudited), of which:	96	59	28	535	57	775
Short-term	96	-	28	535	57	716
Long-term	-	59	-	-	-	59

	Legal claims	Land reclamation and liquidation costs	Liabilities for gas emissions	Redemption of certificates	Other provisions	TOTAL
As at 1 January 2015	83	36	40	154	46	359
Interest costs	-	1	-	-	-	1
Recognized	14	2	26	464	40	546
Reversed	(15)	(1)	-	(2)	(1)	(19)
Used	(1)	-	(40)	(142)	(35)	(218)
As at 30 September 2015 (unaudited), of which:	81	38	26	474	50	669
Short-term	81	-	26	474	50	631
Long-term	-	38	-	-	-	38

NOTES ON FINANCIAL INSTRUMENTS

16. Financial instruments

16.1. Carrying value of financial instruments by category and class

As at 30 September 2016 (unaudited)	Financial assets at fair value through profit or loss	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IAS 39	TOTAL
Assets							
Trade receivables	-	1,890	-	-	-	-	1,890
Portfolio of financial assets	2	-	-	-	-	-	2
Cash and cash equivalents	-	-	397	-	-	-	397
Other financial assets	-	78	-	-	94	-	172
Bonds, treasury bills and other debt instruments	-	19	-	-	-	-	19
Derivative financial instruments	-	-	-	-	94	-	94
Other	-	59	-	-	-	-	59
TOTAL	2	1,968	397	-	94	-	2,461
Liabilities							
Loans and borrowings	-	-	-	2,536	-	-	2,536
Preferential loans and borrowings	-	-	-	1,506	-	-	1,506
Loans and borrowings	-	-	-	1,023	-	-	1,023
Current account overdraft	-	-	-	7	-	-	7
Bonds issued	-	-	-	2,642	-	-	2,642
Trade payables	-	-	-	650	-	-	650
Other financial liabilities	-	-	-	128	-	18	146
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	-	111	-	-	111
Derivative financial instruments	-	-	-	-	-	-	-
Other	-	-	-	17	-	18	35
TOTAL	-	-	-	5,956	-	18	5,974

16. Financial instruments (cont.)

As at 31 December 2015	Financial assets at fair value through profit or loss	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IAS 39	TOTAL
Assets							
Trade receivables	-	1,762	-	-	-	-	1,762
Portfolio of financial assets	322	-	-	-	-	-	322
Cash and cash equivalents	-	-	1,669	-	-	-	1,669
Other financial assets	-	58	-	-	40	-	98
Bonds, treasury bills and other debt instruments	-	19	-	-	-	-	19
Derivative financial instruments	-	-	-	-	40	-	40
Other	-	39	-	-	-	-	39
TOTAL	322	1,820	1,669	-	40	-	3,851
Liabilities							
Loans and borrowings	-	-	-	2,678	-	-	2,678
Preferential loans and borrowings	-	-	-	1,550	-	-	1,550
Loans and borrowings	-	-	-	1,116	-	-	1,116
Current account overdraft	-	-	-	12	-	-	12
Bonds issued	-	-	-	3,192	-	-	3,192
Trade payables	-	-	-	877	-	-	877
Other financial liabilities	-	-	-	186	8	24	218
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	-	155	-	-	155
Derivative financial instruments	-	-	-	-	8	-	8
Other	-	-	-	31	-	24	55
TOTAL	-	-	-	6,933	8	24	6,965

16. Financial instruments (cont.)**16.2. Fair value of financial instruments****Financial instruments measured at fair value on an ongoing basis**

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period.

The table below analyses fair value measurements for financial assets and financial liabilities categorized into three level hierarchy:

- level 1 – fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- level 2 – fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3 – fair value based on unobservable inputs for the asset or liability.

	30 September 2016 (unaudited)	31 December 2015
	Level 2	Level 2
Assets		
Portfolio of financial assets	2	322
Hedging derivatives (CCIRS I)	87	38
Hedging derivatives (CCIRS II)	5	2
Hedging derivatives (IRS)	2	-
Liabilities		
Hedging derivatives (IRS)	-	8

The Group measures participation units in the ENERGA Trading SFIO fund as the product of their quantity and the value of a single participation unit, as measured by the fund management company pursuant to the Mutual Funds Act of 27 May 2004.

Cross Currency Interest Rate Swaps (CCIRSs) and Interest Rate Swaps (IRSs) are measured at fair value by discounting future cash flows. The interest rates and the basis spread used in discounting are obtained from Bloomberg.

