# ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA CAPITAL GROUP

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2018

(*This is a translation of the document issued originally in Polish language.*
*The Polish original should be referred to in matters of interpretation.)*

14 November 2018

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# CONSOLIDATED STATEMENT OF PROFIT AND LOSS

***For the period of 9 months ended 30 September 2018***

| | Note | *9 months period ended 30 September 2018 (unaudited)* | *3 months period ended 30 September 2018 (unaudited)* | *9 months period ended 30 September 2017 (unaudited)* | *3 months period ended 30 September 2017 (unaudited)* |
|---|---|---|---|---|---|
| **Continuing operation** | | | | | |
| **Sales revenue** | *12.1* | **1 623 410** | **640 570** | **1 813 089** | **635 533** |
| Cost of goods sold | *12.6* | (1 564 308) | (622 369) | (1 490 059) | (511 085) |
| **Gross profit / (loss)** | | **59 102** | **18 201** | **323 030** | **124 448** |
| Other operating revenues | *12.2* | 5 890 | 1 724 | 11 375 | 1 923 |
| Selling and distribution expenses | *12.6* | (3 009) | (967) | (3 113) | (911) |
| Administrative expenses | *12.6* | (92 168) | (27 376) | (90 467) | (33 928) |
| Other operating expenses | *12.3* | (3 436) | (566) | (3 064) | (1 074) |
| **Gross profit / (loss) from operations** | | **(33 621)** | **(8 984)** | **237 761** | **90 458** |
| Financial income | *12.4* | 6 176 | 646 | 10 721 | (2 850) |
| Financial costs | *12.5* | (29 642) | (4 154) | (35 890) | (9 513) |
| **Profit / (loss) before tax** | | **(57 087)** | **(12 492)** | **212 592** | **78 095** |
| Income tax expense (taxation) | *14.1* | (5 639) | 1 778 | (42 616) | (12 495) |
| **Net profit / (loss) for the period from continuing operations** | | **(62 726)** | **(10 714)** | **169 976** | **65 600** |
| **Discontinued operations** | | | | | |
| Profit/ (loss) for the period from discontinued operations | | - | - | - | - |
| **Net profit / (loss) for the period** | | **(62 726)** | **(10 714)** | **169 976** | **65 600** |
| Net profit/ (loss) attributable to equity holders of the parent | | (62 087) | (10 830) | 169 368 | 65 996 |
| Net profit/ (loss) attributable to non-controlling interests | | (639) | 116 | 608 | (396) |

| *Adam Klapszta /President of the Board/* | *Aneta Lato-Żuchowska /Vice President of the Board/* | *Zygmunt Artwik / Vice President of the Board /* | *Elżbieta Niebisz / Vice President of the Board /* | *Marcin Ginel / Vice President of the Board /* | *Aneta Desecka /Chief Accountant/* |
|---|---|---|---|---|---|

| | | *9 months period ended* | *3 months period ended* | *9 months period ended* | *3 months period ended* |
|---|---|---|---|---|---|
| | | *30 September 2018 (unaudited)* | *30 September 2018 (unaudited)* | *30 September 2017 (unaudited)* | *30 September 2017 (unaudited)* |
| **Profit / loss per share (in PLN):** | *Note* | | | | |
| Basic, for profit for the period attributable to equity holders of the parent | *15* | (1,22) | (0,21) | 3,33 | 1,30 |
| Basic, for profit for the period from continuing operations attributable to equity holders of the parent | *15* | (1,22) | (0,21) | 3,33 | 1,30 |
| Diluted, for profit for the period attributable to equity holders of the parent | *15* | (1,22) | (0,21) | 3,33 | 1,30 |
| Diluted, for profit for the period from continuing operations attributable to equity holders of the parent | *15* | (1,22) | (0,21) | 3,33 | 1,30 |

| | | | | | |
|---|---|---|---|---|---|
| *Adam Kłapszta* | *Aneta Lato-Żuchowska* | *Zygmunt Artwik* | *Elżbieta Niebisz* | *Marcin Ginel* | *Aneta Desecka* |
| */President of the Board/* | */Vice President of the Board/* | */ Vice President of the Board /* | */ Vice President of the Board /* | */ Vice President of the Board /* | */Chief Accountant/* |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

***For the period of 9 months ended 30 September 2018***

| | Note | *9 months period ended* *30 September 2018 (unaudited)* | *3 months period ended* *30 September 2018 (unaudited)* | *9 months period ended* *30 September 2017 (unaudited)* | *3 months period ended* *30 September 2017 (unaudited)* |
|---|---|---|---|---|---|
| **Net profit / (loss) for the period** | | **(62 726)** | **(10 714)** | **169 976** | **65 600** |
| **Other comprehensive income** | | | | | |
| *Items to be reclassified to the profit / (loss) in subsequent reporting periods:* | | | | | |
| Cash flow hedges | *13* | 2 247 | 687 | 4 236 | 1 043 |
| Income tax on other comprehensive income | *14.1, 13* | (427) | (130) | (805) | (198) |
| Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods | | 1 820 | 557 | 3 431 | 845 |
| *Items not to be reclassified to the profit / (loss) in subsequent reporting periods:* | | | | | |
| Profits / (losses) on provisions for post-employment | *13* | (1 372) | (856) | (728) | (386) |
| Income tax on other comprehensive income | *14.1, 13* | 261 | 163 | 138 | 73 |
| Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods | | (1 111) | (693) | (590) | (313) |
| **Net other comprehensive income** | | **709** | **(136)** | **2 841** | **532** |
| **Comprehensive income for the period** | | **(62 017)** | **(10 850)** | **172 817** | **66 132** |
| Comprehensive income attributable to equity holders of the parent | | (61 378) | (10 966) | 172 209 | 66 528 |
| Comprehensive income attributable to non-controlling holders | | (639) | 116 | 608 | (396) |

| | | | | | |
|---|---|---|---|---|---|
| *Adam Klapszta* | *Aneta Lato-Żuchowska* | *Zygmunt Artwik* | *Elżbieta Niebisz* | *Marcin Ginel* | *Aneta Desecka* |
| */President of the Board/* | */Vice President of the Board/* | */ Vice President of the Board /* | */ Vice President of the Board /* | */ Vice President of the Board /* | */Chief Accountant/* |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITON

***As at 30 September 2018***

| | *Note* | *30 September 2018 (unaudited)* | *31 December 2017 (transformed data)* | *31 December 2016 (transformed data)* |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Fixed assets** | | | | |
| Property, plant and equipment | *16* | 3 197 907 | 3 284 503 | 3 394 914 |
| Investment property | | 2 365 | 2 365 | 2 337 |
| Intangible assets | *18* | 3 532 | 6 679 | 119 282 |
| Assets of removing overburden and other mining assets (long-term) | *19* | 81 882 | 72 536 | 80 524 |
| Other long-term financial assets | *20.1* | 31 862 | 10 311 | 11 945 |
| Other long-term non-financial assets | *20.2* | 1 233 | 2 122 | 5 726 |
| Deferred tax assets | *14.2* | 73 980 | 72 928 | 90 998 |
| **Total fixed assets** | | **3 392 761** | **3 451 444** | **3 705 726** |
| **Current assets** | | | | |
| Short-term intangible assets | *18* | 10 995 | 261 654 | 273 036 |
| Inventories | *21* | 111 467 | 97 758 | 105 296 |
| Trade and other receivables | *22* | 330 815 | 253 261 | 246 025 |
| Income tax receivables | | 362 | 17 731 | 10 227 |
| Short-term financial derivatives (assets) | *28.4* | 325 | - | 296 |
| Other short-term financial assets | *20.1* | 11 554 | 35 788 | 77 317 |
| Other short-term non-financial assets | *20.2* | 28 573 | 11 425 | 28 776 |
| Amounts due from customers under long-term construction contracts | | 9 391 | 7 080 | 8 168 |
| Cash and cash equivalents | *23* | 312 804 | 322 201 | 350 101 |
| **Total current assets** | | **816 286** | **1 006 898** | **1 099 242** |
| Assets classified as held for sale | | 1 017 | 1 038 | - |
| **TOTAL ASSETS** | | **4 210 064** | **4 459 380** | **4 804 968** |

| *Adam Kłapszta /President of the Board/* | *Aneta Lato-Żuchowska /Vice President of the Board/* | *Zygmunt Artwik / Vice President of the Board /* | *Elżbieta Niebisz / Vice President of the Board /* | *Marcin Ginel / Vice President of the Board /* | *Aneta Desecka /Chief Accountant/* |
|---|---|---|---|---|---|

Rules (policies) of accountancy and additional explanatory notes to the consolidated financial statement are its integral part.

| | *Note* | *30 September 2018 (unaudited)* | *31 December 2017 (transformed data)* | *31 December 2016 (transformed data)* |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **Equity** | | | | |
| Share capital | | 101 647 | 101 647 | 101 647 |
| Reserve capital | | 1 124 347 | 1 094 493 | 1 028 647 |
| Revaluation reserve from valuation of hedging instruments | | (858) | (2 678) | (7 084) |
| Other reserve capital | | 3 472 | 3 472 | 3 472 |
| Retained earnings / Accumulated losses | | 933 550 | 847 312 | 732 519 |
| Net profit / (loss) | | (62 087) | 183 243 | 247 674 |
| **Equity attributable to equity holders of the parent** | | **2 100 071** | **2 227 489** | **2 106 875** |
| Equity attributable to non-controlling interests | | - | - | - |
| **Total equity** | | **2 100 071** | **2 227 489** | **2 106 875** |
| **Long-term liabilities** | | | | |
| Interest-bearing loans and borrowings | *25* | 95 446 | 302 465 | 587 851 |
| Long-term employee benefits | | 48 536 | 48 166 | 48 587 |
| Trade liabilities and other long-term financial liabilities | *28.2* | 4 217 | 5 146 | 5 069 |
| Long-term financial derivatives (liabilities) | *28.4* | - | 870 | 4 294 |
| Long-term subsidies | *28.5* | 43 382 | 44 509 | 43 302 |
| Other long-term provisions and accruals | *26* | 406 634 | 398 353 | 352 704 |
| Deferred tax liability | *14.2* | 421 046 | 432 900 | 388 359 |
| **Total long-term liabilities** | | **1 019 261** | **1 232 409** | **1 430 166** |
| **Short-term liabilities** | | | | |
| Trade liabilities and other short-term financial liabilities | *28.1* | 180 374 | 146 416 | 302 662 |
| Current portion of interest-bearing loans and borrowings | *25* | 388 741 | 349 573 | 421 958 |
| Short-term financial derivatives (liabilities) | *28.4* | 1 537 | 4 139 | 5 759 |
| Other non-financial liabilities | *28.3* | 65 715 | 107 387 | 116 431 |
| Current income tax liability | | 5 094 | 1 092 | 166 |
| Short-term employee benefits | | 6 339 | 5 457 | 6 503 |
| Short-term subsidies | *28.6* | 1 504 | 1 507 | 6 670 |
| Amounts due to customers under long-term construction contracts | | 1 207 | 5 626 | 3 990 |
| Other short-term provisions and accruals | *26* | 440 221 | 378 285 | 403 788 |
| **Total short-term liabilities** | | **1 090 732** | **999 482** | **1 267 927** |
| **Total liabilities** | | **2 109 993** | **2 231 891** | **2 698 093** |
| **TOTAL LIABILITIES AND EQUITY** | | **4 210 064** | **4 459 380** | **4 804 968** |

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|---|---|---|---|---|---|
| *Adam Kłapszta /President of the Board/* | *Aneta Lato-Żuchowska /Vice President of the Board/* | *Zygmunt Artwik / Vice President of the Board /* | *Elżbieta Niebisz / Vice President of the Board /* | *Marcin Ginel / Vice President of the Board /* | *Aneta Desecka /Chief Accountant/* |

# CONSOLIDATED STATEMENT OF CASH FLOWS

***For the period of 9 months ended 30 September 2018***

| | *Note* | *Period ended 30 September 2018 (unaudited)* | *Period ended 30 September 2017 (unaudited)* |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit /(loss) before tax | | (57 087) | 212 592 |
| **Adjustments for:** | | | |
| Depreciation and amortization | | 145 055 | 150 904 |
| Interests and shares in profits | | 14 481 | 21 642 |
| (Profit) / loss on foreign exchange differences | | 197 | (6 711) |
| (Profit) / loss on investing activities | | (3 231) | (1 223) |
| (Increase) / decrease in receivables | | (98 016) | 13 767 |
| (Increase) / decrease in inventories | | (13 709) | 6 808 |
| Increase / (decrease) in payables except for loans and borrowings | | (35 124) | (166 313) |
| Change in provisions, prepayments, accruals and employee benefits | | 344 245 | 318 731 |
| Income tax paid | | 3 568 | (7 700) |
| Allowances for emission of $CO_2$ | | (37 281) | (131 295) |
| Other | | 1 790 | (1 352) |
| **Net cash flow from operating activities** | | **264 888** | **409 850** |
| **Cash flow from investing activities** | | | |
| Proceeds from sale of property, plant and equipment and intangible assets | | 5 470 | 1 637 |
| Purchase of property, plant and equipment and intangible assets | | (56 745) | (69 931) |
| Proceeds and expenses relating to other financial assets | | 499 | 37 229 |
| Dividends received | | 93 | 208 |
| Interest received | | 2 | 3 |
| Other | | - | (130) |
| **Net cash flow from investing activities** | | **(50 681)** | **(30 984)** |
| **Cash flow from financing activities** | | | |
| Payment of finance lease liabilities | | (1 190) | (6 691) |
| Proceeds from loans and borrowings and debt securities | | 35 569 | 8 831 |
| Repayment of loans and borrowings and debt securities | | (212 399) | (272 312) |
| Dividend paid | | (30 494) | (65 562) |
| Interest paid | | (16 699) | (22 329) |
| Other | | - | (437) |
| **Net cash flow from financing activities** | | **(225 213)** | **(358 500)** |
| **Net increase / (decrease) in cash and cash equivalent** | | **(11 006)** | **20 366** |
| **Cash and cash equivalents at the beginning of the period** | | **322 570** | **348 647** |
| **Cash and cash equivalents at the end of the period** | *23* | **311 564** | **369 013** |

| *Adam Klapszta /President of the Board/* | *Aneta Lato-Żuchowska /Vice President of the Board/* | *Zygmunt Artwik / Vice President of the Board /* | *Elżbieta Niebisz / Vice President of the Board /* | *Marcin Ginel / Vice President of the Board /* | *Aneta Desecka /Chief Accountant/* |
|---|---|---|---|---|---|

Rules (policies) of accountancy and additional explanatory notes to the consolidated financial statement are its integral part.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

***For the period of 9 months ended 30 September 2018 (unaudited)***

| | *Issued capital* | *Reserve capital* | *Revaluation reserve of financial instruments* | *Other reserve capital* | *Retained earnings / accumulated losses* | *Total* | *Non-controlling interest* | *Total equity* |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2018** | **101 647** | **1 094 493** | **(2 678)** | **3 472** | **1 067 338** | **2 264 272** | **-** | **2 264 272** |
| Error adjustment | - | - | - | - | (36 783) | (36 783) | - | (36 783) |
| Adjustment concerning MSSF 9, 15 | - | - | - | - | (4 338) | (4 338) | - | (4 338) |
| **Data transformed as at 1 January 2018** | **101 647** | **1 094 493** | **(2 678)** | **3 472** | **1 026 217** | **2 223 151** | **-** | **2 223 151** |
| Net profit for the period | - | - | - | - | (62 087) | (62 087) | (639) | (62 726) |
| Total other comprehensive income | - | - | 1 820 | - | (1 111) | 709 | - | 709 |
| **Total income for the period** | **-** | **-** | **1 820** | **-** | **(63 198)** | **(61 378)** | **(639)** | **(62 017)** |
| Distribution of profits from previous years | - | 29 649 | - | - | (29 649) | - | - | - |
| Dividend for the previous years | - | - | - | - | (60 988) | (60 988) | - | (60 988) |
| Distribution of profits from previous years on CSBF | - | - | - | - | (86) | (86) | - | (86) |
| The effect of the 'put' option settlement on the shares of non-controlling interests | - | - | - | - | (639) | (639) | 639 | - |
| Other changes | - | 205 | - | - | (194) | 11 | - | 11 |
| **As at 30 September 2018** | **101 647** | **1 124 347** | **(858)** | **3 472** | **871 463** | **2 100 071** | **-** | **2 100 071** |

| | | | | | |
|---|---|---|---|---|---|
| *Adam Klapszta /President of the Board/* | *Aneta Lato-Żuchowska /Vice President of the Board/* | *Zygmunt Artwik / Vice President of the Board /* | *Elżbieta Niebisz / Vice President of the Board /* | *Marcin Ginel / Vice President of the Board /* | *Aneta Desecka /Chief Accountant/* |

Rules (policies) of accountancy and additional explanatory notes to the consolidated financial statement are its integral part.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

***For the period of 9 months ended 30 September 2017 (transformed data)***

| | *Issued capital* | *Reserve capital* | *Revaluation reserve of financial instruments* | *Other reserve capital* | *Retained earnings / accumulated losses* | *Total* | *Non-controlling interest* | *Total equity* |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2017** | **101 647** | **1 028 647** | **(7 084)** | **3 472** | **1 016 976** | **2 143 658** | **-** | **2 143 658** |
| Error adjustment | - | - | - | - | (36 783) | (36 783) | - | (36 783) |
| **Data transformed as at 1 January 2017** | **101 647** | **1 028 647** | **(7 084)** | **3 472** | **980 193** | **2 106 875** | | **2 106 875** |
| Net profit for the period | - | - | - | - | 169 368 | 169 368 | 608 | 169 976 |
| Total other comprehensive income | - | - | 3 431 | - | (590) | 2 841 | - | 2 841 |
| **Total income for the period** | **-** | **-** | **3 431** | **-** | **168 778** | **172 209** | **608** | **172 817** |
| Distribution of profits from previous years | - | 65 846 | - | - | (65 846) | - | - | - |
| Dividend for previous years | - | - | - | - | (65 560) | (65 560) | - | (65 560) |
| The effect of the 'put' option settlement on the shares of non-controlling interests | - | - | - | - | (29) | (29) | - | (29) |
| Other changes | - | - | - | - | 608 | 608 | (608) | - |
| **As at 30 September 2017 (transformed data)** | **101 647** | **1 094 493** | **(3 653)** | **3 472** | **1 018 144** | **2 214 103** | **-** | **2 214 103** |

| | | | | | |
|---|---|---|---|---|---|
| *Adam Kłapszta /President of the Board/* | *Aneta Lato-Żuchowska /Vice President of the Board/* | *Zygmunt Artwik / Vice President of the Board /* | *Elżbieta Niebisz / Vice President of the Board /* | *Marcin Ginel / Vice President of the Board /* | *Aneta Desecka /Chief Accountant/* |

Rules (policies) of accountancy and additional explanatory notes to the consolidated financial statement are its integral part.

# ADDITIONAL EXPLANATORY NOTES

## 1. General information

The Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin SA ("the Group") consists of Zespół Elektrowni Pątnów – Adamów – Konin SA ("the parent company", "the Company", "ZE PAK SA"), and its subsidiaries (see Note 2).

The interim condensed consolidated financial statements of the group covers a period of 9 months ended 30 September 2018 year and contains comparative data for a period of 9 months ended 30 September 2017 year and data on 31 December 2017. Interim condensed consolidated statement of comprehensive income, the consolidated profit and loss account and the additional explanatory notes provide additional information for the 3 months ended 30 September 2018 year and data comparative studies for a period of 3 months ended 30 September 2017.

The parent company is entered into the Register of Entrepreneurs of the National Court Register kept by the District Court Poznań – Nowe Miasto and Wilda in Poznań, IX Commercial Division of the National Court Register, under the KRS number 0000021374.

The parent company was assigned the statistical number (REGON) 310186795.

The duration of the parent and member companies of the Capital Group is unlimited.

The main activities of the Group are:

1) generation and sale of electricity,
2) generation and sale of heat (steam and hot water),
3) lignite extraction.

These interim condensed consolidated financial statements of the Group for a period of 9 months ended 30 September 2018, was approved by the Board for publication on 14 November 2018 year.

The interim financial result may not fully reflect the achievable financial result for the financial year.

The main shareholder makes the Group affiliated with other entities, in which Zygmunt Solorz holds substantial direct or indirect share

# 2. Composition of the Group

The Group consists of Zespół Elektrowni Pątnów – Adamów – Konin SA and the following subsidiaries:

| Entity | Registered office | Scope of operations | Group's share in the capital in % | |
|---|---|---|---|---|
| | | | As at 30 September 2018 | As at 31 December 2017 |
| Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o. | 62-510 Konin ul. Przemysłowa 158 | Construction and repair services | 100.00% | 100.00% |
| Elektrownia Pątnów II sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | Electric Energy production and distribution from the 464 MW power unit | 100.00% | 100.00%* |
| PAK – Holdco sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | Holding activity | - | 100.00% |
| PAK Infrastruktura sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | General construction of engineering objects, not classified elsewhere | 100.00% | 100.00% |
| PAK Górnictwo sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | Repair and maintenance of machines | 100.00% | 100.00% |
| Energoinwest Serwis sp. z o.o. w likwidacji | 62-510 Konin ul. Spółdzielców 3 | In liquidation | - | 100.00%* |
| PAK Kopalnia Węgla Brunatnego Konin SA | 62-540 Kleczew ul. 600-lecia 9 | Lignite extraction | 97.68%* | 97.63% |
| PAK Kopalnia Węgla Brunatnego Adamów SA | 62-700 Turek Warenka 23 | Lignite extraction | 99.35% | 99.31% |
| Aquakon sp. z o.o. w likwidacji | 62-610 Sompolno Police | In liquidation | 96.20%* | 96.20%* |
| Eko-Surowce sp. z o.o. w likwidacji | 62-540 Kleczew ul. 600-lecia 9 | In liquidation | - | 100.00%* |
| PAK-Volt SA | 00-834 Warszawa ul. Pańska 77/79 | Trade of electricity | 100.00% | 100.00% |
| EL PAK Serwis sp. z o.o. w likwidacji | 62-510 Konin ul. Przemysłowa 158 | In liquidation | - | 100.00%* |
| „PAK Adamów" sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | Buying and selling real estate | 100.00% | 100.00% |

** Entities with partial or total indirect share via other companies from ZE PAK Group*

On August 1st, 2018 there was a merger of Zespół Elektrowni Pątnów-Adamów-Konin SA (acquiring company) and PAK-Holdco Sp. z o.o. (acquired company). There was also a merger of PAK Górnictwo Sp. z o.o. (acquiring company) with Energoinwest Serwis sp. z o.o. in liquidation (acquired company), EL PAK Serwis sp. z o.o. in liquidation (acquired company), and Eko-Surowce sp. z o.o. in liquidation (acquired company).