Financial instruments not measured at fair value on an ongoing basis

Except for the information given in the table below, the carrying amounts of financial assets and liabilities do not depart in a material way from their fair values.

Liabilities arising from the issue of Eurobonds	Carrying amount	Fair value Level 1
As at 30 September 2016 (unaudited)	2,185	2,364
As at 31 December 2015	2,176	2,266

Fair value of liabilities arising from the issue of Eurobonds has been estimated on the basis of quotations from the Bloomberg system from 30 September 2016.

For non-listed shares and debt securities there is no active market, nor is it possible to apply to them any other valuation techniques providing reasonable output values, therefore the Group is not able to determine the range of their possible fair values. These assets are measured at purchase price less impairment losses.

16.3. ENERGA Trading SFIO fund

The Group has been investing in a portfolio of assets financed through the Fund in which it has 100% participation units.

The Fund has been established to manage financial surpluses of ENERGA SA Group companies and is an alternative to bank deposits, even overnight deposits. The fund is high liquidity and low risk. Mechanisms embedded in the fund settlement system offer the redemption of Fund units to cash on the same or the next business day. Additionally, ENERGA SA Group companies may offset their mutual receivables and liabilities using the units in the Fund.

The Group classifies the following assets within the Fund portfolio structure:

- treasury bills and bonds,
- corporate debt instruments – financial sector,
- corporate debt instruments – non-financial sector,
- bonds issued by Bank Gospodarstwa Krajowego,
- mortgage bonds,
- municipal bonds,
- other.

16. Financial instruments (cont.)

The following table presents the structure of the Fund's assets at the end of the reporting period and comparative periods. The table does not include the Fund's liabilities and accordingly cannot be reconciled to the statement of financial position.

	As at 30 September 2016 (unaudited)	As at 31 December 2015
Treasury bills and bonds	2	115
Corporate debt instruments – financial sector	-	51
Corporate debt instruments – non-financial sector	-	29
Bonds issued by Bank Gospodarstwa Krajowego	-	47
Mortgage bonds	-	63
Municipal bonds	-	17
TOTAL	2	322

16.4. Financial liabilities

All of the Group's financial liabilities are classified as financial liabilities measured at amortized cost, except for hedging derivatives. This category of the Group's financial instruments includes primarily contracted loans and borrowings and issued bonds.

Loans and borrowings

	As at 30 September 2016 (unaudited)	As at 31 December 2015
Currency	PLN	
Reference rate	WIBOR, Rediscount rate	
Value of the loan/borrowing	2,536	2,678
Of which maturing in:		
up to 1 year (short-term)	233	203
1 to 2 years	263	223
2 to 3 years	278	259
3 to 5 years	559	561
over 5 years	1,203	1,432

As at 30 September 2016 and 31 December 2015, the amount of credit limits available to the Group was PLN 4,382 m (58.5% used) and PLN 4,763 m (57.4% used) respectively.

Detailed information on contracted loans and borrowings is presented in Note 16.5.

Liabilities under bonds issued

	As at 30 September 2016 (unaudited)	As at 31 December 2015
Currency	PLN	
Reference rate	WIBOR	
Value of the issue	457	1,016
of which maturing in:		
up to 1 year (short-term)	15	16
3 to 5 years	442	1,000

16. Financial instruments (cont.)

	As at 30 September 2016 (unaudited)	As at 31 December 2015
Currency	EUR	
Reference rate	fixed	
Value of the issue		
in currency	507	511
in PLN	2,185	2,176
of which maturing in:		
up to 1 year (short-term)	44	60
3 to 5 years	2,141	2,116

Detailed information on bonds issued is provided in Note 16.5.

16.5. Available external financing

In the current reporting period and as at the last day of the reporting period and as at the date of approving these financial statements for publication, there were no events of default on contractual obligations under the terms and conditions of any external funding acquired.

Loans to finance the investment program at ENERGA-OPERATOR SA for the years 2009-2012

In the years 2009-2010 ENERGA SA together with its subsidiary ENERGA-OPERATOR SA entered into loan agreements to finance the investment programme of ENERGA-OPERATOR SA for the period 2009-2012 associated with the redevelopment and modernization of the distribution grid:

- agreement with the European Investment Bank ("EIB") with the limit of up to PLN 1,050 m;
- agreement with the European Bank for Reconstruction and Development ("EBRD") with the limit of up to PLN 800 m;
- agreement with the Nordic Investment Bank ("NIB") with the limit of up to PLN 200 m.