As of 30 September 2018, the share in the general number of votes held by the Group in subsidiaries is equal to the Group's share in capitals of these subsidiaries.

# 3. Composition of the Management Board of the parent Company

As the day of the report publication, ZE PAK SA Management Board is composed of the following members:

- Adam Kłapszta President of the Board,
- Aneta Lato-Żuchowska Vice President of the Board,
- Zygmunt Artwik Vice President of the Board,
- Elżbieta Niebisz Vice President of the Board,
- Marcin Ginel Vice President of the Board.

On November 13, 2018, the Supervisory Board of ZE PAK SA appointed Mr. Marcin Ginel as the Vice President of the Management Board.

# 4. Basis for development of the interim condensed consolidated financial statement

This interim condensed consolidated financial statement was developed in accordance with the International Accounting Standards no. 34 "Interim Financial Reporting" approved by the EU ("IAS 34").

The interim condensed consolidated financial statement does not include all information and disclosures required in the annual financial statement and should be read together with the consolidated financial statement of the Group for the year concluded on 31 December 2017 authorised for issue on 19 April 2018.

This interim condensed consolidated financial statement was developed according to the historical cost principle, except for the derivatives and other financial instruments.

The balance sheet value of the recognised hedged assets and liabilities is adjusted with fair value changes, which may be attributed to the risk against which such assets and liabilities are hedged

This interim condensed consolidated financial statement is presented in PLN, and all values, unless indicated otherwise, are provided in thousands of PLN.

As at September 30, 2018, the Group's current liabilities exceeded current assets by PLN 274 446 thousand. Taking into account the long-term financial projections indicating the generation of positive cash flows, the consolidated financial statements have been prepared on the assumption that the activities will continue for a period of at least 12 months after the balance sheet date. As at the date of approval of these financial statements, there are no circumstances indicating the continuation of activities of the Group’s companies would be threatened.

In connection with the closure of Adamów Power Plant at ZE PAK SA on January 1, 2018 and as a consequence with reduced coal mining at PAK KWB Adamów SA, the data for III quarters of 2018 and III quarters of 2017 are incomparable. The closing of Adamów Power Plant affected both the level of revenues from sales of energy and the level of operating costs.

# 5. Information on the adjustment of errors from previous years and comparability of data in the financial statements

As at September 30, 2018, the Management Board of the Parent Company made a detailed re-analysis of the legal regulations relating to land reclamation in terms of the need to establish a provision for future costs of damage removal.

As a result of the analysis, it was considered that on September 30, 2018 and in previous years, the Group was under a legal obligation consisting in the necessity of removing damage and reclamation of land used as ash landfills. In the opinion of the Management Board, the fact of creating a given ash storage facility, including incurring necessary expenses for its establishment, causes an obligating event that creates the Group's obligation to remove it in the future, because legal requirements cause that there is an obligation from which the Group cannot withdraw or avoid meeting it. The failure to adopt a provision for restoration of primary status in previous years, despite the existence of such an obligation, meets the definition of error in accordance with IAS 8 para. 43, and its adjustment affects the financial data presented for comparable periods.

As a result, as at December 31, 2017 and December 31, 2016, the Company recognized a provision for liquidation of damage and reclamation of ash storages used by the Group in the amount of discounted reclamation costs to be incurred in the future in the amount of PLN 40,451 thousand, respectively, in correspondence with profits. from previous years and the item of property, plant and equipment to the extent that the obligation to remove and restore the original state concerns an unamortized part of property, plant and equipment (accounting policy regarding the creation of provisions for reclamation have been included in note 8 of this report).

The Group did not transform the previously published consolidated profit and loss accounts and consolidated statement of comprehensive income prepared for 2017 (presented in these interim financial statements), because in the opinion of the Management Board, the described adjustment has no material impact and does not distort comparative data.

At the same time, the Management Board assessed that the impact of the adjustment introduced on the income statement for III quarters of 2018 is immaterial and therefore introduced a change in the comparative data as at January 1, 2017 and December 31, 2017 in the same values as at September 30, 2018.

The total impact of the adjustment on the Group's equity amounted to PLN (36,783) thousand as at September 30, 2018.

***The impact of adjustment on the comparative data:***

***As at 31 December 2017***

| | *31 December 2017* | | |
|---|---|---|---|
| | *Published data* | *Transformed data* | *Adjustment amount* |
| **ASSETS** | | | |
| **Fixed assets** | | | |
| Property, plant and equipment | 3 280 835 | 3 284 503 | 3 668 |
| Investment estates | 2 365 | 2 365 | - |
| Investment property | 6 679 | 6 679 | - |
| Assets of removing overburden and other mining assets (long-term) | 72 536 | 72 536 | - |
| Other long-term financial assets | 10 311 | 10 311 | - |
| Other long-term non-financial assets | 2 122 | 2 122 | - |
| Deferred tax assets | 72 928 | 72 928 | - |
| **Total fixed assets** | **3 447 776** | **3 451 444** | **3 668** |
| **Current assets** | | | |
| Short-term intangible assets | 261 654 | 261 654 | - |
| Inventories | 97 758 | 97 758 | - |
| Trade and other receivables | 253 261 | 253 261 | - |
| Income tax receivables | 17 731 | 17 731 | - |
| Short-term financial derivatives (assets) | - | - | - |
| Other short-term financial assets | 35 788 | 35 788 | - |
| Other short-term non-financial assets | 11 425 | 11 425 | - |
| Amounts due from customers under long-term construction contracts | 7 080 | 7 080 | - |
| Cash and cash equivalents | 322 201 | 322 201 | - |
| **Total current assets** | **1 006 898** | **1 006 898** | **-** |
| Assets classified as held for sale | 1 038 | 1 038 | - |
| **TOTAL ASSETS** | **4 455 712** | **4 459 380** | **3 668** |

| | *31 December 2017* | | |
|---|---|---|---|
| | *Published data* | *Transformed data* | *Adjustment amount* |
| **LIABILITIES AND EQUITY** | | | |
| **Equity** | | | |
| Share capital | 101 647 | 101 647 | - |
| Reserve capital | 1 094 493 | 1 094 493 | - |
| Revaluation reserve from valuation of hedging instruments | (2 678) | (2 678) | - |
| Other reserve capital | 3 472 | 3 472 | - |
| Retained earnings / Accumulated losses | 884 095 | 847 312 | (36 783) |
| Net profit / (loss) | 183 243 | 183 243 | - |
| **Equity attributable to equity holders of the parent** | **2 264 272** | **2 227 489** | **(36 783)** |
| Equity attributable to non-controlling interests | - | - | - |
| **Total equity** | **2 264 272** | **2 227 489** | **(36 783)** |

| | | | |
|---|---|---|---|
| **Long-term liabilities** | | | |
| Interest-bearing loans and borrowings | 302 465 | 302 465 | - |
| Long-term employee benefits | 48 166 | 48 166 | - |
| Trade liabilities and other long-term financial liabilities | 5 146 | 5 146 | - |
| Long-term financial derivatives (liabilities) | 870 | 870 | - |
| Long-term subsidies | 44 509 | 44 509 | - |
| Other long-term provisions and accruals | 357 902 | 398 353 | 40 451 |
| Deferred tax liability | 432 900 | 432 900 | - |
| **Total long-term liabilities** | **1 191 958** | **1 232 409** | **40 451** |
| **Short-term liabilities** | | | |
| Trade liabilities and other short-term financial liabilities | 146 416 | 146 416 | - |
| Current portion of interest-bearing loans and borrowings | 349 573 | 349 573 | - |
| Short-term financial derivatives (liabilities) | 4 139 | 4 139 | - |
| Other non-financial liabilities | 107 387 | 107 387 | - |
| Current income tax liability | 1 092 | 1 092 | - |
| Short-term employee benefits | 5 457 | 5 457 | - |
| Short-term subsidies | 1 507 | 1 507 | - |
| Amounts due to customers under long-term construction contracts | 5 626 | 5 626 | - |
| Other short-term provisions and accruals | 378 285 | 378 285 | - |
| **Total short-term liabilities** | **999 482** | **999 482** | **-** |
| **Total liabilities** | **2 191 440** | **2 231 891** | **40 451** |
| **TOTAL LIABILITIES AND EQUITY** | **4 455 712** | **4 459 380** | **3 668** |

### *As at 31 December 2016*

| | *31 December 2016* | | |
|---|---|---|---|
| | *Published data* | *Transformed data* | *Adjustment amount* |
| **ASSETS** | | | |
| **Fixed assets** | | | |
| Property, plant and equipment | 3 391 246 | 3 394 914 | 3 668 |
| Investments estates | 2 337 | 2 337 | - |
| Investment property | 119 282 | 119 282 | - |
| Assets of removing overburden and other mining assets (long-term) | 80 524 | 80 524 | - |
| Other long-term financial assets | 11 945 | 11 945 | - |
| Other long-term non-financial assets | 5 726 | 5 726 | - |
| Deferred tax assets | 90 998 | 90 998 | - |
| **Total fixed assets** | **3 702 058** | **3 705 726** | **3 668** |
| **Current assets** | | | |
| Short-term intangible assets | 273 036 | 273 036 | - |
| Inventories | 105 296 | 105 296 | - |

| | | | |
|---|---|---|---|
| Trade and other receivables | 246 025 | 246 025 | - |
| Income tax receivables | 10 227 | 10 227 | - |
| Short-term financial derivatives (assets) | 296 | 296 | - |
| Other short-term financial assets | 77 317 | 77 317 | - |
| Other short-term non-financial assets | 28 776 | 28 776 | - |
| Amounts due from customers under long-term construction contracts | 8 168 | 8 168 | - |
| Cash and cash equivalents | 350 101 | 350 101 | - |
| **Total current assets** | **1 099 242** | **1 099 242** | **-** |
| Assets classified as held for sale | - | - | - |
| **TOTAL ASSETS** | **4 801 300** | **4 804 968** | **3 668** |

| | *31 December 2016* | | |
|---|---|---|---|
| | *Published data* | *Transformed data* | *Adjustment amount* |
| **LIABILITIES AND EQUITY** | | | |
| **Equity** | | | |
| Share capital | 101 647 | 101 647 | - |
| Reserve capital | 1 028 647 | 1 028 647 | - |
| Revaluation reserve from valuation of hedging instruments | (7 084) | (7 084) | - |
| Other reserve capital | 3 472 | 3 472 | - |
| Retained earnings / Accumulated losses | 769 302 | 732 519 | (36 783) |
| Net profit / (loss) | 247 674 | 247 674 | - |
| **Equity attributable to equity holders of the parent** | **2 143 658** | **2 106 875** | **(36 783)** |
| Equity attributable to non-controlling interests | - | - | - |
| **Total equity** | **2 143 658** | **2 106 875** | **(36 783)** |
| **Long-term liabilities** | | | |
| Interest-bearing loans and borrowings | 587 851 | 587 851 | - |
| Long-term employee benefits | 48 587 | 48 587 | - |
| Trade liabilities and other long-term financial liabilities | 5 069 | 5 069 | - |
| Long-term financial derivatives (liabilities) | 4 294 | 4 294 | - |
| Long-term subsidies | 43 302 | 43 302 | - |
| Other long-term provisions and accruals | 312 253 | 352 704 | 40 451 |
| Deferred tax liability | 388 359 | 388 359 | - |
| **Total long-term liabilities** | **1 389 715** | **1 430 166** | **40 451** |
| **Short-term liabilities** | | | |
| Trade liabilities and other short-term financial liabilities | 302 662 | 302 662 | - |
| Current portion of interest-bearing loans and borrowings | 421 958 | 421 958 | - |
| Short-term financial derivatives (liabilities) | 5 759 | 5 759 | - |
| Other non-financial liabilities | 116 431 | 116 431 | - |
| Current income tax liability | 166 | 166 | - |
| Short-term employee benefits | 6 503 | 6 503 | - |
| Short-term subsidies | 6 670 | 6 670 | - |

| | | | |
|---|---|---|---|
| Amounts due to customers under long-term construction contracts | 3 990 | 3 990 | - |
| Other short-term provisions and accruals | 403 788 | 403 788 | - |
| **Total short-term liabilities** | **1 267 927** | **1 267 927** | **-** |
| | | | |
| **Total liabilities** | **2 657 642** | **2 698 093** | **40 451** |
| **TOTAL LIABILITIES AND EQUITY** | **4 801 300** | **4 804 968** | **3 668** |

# 6. New standards and interpretations which were issued but are not effective yet

- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – as per the decision of the European Committee, the approval process for the standard in the preliminary version will not be initiated prior to the standard being issued in the final version – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2016 or later,
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014) – works leading to the approval of these changes were delayed indefinitely by the EU - the effective date was delayed indefinitely by IASB,
- IFRS 16 Leasing (published on January 13, 2016) - applicable to annual periods beginning on January 1, 2019 or later,
- IFRS 17 Insurance Contracts (published on May 18, 2017) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2021 or later,
- IFRIC 23 Uncertainty related to the recognition of income tax (published on June 7, 2017) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2019 or later,
- Amendments to IFRS 9 Early repayments with negative compensation (published on October 12, 2017) - applicable to annual periods beginning on January 1, 2019 or later,
- Amendments to IAS 28 Long-term shares in associates and joint ventures (published on 12 October 2017) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2019 or later,
- Changes resulting from the review of IFRS 2015-2017 (published on December 12, 2017) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2019 or later,
- Amendments to IAS 19 Change, limitation or settlement of the program (published on February 7, 2018) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2019 or later.
- Amendments to References to the Conceptual Assumptions contained in International Financial Reporting Standards (published on March 29, 2018) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2020 or later.

The dates of entry into force are dates resulting from the content of standards announced by the International Financial Reporting Council. The dates of application of standards in the European Union may differ from the dates of application resulting from the content of standards and are announced at the time of approval for application by the European Union. The Group did not decide to earlier application of any of these standards, interpretations or changes which were published but has not been effective in the light of EU rules.

## 6.1. Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued the International Financial Reporting Standard 16 Lease ("IFRS 16"), which replaced IAS 17 Leasing, IFRIC 4 Determining whether the contract includes leasing, SKI 15 Operating leases - special promotional offers and SKI 27 Substance assessment transactions using the form of leasing. IFRS 16 sets out the accounting principles for leasing in terms of valuation, presentation and disclosure.

IFRS 16 introduces a single model of the lessee's accounting and requires the lessee to recognize assets and liabilities resulting from each lease with a period exceeding 12 months, unless the underlying asset is of low value. On the date of the commencement, the lessee recognizes an asset component due to the right of use of the underlying asset and a lease liability that reflects his obligation to make lease payments.

The lessee separately recognizes depreciation of the asset component under the right of use and interest on the lease liability.

The lessee updates the valuation of the lease liability after the occurrence of certain events (e.g. changes in the leasing period, changes in future lease payments resulting from a change in the index or the rate used to determine such charges). As a rule, the lessee recognizes the revaluation of the lease liability as an adjustment to the asset's value due to the right of use.

The Group is a lessee in the case of machine and car leasing contracts, rents office space and uses land, including perpetual usufruct.

Lessor accounting in accordance with IFRS 16 remains substantially unchanged from current accounting in accordance with IAS 17. A lessor will continue to recognize all lease agreements using the same classification principles as in IAS 17, distinguishing between operating leases and finance leases.

IFRS 16 requires broader disclosures from both the lessee and the lessor than in the case of IAS 17.

The lessee has the right to choose a full or modified retrospective approach, and the transitional provisions provide for some practical solutions.

IFRS 16 is effective for annual periods beginning on January 1, 2019 and later. Earlier application is permitted for entities that use IFRS 15 from or before the first application of IFRS 16. The group has not decided to apply IFRS 16 earlier.

As at the date of approval of these consolidated financial statements for publication, the Management Board is in the process of assessing the impact of the introduction of IFRS 16 on the accounting principles (policy) applied by the Group with respect to the Group's operations or its financial results.

# 7. Significant principles (policy) of accounting

The principles (policy) of accounting used to prepare the interim condensed consolidated financial statements are coherent with those used for preparing the annual consolidated financial statements of the Group for the year beginning on 1 January 2017, except for changes resulting from amendments to EU IFRS, in particular regarding IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers applied for the first time in the current reporting period. For the purposes of hedge accounting, the Group applies IAS 39 on a continuous basis. The Group has applied both standards since the date of their entry into force without transforming the comparative data.

### *IFRS 9 Financial instruments*

All financial assets have been measured at fair value.

Trade receivables are maintained to obtain cash flows resulting from the agreement, and the Group does not sell trade receivables as part of factoring. The Group uses a practical exemption and for trade receivables under 12 months does not identify significant elements of financing.

In accordance with IFRS 9, the entity measures the write-down for expected credit losses in the amount equal to the 12-month expected credit loss or expected credit losses in the life of the financial instrument.

In the case of trade receivables, the Group applied a simplified approach and measures a write-off for expected credit losses in the amount equal to the expected credit losses throughout their life.

For the purpose of estimating the expected loan losses, IFRS 9 used both historical data in the field of repayment as well as available data as of the balance sheet date, reliable data that may increase the precision of estimating expected credit losses in future periods.

The Company identified the following classes of financial assets for which, in accordance with IFRS 9, it estimated the impact of expected loan losses on the financial statements:

- Trade receivables for deliveries and services,
- Other receivables, including those due to LTC settlement

- Sureties and bank deposits,
- Cash.

With respect to trade receivables, it is assumed that the repayment data can be used to estimate credit risk in the future, and therefore the credit losses were estimated using historical data on the maturities of trade receivables and their fulfilment. In order to estimate the expected loss for other financial assets, the insolvency risk was determined based on other data, in particular rating assessments made by rating agencies or given to counterparties as part of the internal credit risk assessment process, adjusted for the probability of default assessment.

In connection with the entry into force of IFRS 9 and the resulting change in the method of estimating impairment losses on trade receivables, the Group based on the analysis of the probability of incurring credit losses in individual categories of receivables as of January 1, 2018 created write-offs with a total value of PLN 637 thousand (impact on retained earnings after recognition of the deferred income tax asset of PLN 516 thousand). In the classification of financial liabilities, IFRS 9 did not make any changes, however, we included in the results from previous years a commission settled in time for granting a loan in the amount of PLN 4,718 thousand (impact on retained earnings after recognition of deferred income tax assets PLN 3 822 thousand) .

The table below presents the classification of financial instruments before and after the entry into force of the new IFRS 9 as at 1 January 2018.

| *Financial assets* | Category in accordance with IAS 39 | Category in accordance with IFRS 9 | *Value acc. to IAS 39* | *Value acc. to IAS 9* |
|---|---|---|---|---|
| Other financial assets | PiN | AFwgZK | 46 099 | 46 099 |
| Trade, delivery and other receivables | PiN | AFwgZK | 253 261 | 252 624 |
| Derivative financial instruments | WwWGpWF | WwWGpWF | - | - |
| Cash and cash equivalents | UdtW | | 322 201 | 322 201 |
| *Financial liabilities* | | | | |
| Interest-bearing loans and borrowings, including: | | | 652 038 | 656 756 |
| Long-term | PZFwgZK | PZFwgZK | 302 465 | 305 086 |
| Short-term | PZFwgZK | PZFwgZK | 349 573 | 351 670 |
| Liabilities for deliveries and services and other financial liabilities | PZFwgZK | PZFwgZK | 151 562 | 151 562 |
| Derivative financial instruments | WwWGpWF | WwWGpWF | 5 009 | 5 009 |

*Used abbreviations:*

WwWGpWF – *Financial assets/liabilities evaluated in the fair value by the financial result / capitals*
PZFwgZK – *Other financial liabilities evaluated according to the depreciated cost*
AFwgZK – *Financial assets according to depreciated cost*
UdtW – *Financial assets maintained to the maturity date,*
PiN – *Loans and receivables*

### *IFRS 15 Revenues from contracts with customers*

The introduction of the new IFRS 15 standard did not change the recognition of the Group's revenues except for presentation changes. From January 1, 2018, a five-step method of recognizing / recognizing revenues resulting from contracts with customers, i.e.:

1) Identification of contracts with the client;
2) Identification of obligations to perform the benefit contained in the contract;
3) Determining the transaction price;
4) Assigning the transaction price to the performance obligations included in the contract;

5) Recognition of revenue when the entity complies with its obligations

In accordance with IFRS 15, revenues are recognized in the amount of remuneration which, according to the entity's expectation, is due in exchange for the transfer of promised goods or services to the client.

The Group's companies conduct activities in the area of generation and sale of electricity, production and sale of heat, extraction of lignite and maintenance and repair-construction services. Lignite sale and purchase transactions and selected other transactions were excluded from the analysis as eliminated in the consolidation process.

The structure of sales revenues and the manner of their recognition in the Group are as follows:

- revenues from electricity sale are recognized in the revenues at the moment of delivery of the product to the customer,
- sale revenues from the sale of electricity on the market are recognized in revenues from the sale of goods at the time of the sale transaction,
- revenues from incomplete service in the period from the date of conclusion of the contract to the end of the reporting period after deduction of revenues that affected the financial result in previous reporting periods – are determined in proportion to the degree of its implementation,
- compensation for termination of PPAs is recognized as revenues from the sale of electricity, the income from compensations is recognized successively to the rights to compensation developed at the end of each financial year until the end of their validity. For each moment of revenue recognition, the Company determines the ratio of estimated stranded costs to the total amount of received, returned and expected discounted annual advances (including annual advances received so far). The amount of revenue for a given financial year is the product of the ratio and the amounts of advances received so far adjusted by annual adjustments, reduced by the revenues from compensations recognized in previous years.
- revenues from property rights from certificates of origin are recognized at the time of their production, certificates of origin intended for sale are recognized as income at the time of the sale, therefore, in order to prevent overstating the revenues at the time of sale, the costs of sold certificates are recognized as correction of sales revenues,
- revenues from the sale of heat are recognized in revenues when the goods are delivered to the customer,
- revenues from the sale of other goods, products and materials are recognized at the time of the sale / transfer transaction,
- revenues from other services are recognized when the service is provided,

In connection with the entry into force of IFRS 15 as at January 1, 2018, the Group did not identify revenues that would affect the results presented in the financial statements except for a change in the presentation of revenues from a part of construction contracts carried out in a consortium of contractors that were previously presented in full the subject of the agreement and from January 1, 2018 are included in the part of the realization falling on the Group's companies. As at September 30, 2018, revenues from sales and operating costs in this respect are lower by PLN 5 720 thousand.

Additionally, in accordance with the requirements of IFRS 15, the Group presents recognized revenues from contracts with customers, divided into categories, which reflect the manner in which economic factors affect the nature, amount, payment date and uncertainty of revenues and cash flows.