The above funding has been fully utilized and the following amounts are still outstanding and remain to be repaid:

- EIB – PLN 741 m with final maturity of 15 December 2025,
- EBRD – PLN 480 m with final maturity of 18 December 2024,
- NIB – PLN 124 m with final maturity of 15 June 2022.

In 2014, ENERGA SA with ENERGA-OPERATOR SA and EBRD amended the above loan agreement, as a result of which, among others, the available loan amount increased by PLN 276 m and is to be used to fund ENERGA-OPERATOR SA's capital expenditures, with the funds available for disbursement by the end of 2016.

As at 30 September 2016, the amount of additional financing available by the end of 2016 under the EBRD agreement and not yet disbursed was PLN 276 m.

Loans to finance the investment program at ENERGA-OPERATOR SA for the years 2012-2015

In 2013, ENERGA SA together with its subsidiary ENERGA-OPERATOR SA entered into loan agreements to finance the investment programme of ENERGA-OPERATOR SA for the period 2012-2015 associated with the redevelopment and modernization of the distribution grid:

- agreement with EBRD with a limit of PLN 800 m – as at 30 September 2016, PLN 312 m of the loan has been utilized. PLN 460 m remains available; the funds may be disbursed by the end of 2016. The final maturity of the loan is 18 December 2024;
- agreement with EIB with a limit of PLN 1,000 m – as at 30 September 2016, PLN 800 m of the loan has been utilized. PLN 200 m remains available; the funds may be disbursed by 10 December 2016. The final maturity of the drawn loan is 15 March 2030.

Eurobond issue program

As part of the Euro Medium Term Note (EMTN) issue program launched in 2012 for up to EUR 1,000 m, on 19 March 2013, the subsidiary Energa Finance AB (publ) conducted the first issue of Eurobonds in the amount of EUR 500 m. The first issue includes Eurobonds with a 7-year maturity paying an annual coupon of 3.25%. The Eurobonds are listed on the Luxembourg exchange.

Domestic bond issue

In 2012 a domestic bond issue program for up to PLN 4,000 m was established. As part of the program, on 19 October 2012 ENERGA SA issued 7-year bonds for the total amount of PLN 1,000 m. Since 29 January 2014, the bonds issued by ENERGA SA have been listed on the regulated market run by BondSpot S.A. As at 30 September 2016, the value of bonds subscribed by external investors was PLN 442 m.

Loans from PKO Bank Polski SA

ENERGA SA entered into the following loan agreements with PKO Bank Polski SA:

- master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries with a total limit of PLN 150 m. As at 30 September 2016, the total available financing limit was PLN 4 m, out of which PLN 4 m had been used, including PLN 1 m in the form of bank guarantees. The limit expired on 30 August 2016.
- master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries with a total limit of PLN 200 m. As at 30 September 2016, the total available financing limit was PLN 116 m, out of which PLN 78 m had been used, all in the form of bank guarantees. The limit will expire on 19 September 2017.

16. Financial instruments (cont.)

- agreement for arranging loans for ENERGA SA with a total limit of PLN 300 m. As at 30 September 2016, the financing has not been used. The limit will expire on 7 June 2021.

Loans from Bank Pekao SA

ENERGA SA entered into the following loan agreements with Bank Pekao SA:

- renewable loan agreement with a limit of PLN 500 m. As at 30 September 2016, the financing has not been used. The final maturity of the loan is 29 May 2020;
- loan agreement in the amount of PLN 85 m to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka SA in connection with the implementation of the investment program of the company. The aggregate use of the loan as at 30 September 2016 was PLN 22 m. The final maturity of the loan is 29 May 2022.

Bonds issue through PKO Bank Polski SA

In 2012, ENERGA SA concluded with PKO Bank Polski SA a bond issue agreement where the funds raised under the agreement were to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka SA in connection with the implementation of the investment program. The bonds may only be issued as short-term securities. As at 30 September 2016, no bond issue has been carried out under the agreement. As at 30 September 2016, PLN 69 m was available under the bond issue agreement.

NIB loan

On 23 October 2014, ENERGA SA signed an investment loan agreement with NIB in the amount of PLN 67 m to finance the Myślino wind farm construction project. The aggregate use of the loan as at 30 September 2016 was PLN 63 m. The final maturity of the loan is 15 September 2026.