The impact of IFRS as at September 30, 2018 is presented below

| | *30 September 2018 (published data)* | *Impact of IFRS 15* | *30 September 2018 (data without IFRS 15)* |
|---|---|---|---|
| **Sale revenues** | **1 623 410** | **5 720** | **1 629 130** |
| Cost of goods sold | (1 564 308) | (5 720) | (1 570 028) |
| **Gross profit / (loss)** | **59 102** | **0** | **59 102** |
| Other operating revenues | 5 890 | 0 | 5 890 |
| Selling and distribution expenses | (3 009) | 0 | (3 009) |
| Administrative expenses | (92 168) | 0 | (92 168) |
| Other operating expenses | (3 436) | 0 | (3 436) |
| **Gross profit/ (loss) from operation** | **(33 621)** | **0** | **(33 621)** |
| Financial income | 6 176 | 0 | 6 176 |
| Financial costs | (29 642) | 0 | (29 642) |

| | | | |
|---|---|---|---|
| **Profit/ (loss) before tax** | **(57 087)** | **0** | **(57 087)** |
| Income tax expenses (taxation) | (5 639) | 0 | (5 639) |
| **Net profit / (loss) for the period from continuing operations** | **(62 726)** | **0** | **(62 726)** |
| **Net profit / (loss) for the period** | **(62 726)** | **0** | **(62 726)** |

# 8. Essential values based on professional judgement and estimates

The scope of essential values based on professional judgement and estimates has been presented in consolidated financial statement made as on 31 December 2017 and has not been changed in the current year, excluding the items described below.

### *Impairment write-down on fixed assets*

As a result of the analyses carried out as at September 30, 2018, the Group identified premises that could indicate potential impairment of assets, in the form of a higher carrying amount of the Group's net assets from the value of its market capitalization. Therefore, the Group carried out tests for impairment of fixed assets. Based on the conducted tests, it was found that there is no need to recognize write-offs updating the value of property, plant and equipment. Information on the conducted test is presented in note 16.1.

### *Evaluation of Energy certificates*

The Group recognises the energy certificates of origin (green and red certificates) due to the energy generation from renewable energy sources, gas, and peak load co-generation according to fair value at the end of the month, when they were produced. As of the balance sheet date, the Group evaluates certificates of origin to a net value possible to achieve – for the green certificates as of 30 September 2018 to the price amounting to 134.73 PLN/MWh. An impairment write-down is established in case when the sale price possible to achieve diminished by disposition costs is lower than the historical cost of generation.

### *The provision for liabilities due to the emission of greenhouse gases (EUA)*

The Group recognises the provision for the redemption of greenhouse gases allowances and certified emission reductions. Due to the conclusion of the period related to the settlement of allocation of allowances of KPRU II, since 1 January 2013, another settlement period of 2013 – 2020 concerning allowances has been applicable. The assumption of this period is granting free EUA allowances to the Group resulting from the production of heat. Although, power engineering was additionally covered by opportunity of derogation resulting from Article 10c of the ETS Directive based on granting additional free allowances, if declared investment expenses for investments reported to the National Investment Plan (KPI) are paid.

In 2017, emission in ZE PAK SA Group amounted to 10 866 104 tons of $CO_2$.

In April 2018 the Group made redemption of $CO_2$ emission for 2017.

As of 30 September 2018, the Group created a provision for the allowances in relation to the actual emission size for the period from 1 January 2018 till 30 September 2018.

Details concerning the provision for liabilities due to the redemption of greenhouse gases emission allowances are presented in note 26.3.1.

### *Accounting policies in the field of ash reclamation reserve*

As at the date of the adjustment of the error described in note 5, i.e. January 1, 2017, the Group adopted the following accounting policy in this respect.

The Management Board assessed that the legal obligation to reclaim the area of ash landfills arises at the start of their operation, therefore the Group should include the asset and provision for the reclamation of ash storage sites at the discounted value of estimated reclamation costs to be incurred in the future. In subsequent periods, this asset is amortized using the straight-line method over the estimated period of operation of a given ash landfill. At the same time, in subsequent periods, the Group recognizes an increase in the provision resulting from the effect of unwinding

the discount in correspondence with financial costs. Subsequent possible changes in the estimated costs of reclamation adjust the value of the asset and the provision.

As at the balance sheet date, the Management Board of ZE PAK SA Group estimated the value of reclamation costs to be borne in the future based on the knowledge of the area of ash landfills used and the currently incurred costs of reclamation for similar areas. While calculating the provision, the Group adopted the following assumptions: discount rate at 3.3%, inflation level at 2.5%.

# 9. Change of estimates

Within the 9-month period concluded on 30 September 2018, except for these described in the financial statement, there were no significant changes in estimated sizes and the methodology of estimates that would affect the current period or future period.

# 10. Seasonality of the activities

Demand for electricity and heat, especially among consumers, is subject to seasonal fluctuations. So far, the practice has shown that electricity consumption increased in the winter (mainly due to low temperatures and a shorter day) and decreased during the summer (due to the holiday period, higher ambient temperatures and longer days). In recent years, the demand for electricity in the summer has been systematically growing, mainly due to the growing number of used refrigeration and air conditioning equipment.

Irrespective of the factors described above, meteorological conditions are becoming more and more important for the Group's production level. In the past, the operations of the Group were not subject to significant seasonality of demand, due to the low costs the work of the blocks was carried out continuously (in the basis) for almost a whole year. Currently, taking into account the growing share of renewable energy in the energy generation segment, including primarily wind sources, weather conditions are becoming more and more important in the estimation of the Group's production volume, with particular regard to wind conditions. Statistically, the first and fourth quarters are the periods with the best wind conditions. It should be taken into account that in periods when wind conditions are extremely good and the production of wind turbines is high, the demand for the Group's production may be subject to periodic reductions, similarly in periods of lower wind production may increase.

# 11. Operating segments

For the managerial purpose, the Group was divided into parts on the basis of manufactured products and provided services.

Therefore, there are the following operating segments:

- The Generation Segment covering production of electricity both from conventional sources (including cogeneration) and by combustion and co-combustion of biomass. Basic fuels used by the Generation Segment are lignite and biomass. The Generation Segment covers following entities:
    - Zespół Elektrowni Pątnów–Adamów–Konin SA
    - Elektrownia Pątnów II sp. z o.o.
    - PAK Infrastruktura sp. z o.o.
- The Mining Segment covering the extraction of lignite. In the Mining Segment, within the Capital Group of ZE PAK SA there operate the following:
    - PAK Kopalnia Węgla Brunatnego Konin SA
    - PAK Kopalnia Węgla Brunatnego Adamów SA
- The Renovation Segment performing services in the scope of construction and renovation services. The Segment covers activities of Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.
- The Sales Segment performing services of the sale of electricity. The Sales Segment also includes "PAK – Volt" SA company.

ZE PAK SA Group operates also in other kinds of activities, included in the 'Other' column. In the period of 9 months of 2018 it covers the activity of the following companies: Aquakon sp. z o.o. - in liquidation, PAK Adamów sp. z o.o. and PAK Górnictwo sp. z o.o. On August 1st, 2018 there was a merger of Zespół Elektrowni Pątnów-Adamów-Konin SA (acquiring company) and PAK-Holdco Sp. z o.o. (acquired company). There was also a merger of PAK Górnictwo Sp. z o.o. (acquiring company) with Energoinwest Serwis sp. z o.o. in liquidation (acquired company), EL PAK Serwis sp. z o.o. in liquidation (acquired company), and Eko-Surowce sp. z o.o. in liquidation (acquired company).

Transaction prices applied in transactions between operating segments are determined on a market basis as in transactions with unrelated parties. None of the Group's operating segments have been merged with another segment to create the above reporting operating segments.

Revenues due to transactions between segments are eliminated in the process of consolidation.

The Board monitors separate results of the operating activities of segments in order to decide on allocation of resources, evaluation of this allocation's outcomes, and the results of activities. The basis of assessment of the results of activities is profit or loss on the operating activity and EBITDA (Operating profit without accounting for financial income and expenses, increased by the costs of depreciation and impairment write-downs on fixed assets and intangible assets).

The table below presents the segments results for the period of 9 months ended 30 September 2018 and 30 September 2017.

### *9-month period ended 30 September 2018 (unaudited)*

| | Generation | Mining | Renovation | Sale | Other | Consolidation adjustment | Total |
|---|---|---|---|---|---|---|---|
| Sales revenues to external customers | 1 157 913 | 6 137 | 62 869 | 392 650 | 3 841 | - | 1 623 410 |
| Sales revenues between segments | 228 669 | 426 784 | 56 228 | 4 | 179 473 | (891 158) | - |
| **Sales revenue** | **1 386 582** | **432 921** | **119 097** | **392 654** | **183 314** | **(891 158)** | **1 623 410** |
| Cost of goods sold | (1 326 296) | (453 980) | (112 704) | (393 940) | (171 654) | 894 266 | (1 564 308) |
| **Gross profit / (loss)** | **60 286** | **(21 059)** | **6 393** | **(1 286)** | **11 660** | **3 108** | **59 102** |
| **The moment of recognition of revenues:** | | | | | | | |
| - obligation to perform fulfilled in time | 114 988 | - | 119 097 | - | - | - | 234 085 |
| - a one-off obligation / at a specified time | 1 271 594 | 432 921 | - | 392 654 | 183 314 | (891 158) | 1 389 325 |
| Other operating income | 3 620 | 557 | 669 | 1 033 | 407 | (396) | 5 890 |
| Selling and distribution expenses | (1 468) | - | - | (692) | (849) | - | (3 009) |
| Administrative expenses | (41 934) | (32 452) | (8 785) | (2 914) | (6 083) | - | (92 168) |
| Other operating expenses | (731) | (1 108) | (1 405) | (1) | (191) | - | (3 436) |
| Financial income | 6 460 | 205 | 29 | 185 | 46 | (749) | 6 176 |
| Financial costs | (17 533) | (12 400) | (284) | (4) | (170) | 749 | (29 642) |
| **Profit / (loss) before tax** | **8 700** | **(66 257)** | **(3 383)** | **(3 679)** | **4 820** | **2 712** | **(57 087)** |
| Income tax expenses (tax burden)/tax benefits | (4 192) | (855) | 434 | 682 | (1 193) | (515) | (5 639) |
| **Net profit / (loss) for the period from continuing operation** | **4 508** | **(67 112)** | **(2 949)** | **(2 997)** | **3 627** | **2 197** | **(62 726)** |
| **Profit / (loss) from operating activities, without financial operations and income tax** | **19 773** | **(54 062)** | **(3 128)** | **(3 860)** | **4 944** | **2 712** | **(33 621)** |
| Depreciation | 90 738 | 50 416 | 3 090 | 52 | 4 357 | (2 468) | 146 185 |
| Impairment write-down | - | (5) | - | - | - | - | (5) |
| **EBITDA** | **110 511** | **(3 651)** | **(38)** | **(3 808)** | **9 301** | **244** | **112 559** |

***9-month period ended 30 September 2017 (unaudited)***

| | Generation | Mining | Renovation | Sale | Other | Consolidation adjustment | Total |
|---|---|---|---|---|---|---|---|
| Sales revenues to external customers | 1 294 831 | 4 589 | 77 024 | 431 384 | 5 261 | - | 1 813 089 |
| Sales revenues between segments | 263 516 | 638 324 | 148 789 | 4 | 95 768 | (1 146 401) | - |
| **Sales revenue** | **1 558 347** | **642 913** | **225 813** | **431 388** | **101 029** | **(1 146 401)** | **1 813 089** |
| Cost of goods sold | (1 326 933) | (586 973) | (201 514) | (424 986) | (100 570) | 1 150 917 | (1 490 059) |
| **Gross profit / (loss)** | **231 414** | **55 940** | **24 299** | **6 402** | **459** | **4 516** | **323 030** |
| Other operating income | 3 213 | 7 001 | 748 | 501 | 167 | (255) | 11 375 |
| Selling and distribution expenses | (1 926) | (4) | - | (354) | (829) | - | (3 113) |
| Administrative expenses | (27 648) | (41 341) | (13 953) | (3 135) | (4 390) | - | (90 467) |
| Other operating expenses | (988) | (1 446) | (483) | (342) | (59) | 254 | (3 064) |
| Financial income | 10 805 | 1 375 | 455 | 90 | 20 | (2 024) | 10 721 |
| Financial costs | (24 247) | (11 853) | (301) | (73) | (38) | 622 | (35 890) |
| **Profit (loss) before tax** | **190 623** | **9 672** | **10 765** | **3 089** | **(4 670)** | **3 113** | **212 592** |
| Income tax expenses (tax burden)/tax benefits | (36 155) | (3 642) | (2 902) | (675) | 1 964 | (1 206) | (42 616) |
| **Net profit / (loss) for the period from continuing operation** | **154 468** | **6 030** | **7 863** | **2 414** | **(2 706)** | **1 907** | **169 976** |
| **Profit / (loss) from operating activities, without financial operations and income tax** | **204 065** | **20 150** | **10 611** | **3 072** | **(4 652)** | **4 515** | **237 761** |
| Depreciation | 95 190 | 58 454 | 5 047 | 62 | 1 351 | (5 621) | 154 483 |
| Impairment write-down | - | - | - | - | - | - | - |
| **EBITDA** | **299 255** | **78 604** | **15 658** | **3 134** | **(3 301)** | **(1 106)** | **392 244** |

# 12. Revenues and costs

## 12.1. Sale revenues

| | *9-month period ended* | *3-month period ended* | *9-month period ended* | *3-month period ended* |
|---|---|---|---|---|
| | *30 September 2018 (unaudited)* | *30 September 2018 (unaudited)* | *30 September 2017 (unaudited)* | *30 September 2017 (unaudited)* |
| *Revenues by type* | | | | |
| Revenues from electricity sale | 954 209 | 380 035 | 1 170 123 | 412 083 |
| Revenues from electricity resold on the market | 430 742 | 168 045 | 381 662 | 143 735 |
| Energy certificates of origin | 27 674 | 18 480 | 35 | 70 |
| Revenues from construction contracts | 55 808 | 20 408 | 68 646 | 23 844 |
| Compensation related to PPA termination | 114 988 | 42 486 | 132 129 | 39 702 |
| Revenues from heat sale | 24 384 | 5 557 | 41 560 | 9 178 |
| Other | 20 481 | 6 667 | 21 033 | 7 219 |
| Excise | (4 876) | (1 108) | (2 099) | (298) |
| Total revenues | 1 623 410 | 640 570 | 1 813 089 | 635 533 |

## 12.2. Other operating revenues

| | *9-month period ended* | *3-month period ended* | *9-month period ended* | *3-month period ended* |
|---|---|---|---|---|
| | *30 September 2018 (unaudited)* | *30 September 2018 (unaudited)* | *30 September 2017 (unaudited)* | *30 September 2017 (unaudited)* |
| Compensation received | 2 287 | 1 613 | 1 727 | 519 |
| Reversal of write-down against receivables | 78 | (4) | 255 | 16 |
| Grants settlement | 1 133 | 382 | 1 146 | 378 |
| Profit from disposal of non-financial fixed assets | 313 | (465) | 5 507 | 73 |
| Release of the provision for costs and losses and cancellation of liabilities | 1 013 | 1 | 1 147 | 56 |
| Other | 1 066 | 197 | 1 593 | 881 |
| Total other operating revenues | 5 890 | 1 724 | 11 375 | 1 923 |

## 12.3. Other operating costs

| | *9-month period ended* | *3-month period ended* | *9-month period ended* | *3-month period ended* |
|---|---|---|---|---|
| | *30 September 2018 (unaudited)* | *30 September 2018 (unaudited)* | *30 September 2017 (unaudited)* | *30 September 2017 (unaudited)* |
| Loss on the sale of property, plant and equipment | 130 | (9) | 265 | 51 |
| Creation of provisions | 77 | 70 | 229 | 229 |
| Impairment write-downs on receivables | 1 225 | 806 | 30 | 15 |
| Compensation paid | 16 | (6) | 48 | 31 |
| Electricity-related damage | 179 | 101 | 138 | 65 |
| Donations given | 228 | 9 | 371 | 328 |
| Costs of Unions | 36 | 8 | 38 | 9 |
| Costs of shortages and damage | 16 | - | 12 | (18) |
| Other | 1 529 | (413) | 1 933 | 364 |
| Total other operating costs | 3 436 | 566 | 3 064 | 1 074 |

The main components of the item „Other" for the period of 9 months of 2018 ended 30 September 2018 are: receivable paid on the basis of a court judgment regarding the purchase of real estate in the amount of PLN 286 thousand, penalties related to the performance of contracts for renovations and assembly in the amount of PLN 201 thousand and costs of court and enforcement proceedings in the amount of PLN 298 thousand.

## 12.4. Financial income

| | *9-month period ended* | *3-month period ended* | *9-month period ended* | *3-month period ended* |
|---|---|---|---|---|
| | *30 September 2018 (unaudited)* | *30 September 2018 (unaudited)* | *30 September 2017 (unaudited)* | *30 September 2017 (unaudited)* |
| Interest income | 2 627 | 845 | 2 223 | 787 |
| Dividends | 93 | 11 | 208 | 7 |
| Foreign exchange rates | 184 | (47) | 7 629 | (3 946) |
| Valuation of exchange rates hedging instruments (forward) | 1 130 | (515) | 292 | 292 |
| Other | 2 142 | 352 | 369 | 10 |
| Total financial income | 6 176 | 646 | 10 721 | (2 850) |

## 12.5. Financial costs

| | *9-month period ended* | *3-month period ended* | *9-month period ended* | *3-month period ended* |
|---|---|---|---|---|
| | *30 September 2018 (unaudited)* | *30 September 2018 (unaudited)* | *30 September 2017 (unaudited)* | *30 September 2017 (unaudited)* |
| Interest expenses | 9 829 | 2 727 | 21 859 | 6 351 |
| Valuation and realization of derivative financial instruments | 1 760 | (702) | 4 041 | 369 |
| Foreign exchange losses | 4 874 | (2 159) | 317 | (284) |
| Reserve discount for the liquidation of power units | 411 | 137 | 416 | 139 |
| Reserve discount for reclamation | 8 589 | 2 863 | 7 392 | 2 464 |
| Other | 4 179 | 1 288 | 1 865 | 474 |
| Total financial costs | 29 642 | 4 154 | 35 890 | 9 513 |

The item "Valuation and realization of derivative financial instruments presents mainly the amount of PLN 1 011 thousand relating to derivatives in Elektrownia Pątnów II sp. Z o.o. for which hedge accounting is applied. In the item "Other" for the period of 9 months ended on 30 September 2018, the measurement of loans is presented mainly at amortized cost in the amount of PLN 2 351 thousand.

## 12.6. Costs by type

| | *9-month period ended* | *3-month period ended* | *9-month period ended* | *3-month period ended* |
|---|---|---|---|---|
| | *30 September 2018 (unaudited)* | *30 September 2018 (unaudited)* | *30 September 2017 (unaudited)* | *30 September 2017 (unaudited)* |
| Depreciation | 146 185 | 50 050 | 154 483 | 50 777 |
| Impairment write-downs on fixed assets | (5) | (3) | - | - |
| Impairment write-downs on inventories | 771 | 660 | 228 | (548) |
| Materials usage | 214 490 | 75 336 | 189 099 | 62 878 |
| External services | 75 285 | 29 422 | 75 455 | 26 532 |
| Taxes and fees excluding excise duty | 114 605 | 38 240 | 124 077 | 38 523 |
| Costs of $CO_2$ emission allowances | 338 232 | 172 063 | 231 634 | 63 540 |
| Costs of employee benefits | 325 943 | 100 741 | 356 629 | 109 804 |
| Other costs by type | 24 881 | 4 711 | 28 278 | 6 680 |
| The value of sold goods and materials and sold energy purchased from the market | 438 178 | 184 860 | 366 022 | 135 424 |
| Total costs by type | 1 678 565 | 656 080 | 1 525 905 | 493 610 |
| Items included in cost of goods sold | 1 564 308 | 622 369 | 1 490 059 | 511 085 |
| Items included in selling and distribution expenses | 3 009 | 967 | 3 113 | 911 |
| Items included in administrative expenses | 92 168 | 27 376 | 90 467 | 33 928 |
| Change in the stocks of finished goods | 15 252 | 2 609 | (58 763) | (52 745) |
| Cost of goods and services for internal needs | 3 828 | 2 759 | 1 029 | 431 |

# 13. Components of other comprehensive income

Components of other total comprehensive income present as follows:

| | *9-month period ended* | *3-month period ended* | *9-month period ended* | *3-month period ended* |
|---|---|---|---|---|
| | *30 September 2018 (unaudited)* | *30 September 2018 (unaudited)* | *30 September 2017 (unaudited)* | *30 September 2017 (unaudited)* |
| Cash flow securities | | | | |
| Profits / (losses) for the period | 2 351 | 638 | 4 041 | 1 235 |
| Adjustment resulting from reclassification of profits (loses) included in the profit or the loss | (104) | 49 | 195 | (192) |
| **Gross cash flow securities for the period** | **2 247** | **687** | **4 236** | **1 043** |
| Income tax concerning cash flow securities | (427) | (130) | (805) | (198) |
| **Net cash flow securities for the period** | **1 820** | **557** | **3 431** | **845** |
| **Actuarial gross profits (losses) concerning provisions for post-employment employee benefits** | **(1 372)** | **(856)** | **(728)** | **(386)** |
| Income tax concerning actuarial profits (losses) | 261 | 163 | 138 | 73 |
| **Actuarial net profits (losses) concerning provisions for post-employment employee benefits** | **(1 111)** | **(693)** | **(590)** | **(313)** |
| **Other gross comprehensive income** | **875** | **(169)** | **3 508** | **657** |
| **Income tax concerning other comprehensive income** | **(166)** | **33** | **(667)** | **(125)** |
| **Other net comprehensive income** | **709** | **(136)** | **2 841** | **532** |

# 14. Income tax

## 14.1. Tax burden

The main components of tax burden for the period of 9 months ended 30 September 2018 and 30 September 2017 are as follows:

| | *9-month period ended 30 September 2018 (unaudited)* | *3-month period ended 30 September 2018 (unaudited)* | *9-month period ended 30 September 2017 (unaudited)* | *3-month period ended 30 September 2017 (unaudited)* |
|---|---|---|---|---|
| Included in profit or loss | | | | |
| Current income tax | | | | |
| Current income tax burden | 2 183 | 1 784 | 22 594 | 17 491 |
| Deferred income tax | | | | |
| Related to creation and reversal of temporary differences | 3 434 | (3 575) | 20 159 | (4 858) |
| Other changes | 22 | 13 | (137) | (138) |
| **Tax burden in consolidated profit or loss** | **5 639** | **(1 778)** | **42 616** | **12 495** |
| Included in the consolidated statement of the comprehensive income | | | | |
| Net profit/ (loss) tax due to revaluation of cash flow securities | (427) | (130) | (805) | (198) |
| Actuarial allowance concerning actuarial profits/losses | 261 | 163 | 138 | 73 |
| **Tax benefits / (tax burden) included in other comprehensive income** | **(166)** | **33** | **(667)** | **(125)** |