16.6. Cash flow hedge accounting**FX risk hedging**

The special purpose vehicle ENERGA Finance AB (publ) (the issuer of Eurobonds – see description in Note 16.5) and ENERGA SA signed two loan agreements denominated in EUR for the total amount of EUR 499 m. In order to hedge currency risk under these loans, in 2013 and in July 2014, the Group concluded cross-currency interest rate swap transactions with nominal values of EUR 400 m (CCIRS I) and EUR 25 m (CCIRS II), respectively.

As a hedged position under the above hedging relationships the Group designated the foreign currency risk arising from intra-group loans denominated in EUR. The foreign currency risk is hedged at the level of 85% of the total nominal amount of loans.

As the hedge the Group designated CCIRS transactions under which the Group receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN. Cash flows received by the Group correspond with the cash flows under the intra-group loans. The Group expects that the hedged cash flows will continue until March 2020.

Interest rate risk hedging

In January 2016, the Group concluded interest rate swap transactions to hedge the interest rate risk arising from the financing used under (see description in note 16.5):

- loan agreement concluded with EIB in 2013 – PLN 200 m;
- loan agreement concluded with EBRD in 2010 – PLN 200 m.

In August 2016, the Group additionally concluded IRS transactions with similar characteristics for the following:

- loan agreement concluded with EBRD in 2010 – PLN 150 m;
- loan agreement concluded with EBRD in 2013 – PLN 150 m;
- loan agreement concluded with EIB in 2013 – PLN 150 m.

As hedged positions under hedging relationships, the Group designated the risk related to the WIBOR 3M interest rate arising from interest payments on the financial liabilities stated above in the period no longer than 2 years from the date of the hedging transactions. In the case of the PLN 150 m transaction pertaining to the 2013 EIB loan agreement, this is a four-year period.

As the hedge the Group designated the IRS transactions under which the Group receives floating-rate cash flows in PLN and pays fixed-rate cash flows in PLN. Interest cash flows received by the Group correspond with interest cash flows under the hedged financial liabilities. The Group expects that the hedged cash flows will continue until June 2020 and not longer.

Additionally, the IRS transactions concluded in June 2014 expired in June 2016. They previously hedged the interest rate risk arising from the financing used in the amount of PLN 1,940 m.

16. Financial instruments (cont.)**Fair value of hedges**

The fair value of hedges was:

	Value	Recognition in the statement of financial position
As at 30 September 2016 (unaudited)		
CCIRS I	87	Non-current assets – Other financial assets
CCIRS II	5	Non-current assets – Other financial assets
IRS	2	Non-current assets – Other financial assets
As at 31 December 2015		
CCIRS I	38	Non-current assets – Other financial assets
CCIRS II	2	Non-current assets – Other financial assets
IRS	8	Equity and liabilities – Other non-current financial liabilities

Under cash flow hedge accounting, the cash flow hedge reserve (the effective portion of changes in the value of the hedge, less deferred tax) increased in the reporting period by PLN 25 m.

The table below presents changes in the cash flow hedge reserve resulting from the hedge accounting in the reporting period:

Change in cash flow hedge reserve during the reporting period	9-month period ended 30 September 2016 (unaudited)	9-month period Ended 30 September 2015 (unaudited)
At the beginning of the reporting period	6	(17)
Amount recognized in the cash flow hedge reserve in the period, equal to the change in the fair value of hedging instruments	58	38
Accrued interest transferred from the reserve to financial income/costs	(6)	(6)
Revaluation of hedging instruments transferred from the reserve to financial income/costs	(21)	10
Income tax on other comprehensive income	(6)	(8)
At the end of the reporting period	31	17

As at 30 September 2016, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

16.7. Liability repayment collateral

At the end of the reporting period, assets with the following carrying amounts constituted collateral securing the repayment of actual or contingent liabilities:

Group of assets on which collateral was established	Carrying value of assets securing repayment of liabilities	
	As at 30 September 2016 (unaudited)	As at 31 December 2015
Property, plant and equipment	-	42
Cash	9	82
TOTAL	9	124

OTHER NOTES**17. Investment commitments**

At the end of the reporting period, the Group's commitments to incur expenditures for the purchase of property, plant and equipment and intangible non-current assets, which have not yet been included in the statement of financial position, were about PLN 3,910 m, of which:

- undertakings covered by the development plan of ENERGA-OPERATOR SA to satisfy the current and future demand for electricity in the years 2015-2019 (agreed upon with the President of the Energy Regulatory Office) – approx. 3,614 m;
- undertakings executed in the Ostrołęka Power Plant (modernization of power units, construction of an installation for denitrifying exhaust fumes) – approx. PLN 124 m;
- execution of the Przykona Wind Farm project – approx. PLN 138 m;
- gas-steam power plants in Grudziądz and Gdańsk – approx. PLN 34 m.