## 14.2. Deferred income tax

Deferred income tax results from the following items:

| | *30 September 2018 (unaudited)* | *31 December 2017* |
|---|---|---|
| **Deferred tax asset** | | |
| Balance sheet provisions | 120 858 | 112 777 |
| Overburden and other mining assets | 5 195 | 7 946 |
| Interest and exchange rate differences | 4 810 | 4 832 |
| Hedging instruments | 292 | 781 |
| Valuation of non-terminated agreements for building services | 627 | 1 610 |

| | | |
|---|---|---|
| Tax loss from previous years | 19 017 | 30 361 |
| Impairment write-down on inventories | 1 427 | 1 475 |
| Impairment write-down on receivables | 952 | 636 |
| Impairment write-downs on fixed assets | 1 215 | 1 777 |
| Difference between the balance sheet value and the tax value of fixed assets | 293 | 7 |
| Settlements with employees | 1 437 | 3 813 |
| Other | 25 496 | 25 179 |
| Total | 181 619 | 191 194 |
| **Provision under deferred income tax** | | |
| Difference between the balance sheet value and the tax value of fixed assets | 508 431 | 487 308 |
| Receivables under PPAs | 12 833 | 11 078 |
| Energy certificates | 3 149 | 352 |
| Interest and exchange rate differences | 353 | 456 |
| Valuation of non-terminated construction agreements | 2 182 | 1 851 |
| Purchased $CO_2$ allowances | 1 659 | 50 145 |
| Other | 78 | (24) |
| Total | 528 685 | 551 166 |
| *After offsetting the balances at the level of the Group companies, the deferred tax is presented as:* | | |
| **Asset:** | **73 980** | **72 928** |
| **Provision:** | **421 046** | **432 900** |

The main item in other deferred tax asset as at 30 September 2018 is the provision for the redemption of CO2 emission rights in Elektrownia Pątnów II sp. z o.o. in the amount of PLN 19 683 thousand.

The status of the tax settlements of the Group's companies for tax losses as at 30 September 2018, including deferred tax was presented below.

As at 30 September 2018 Elektrownia Pątnów II sp. z o.o. showed a tax profit of PLN 81 852 thousand. The accumulated value of tax losses as at 30 September 2018 amounted to PLN 43 774 thousand. Elektrownia Pątnów II sp. z o.o. created a tax asset on the value of accumulated tax losses, assuming that these losses will be fully settled with tax revenues of future periods. The value of the tax asset created as at 30 September 2018 amounts to PLN 18 317 thousand.

As at 31 December 2017 Elektrownia Pątnów II sp. Z o.o. showed a tax loss of PLN 78 639 thousand. The accumulated value of tax losses as at December 31, 2017 amounted to PLN 87 548 thousand. The company created a tax asset on the value of accumulated tax losses, assuming that these losses will be fully settled with tax revenues of future periods. The value of the tax asset created as at 31 December 2017 amounts to PLN 16 634 thousand.

Tax losses, in accordance with the tax regulations in force in Poland, may be deducted from future taxable income generated by the company in successive five tax years, however, the amount of reduction in any of these years may not exceed 50% of the loss amount.

On April 24, 2017, the company received an individual interpretation of tax law provisions regarding the recognition over time of tax deductible expenses, expenses due to the return of Zarządca Rozliczeń SA of funds to cover stranded costs. This interpretation recognizes that the company's position regarding the settlement of the above-mentioned costs is incorrect. In the current tax returns for the years 2014 - 2017, the company assumed that the repayment of stranded costs from the company to Zarządca Rozliczeń SA, whose legitimacy results from the LTC Act, constitute tax deductible costs when these payments are made. On the other hand, the tax authorities consider that these costs are recognized as tax deductible costs on the day they are incurred, i.e. posted in the accounts. In the light of receiving an

individual tax interpretation, taking into account unsettled tax losses, the Management Board of the Company assessed that there is no risk of tax arrears on this account. The company appealed against the individual interpretation received. On July 7, 2017, Elektrownia Pątnów II Sp. z o.o. submitted to the Provincial Administrative Court in Poznań (via the Director of the National Tax Information Service) a complaint against the abovementioned individual interpretation of tax law. On January 18, 2018, the Provincial Administrative Court in Poznań, in response to a complaint filed by the Pątnów II Power Plant, issued a verdict abrogating the contested Interpretations of the Director of the National Tax Information dated 20 April 2017. On 27 March 2018, the Director of the National Tax Information filed a cassation complaint from the Judgment of the Provincial Administrative Court in Poznań of January 18, 2018. With reference to the above, on 17 April 2018 Elektrownia Pątnów II sp. Z o.o. received the decision of the Head of the Second Wielkopolska Tax Office in Kalisz to initiate tax proceedings regarding the settlement of the corporate income tax for 2016. On June 25, 2018 Elektrownia Pątnów II sp. z o.o. received the decision of the Head of the Second Wielkopolska Tax Office in Kalisz to suspend tax proceedings, initiated in April 2018, regarding the settlement of the corporate tax for 2016, until the issue was resolved by the Supreme Administrative Court. A description of disputable matters related to tax settlements is provided in Note 29.2.

As at 30 September 2018, PAK KWB Konin SA discloses a tax loss in the amount of PLN 14 371 thousand. Deferred income tax asset as at 30 September 2018 is PLN 53 988 thousand, it does not include tax losses.

As at September 30, 2018, PAK KWB Adamów SA reported a tax loss of PLN 59 930 thousand. Deferred income tax asset is PLN 8 346 thousand.

As at 31 December 2017, ZE PAK SA disclosed an asset due to unsettled tax loss for 2016 in the amount of PLN 12 673 thousand. As at 30 September 2018, the Company disclosed a tax profit thanks to which it was able to settle a part of the tax loss, and disclosed in the financial statements the use of the asset from 2016 in the amount of PLN 2 534 thousand.

## 15. Profit per one share

Basic profit/(loss) per one share is calculated with division of net profit/loss for the period of the parent company's ordinary shareholders by weighted average of number of issued ordinary shares occurring during the period.

Diluted profit/(loss) per one share is calculated with division of net profit for the period of the parent company's ordinary shareholders by weighted average of number of issued ordinary shares occurring during the period corrected by weighted average of ordinary shares, which would be issued by converting all diluting potential equity instruments into ordinary shares.

Data concerning profit/ (loss) and shares that served to calculated basic and diluted profit/ (loss) per one share were presented below:

| | *9-month period ended 30 September 2018 (unaudited)* | *3-month period ended 30 September 2018 (unaudited)* | *9-month period ended 30 September 2017 (unaudited)* | *3-month period ended 30 September 2017 (unaudited)* |
|---|---|---|---|---|
| Net (loss) / profit on continued activities of the parent company's shareholders | (62 087) | (10 830) | 169 368 | 65 996 |
| Profit / (loss) on abandoned activities of the parent company's shareholders | - | - | - | - |
| Net (loss) / profit of ordinary shareholders used for calculation of diluted profit / (loss) per one share | (62 087) | (10 830) | 169 368 | 65 996 |
| The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share | 50 823 547 | 50 823 547 | 50 823 547 | 50 823 547 |

The table below shows the profit per one share for the period of 9 months ended 30 September 2018 and 30 September 2017 presented in the profit and loss account.

| | *9-month period ended* | *3-month period ended* | *9-month period ended* | *3-month period ended* |
|---|---|---|---|---|
| | *30 September 2018 (unaudited)* | *30 September 2018 (unaudited)* | *30 September 2017 (unaudited)* | *30 September 2017 (unaudited)* |
| Basic and diluted from profit for the financial year attributable to the shareholders of the parent | (1,22) | (0,21) | 3,33 | 1,30 |
| Basic and diluted from profit from continuing operations attributable to the shareholders of the parent | (1,22) | (0,21) | 3,33 | 1,30 |

In the period between the balance sheet day and the day of development of this financial statement, there were no other transactions concerning ordinary shares or potential ordinary shares.

# 16. Tangible fixed assets

***A period of 9 months ended 30 September 2018 (unaudited)***

| | *Land and perpetual usufruct** | *Buildings and constructions* | *Plants and machinery* | *Motor vehicles* | *Other* | *Assets under construction* | *Total* |
|---|---|---|---|---|---|---|---|
| Gross value as at 1 January 2018 (transformed data) | 264 070 | 2 019 714 | 4 941 958 | 69 440 | 29 741 | 222 654 | 7 547 577 |
| Purchase | - | - | 4 185 | 6 896 | 616 | 41 647 | 53 344 |
| Repairs | - | - | 707 | - | - | 1 435 | 2 142 |
| Transfer from fixed assets under construction | 24 232 | 11 945 | 56 783 | 199 | - | (93 159) | - |
| Sale and liquidation | (2 436) | (916) | (4 861) | (1 231) | (792) | - | (10 236) |
| Gross value as at 30 September 2018 | 285 866 | 2 030 743 | 4 998 772 | 75 304 | 29 565 | 172 577 | 7 592 827 |
| Depreciation and impairment write-downs as at 1 January 2018 | 11 065 | 1 169 349 | 2 892 319 | 44 041 | 21 404 | 124 896 | 4 263 074 |
| Depreciation write-down for the period | 2 597 | 31 107 | 98 564 | 4 969 | 1 292 | - | 138 529 |
| Impairment write-downs (change of the state) | - | 23 | - | - | - | (28) | (5) |
| Sale and liquidation | (13) | (785) | (4 185) | (942) | (753) | - | (6 678) |
| Depreciation and impairment write-downs as at 30 September 2018 | 13 649 | 1 199 694 | 2 986 698 | 48 068 | 21 943 | 124 868 | 4 394 920 |
| Net value as at 1 January 2018 (transformed data) | 253 005 | 850 365 | 2 049 639 | 25 399 | 8 337 | 97 758 | 3 284 503 |
| Net value as at 30 September 2018 | 272 217 | 831 049 | 2 012 074 | 27 236 | 7 622 | 47 709 | 3 197 907 |

**this item includes also lands used for opencast mining*

***A period of 9 months ended 30 September 2017 (unaudited, transformed data)***

| | *Land and perpetual usufruct** | *Buildings and constructions* | *Plants and machinery* | *Motor vehicles* | *Other* | *Assets under construction* | *Total* |
|---|---|---|---|---|---|---|---|
| Gross value as at 1 January 2017 (transformed data) | 235 209 | 2 018 030 | 4 862 243 | 69 615 | 29 082 | 243 951 | 7 458 130 |
| Purchase | 2 720 | 2 348 | 3 724 | 379 | 328 | 51 378 | 60 877 |
| Repairs | - | - | 65 310 | 20 | (56) | (63 874) | 1 400 |
| Transfer from fixed assets under construction | 16 533 | 2 745 | 3 623 | 672 | 332 | (23 905) | - |
| Sale and liquidation | (523) | (1 251) | (1 528) | (1 079) | (268) | (11) | (4 660) |
| Gross value as at 30 September 2017 | 253 939 | 2 021 872 | 4 933 372 | 69 607 | 29 418 | 207 539 | 7 515 747 |
| Depreciation and impairment write-downs as at 1 January 2017 | 7 932 | 1 128 103 | 2 763 323 | 38 921 | 20 766 | 104 171 | 4 063 216 |
| Depreciation write-down for the period | 2 280 | 36 247 | 101 320 | 5 655 | 1 476 | - | 146 978 |
| Impairment write-downs (change of the state) | - | 150 | 106 | 17 | (123) | (150) | - |
| Sale and liquidation | - | (1 084) | (1 490) | (864) | (263) | - | (3 701) |
| Depreciation and impairment write-downs as at 30 September 2017 | 10 212 | 1 163 416 | 2 863 259 | 43 729 | 21 856 | 104 021 | 4 206 493 |
| Net value as at 1 January 2017 (transformed data) | 227 277 | 889 927 | 2 098 920 | 30 694 | 8 316 | 139 780 | 3 394 914 |
| Net value as at 30 September 2017 | 243 727 | 858 456 | 2 070 113 | 25 878 | 7 562 | 103 518 | 3 309 254 |

**this item includes also lands used for opencast mining*

## 16.1. The value impairment test of assets of ZE PAK SA Capital Group

In accordance with IAS 36, at the end of every reporting period, the Group's Management Board evaluates whether there are any prerequisites indicating that there may have occurred loss in value of the component of fixed assets. In case of statement that there are such prerequisites, the Group estimates recoverable number of assets' components. Due to the above, the Group always analyses: prerequisites that may affect loss in value of any of assets' components, as well as determining cash generating units (CGU) within the Group's companies.