18. Information on related entities

Transactions with related entities are made based on market prices of goods, products or services delivered resulting from their manufacturing costs.

18.1. Transactions involving entities related to the State Treasury

The Group's controlling entity is the State Treasury. Accordingly, other entities related to the State Treasury are treated by the Group as related entities.

Transactions with entities related to the State Treasury were concluded in regular business dealings and pertained mainly to the purchase and sale of electricity and property rights, sale of electricity distribution services (including transit), settlements with the transmission system operator in the balancing market, for transmission services, system services and intervention work services and the purchase and transportation of fuel (mainly coal). The Group does not keep records that would allow it to aggregate the value of all transactions concluded with all state institutions and with subsidiaries of the State Treasury.

18.2. Transactions with associates

In the period from the acquisition to the end of the current reporting period, the total value of purchases from the associate Polska Grupa Górnicza Sp. z o.o. was PLN 13 m, while sales in the corresponding period was PLN 8 m. The value of receivables as at 30 September 2016 is PLN 20 m.

18.3. Transactions with Parent Company's Management Board members

During the reporting period, the Parent Company did not conclude material transactions with Management Board members.

18.4. Compensation paid or due to key management and Supervisory Boards of Group companies

	9-month period ended 30 September 2016 (unaudited)	9-month period ended 30 September 2015 (unaudited)
Management Board of the parent company	4	2
Supervisory Board of the parent company	<1	<1
Management Boards of subsidiaries	24	25
Supervisory Boards of subsidiaries	1	<1
Other key management	13	15
TOTAL	42	42

19. Contingent assets and liabilities**19.1. Contingent liabilities**

As at 30 September 2016, the Group recognizes contingent liabilities of PLN 241 m (PLN 217 m as at 31 December 2015), including mainly the contingent liabilities relating to disputes involving ENERGA SA Group companies, where a victory by the company is probable and no provision has been recognized for these cases.

The largest contingent liability item consists of disputes relating to power infrastructure of ENERGA-OPERATOR SA where it is located on private land. The Group recognizes provisions for reported legal claims. If there is uncertainty whether a claim amount or legal title to land is justified, the Group recognizes contingent liabilities. As at 30 September 2016, the estimated value of those claims recognized as contingent liabilities is PLN 198 m, compared with PLN 164 m on 31 December 2015.

19.2. Contingent assets

At the end of the reporting period there were no significant contingent assets.

20. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group**20.1. Dispute with PKN ORLEN S.A.**

On 27 October 2014, the District Court in Warsaw announced its judgment in the case filed by ENERGA-OPERATOR SA against PKN ORLEN S.A. ("PKN") to pay PLN 46.2 m following a re-examination of the case. The court awarded ENERGA-OPERATOR SA the full amount of the claim pursued in the lawsuit, that is PLN 46.2 m, with interest calculated for the period from 30 June 2004. PKN filed an appeal against the judgment. On 19 April 2016, the Appellate Court in Warsaw handed down a judgment, awarding PLN 32 m to ENERGA-OPERATOR (PLN 16 m of the main receivable and PLN 16 m of interest). On 29 September 2016, ENERGA-OPERATOR filed a cassation appeal with the Supreme Court.

21. Subsequent events

After the final day of the reporting period, there were no material events.

Signatures of Management Board Members and persons responsible for the accounts of the ENERGA SA Group:

Dariusz Kaśków

President of the Management Board

Mariusz Rędaszka

Vice-President of the Management Board for Financial Matters

Grzegorz Ksepko

Vice-President of the Management Board for Corporate Matters

Mariola Zmudzińska

Vice-President of the Management Board for Investor Relations

Przemysław Piesiewicz

Vice-President of the Management Board for Development Strategy

Marek Pertkiewicz

Deputy Director of the Finance Department

Karol Jacewicz

Director of the Financial Reporting Unit
Chief Accountant

Gdańsk, 14 November 2016