The main factor that the Management Board took into account when assessing the need to conduct the test was the continuing lower market value of the Group's net assets from their carrying amount.

In connection with the above, all centres generating independent cash flows have been analysed.

According to IAS 36: "A cash-generating unit is the smallest identifiable group of assets that generates cash inflows, which are largely independent of the cash inflows from other assets or groups of assets. If there is any indication that an asset may be impaired, a recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit)".

In distinguishing CGU within the companies of the Group, the independence of generating cash flows in terms of the functioning of the individual companies was analysed.

The parent company of the Group that is ZE PAK SA, apart from the manufacturing operations, within which it is responsible for ensuring a certain level of efficiency of the generating units and implementations of production schedules, is focused on the significant operational and financial functions at the Group level as well.

Elektrownia Pątnów II sp. z o.o. – the second electricity producer in the Group, pursuant to the Act on termination of long-term agreements, is involved in the programme of coverage of stranded costs by the end of 2025.

The final settlement of this programme is planned in 2026.

The lignite coal mines, PAK KWB Konin SA and PAK KWB Adamów SA, conduct the business at several open pits.

In these companies, as profit generating units, smaller groups of assets that generate independent cash inflows were not, however, distinguished because of the many reasons, inflows generated by particular groups of assets are very closely connected with each other. As a result, the mine is expected to provide the power plant with a certain amount of coal; it is irrelevant, from which open pit it will come from. As a result, coal is supplied to the power plant from several open pits interchangeably. The organisational structure and registration systems are subordinated to such an established production target.

The above arguments determined distinguishing the following units generating independent cash flows within the ZE PAK SA Capital Group::

- ZE PAK SA,
- Elektrownia Pątnów II sp. z o.o.,
- PAK KWB Konin SA,
- PAK KWB Adamów SA.

Moreover, the remaining CGUs were distinguished within the following segments: Repairs, Sales, and Others.

Conducting the value impairment test of fixed assets, the Group based on the financial model for 2018-2047 reflecting strategic priorities of the parent company – ZE PAK SA

In ZE PAK SA, one centre generating economic benefits has been established, in which the following generation assets operate: Pątnów I power plant, Konin power plant -collector, Konin power plant – biomass unit and Adamów power plant – which ended its operation on 1 January 2018.

For each of the above units, it is possible to determine the economic benefits generated, however, these influences are to a certain degree dependent on each other, and therefore they should be considered together as one centre.

The following assumptions were adopted to estimate the use value of tangible fixed assets of generation segment:

- Electricity prices have been adopted on the basis of developed forecasts divided into BASE, PEAK and OFFPEAK prepared for ZE PAK SA by an independent external advisor, taking into account the trends of rising electricity prices and $CO_2$ emission allowances..
- production assumptions result from the adopted investment and renovation program,
- the Company assumed the use of the free $CO_2$ emission allowances in the amount resulting from Article 10a of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003,
- the costs of lignite coal purchased for generation were specified on the basis of the delivery schedule and the prices agreed with the appropriate schedules in financial projections of the subsidiaries,
- the effects of restructuring costs for the withdrawal of old capacities in Konin Power Plant and Adamów Power Plant were taken into account,
- the effects of restructuring costs for the withdrawal of the old units in the Konin and Adamów Power Plants were taken into account,
- revenues from the capacity market were accepted from 2021; the assumed rates have been estimated by the Group's internal services based on available forecasts of the amount of support for the energy sector,
- the forecast of the margin on the biomass block was estimated assuming that the support mechanism will be the auctions,
- the weighted average cost of capital after tax (WACC) was assumed during the projection period at 8.4%.
- In the scope of BAT conclusions for ZE PAK SA, it was assumed that derogations from the required emission limit values will be obtained due to the planned short life span of generation assets, whereas in the case of Elektrownia Pątnów II sp. z o.o. a periodic release to 2024 was assumed to implement investments under the general renovation planned for this year.
- In the case of Elektrownia Pątnów II sp. Z o.o. the participation of this unit in the stranded costs scheme (LTC) was accepted.

The basis of tests for the companies of the Mining segment are long-term financial projections covering the life (life) periods of both mines and their individual outcrops, which were agreed with the assumptions adopted for the model of the Generation segment companies. The financial projections of the companies from the Mining segment were built with the following parameters

- the volume of production (extraction of coal) and revenue were determined on the basis of forecasts of the main recipient of coal that is ZE PAK SA and Elektrownia Pątnów II sp. z o.o. and the projected price curve of coal, based on an agreement on the financing of open pits,
- stripping and extraction of coal were developed according to the schedule of utilisation of current and predicted open pits, including Ościsłowo till 2036
- the level of investment expenses enabling to build new open pit ensuring supplying the power plants and maintaining specified production capacities during their operation was accepted,
- the effects of employment restructuring processes were taken into account,
- costs of the following events were included:
    - reclamation costs of open pits,
    - pension provisions,
    - for PAK KWB Adamów SA costs of compensations due to the group dismissals,
    - for PAK KWB Adamów SA revenues from sale of the asset after the end of open pit utilisation,
    - an agreement on the extension of the concession in PAK KWB Adamów SA for Adamów open pit deposit was concluded,
- weighted average cost of capital after taxation (WACC) in the projection period for PAK KWB Adamów SA at 8.03% and for PAK KWB Konin SA at the level of 8.25% was adopted; the higher discount rate reflects the higher risk associated with the operation of PAK KWB Konin SA in the long term (longer perspective of the

forecast), in particular in relation to investment activities related to the development of new brown coal deposits..

The tests were performed as at 30 September 2018.

Based on the conducted tests, it was found that there is no need to recognize revaluation allowances for property, plant and equipment for the companies from Generation and Mining segments.

In relation to other CGUs operating within the Repairs, Sales and Other segments, no indications of possible impairment of assets were identified.

On the basis of the conducted analysis and test results, there was also no increase in the estimated usable potential of fixed assets for CGU ZE PAK SA, so there was also no reversal of previously recognized impairment losses in the amount of PLN 1 880 000 thousand.

# 17. Leasing

## 17.1. Liabilities under financial lease agreements and lease agreement with purchase option

Fixed assets used on the basis of financial lease agreements include mostly cars, tracked dozers and loaders, tractors, and trailers.

As of 30 September 2018, and 31 December 2017, future minimal lease payments due to financial lease agreements and lease agreements with purchase option, as well as current value of minimal net lease payments are as follows:

| | *AS at 30 September 2018(unaudited)* | | *As at 31 December 2017* | |
|---|---|---|---|---|
| | *Minimum payments* | *Present value of payments* | *Minimum payments* | *Present value of payments* |
| Up to 1 year | 2 128 | 1 837 | 1 768 | 1 636 |
| 1 to 5 years | 1 837 | 1 727 | 2 962 | 2 606 |
| Over 5 years | - | - | - | - |
| Total minimum lease payments | 3 965 | 3 564 | 4 730 | 4 242 |
| Minus financial expenses | (401) | - | (488) | - |
| Present value of minimal lease payments, including: | 3 564 | 3 564 | 4 242 | 4 242 |
| Short-term | 1 837 | 1 837 | 1 636 | 1 636 |
| Long-term | 1 727 | 1 727 | 2 606 | 2 606 |

# 18. Intangible assets

***Long-term intangible assets – a period of 9 months ended 30 September 2018 (unaudited)***

| | *$CO_2$ emission units (EUA)* | *Patents and licences* | *Computer software* | *Other* | *Total* |
|---|---|---|---|---|---|
| Gross value as at 1 January 2018 | 2 266 | 21 886 | 1 981 | 428 | 26 561 |
| EUA transfer * | (2 266) | - | - | - | (2 266) |
| Decrease | - | (11) | (5) | (16) | (32) |
| Increase | - | 40 | 24 | - | 64 |
| Gross value as at 30 September 2018 | - | 21 915 | 2 000 | 412 | 24 327 |
| Depreciation and impairment write-downs as at 1January 2018 | - | 17 561 | 1 958 | 363 | 19 882 |
| Depreciation write-down for the period | - | 885 | 47 | 13 | 945 |
| Impairment write-down | - | - | - | - | - |
| Decrease | - | (11) | (5) | (16) | (32) |
| Depreciation and impairment write-downs as at 30 September 2018 | - | 18 435 | 2 000 | 360 | 20 795 |
| Net value as at 1 January 2018 | 2 266 | 4 323 | 23 | 65 | 6 679 |
| Net value as at 30 September 2018 | - | 3 480 | - | 52 | 3 532 |

* *transfer to the short-term part*

***Long-term intangible assets – a period of 9 months ended 30 September 2017 (unaudited)***

| | *$CO_2$ emission units (EUA)* | *Patents and licences* | *Computer software* | *Other* | *Total* |
|---|---|---|---|---|---|
| Gross value as at 1 January 2017 | 114 503 | 21 540 | 1 998 | 431 | 138 472 |
| EUA transfer * | (123 225) | - | - | - | (123 225) |
| Decrease | - | - | (45) | - | (45) |
| Increase | 8 722 | 14 | 7 | - | 8 743 |
| Gross value as at 30 September 2017 | - | 21 554 | 1 960 | 431 | 23 945 |
| Depreciation and impairment write-downs as at 1January 2017 | - | 16 943 | 1 903 | 344 | 19 190 |
| Depreciation write-down for the period | - | 799 | 80 | 16 | 895 |
| Impairment write-down | - | - | - | - | - |
| Decrease | - | (1) | (45) | - | (46) |
| Depreciation and impairment write-downs as at 30 September 2017 | - | 17 741 | 1 938 | 360 | 20 039 |
| Net value as at 1 January 2017 | 114 503 | 4 597 | 95 | 87 | 119 282 |
| Net value as at 30 September 2017 | - | 3 813 | 22 | 71 | 3 906 |

* *transfer to the short-term part*

***Short-term intangible assets***

| | *9-month period ended 30 September 2018 (unaudited)* | *9-month period ended 30 September 2017 (unaudited)* |
|---|---|---|
| | *Certified emission reduction unit (EUA)* | *Certified emission reduction unit (EUA)* |
| Gross value as at 1 January 2018 | 261 654 | 273 036 |
| Purchase of EUA | 37 280 | 62 621 |
| Redemption of EUA | (290 205) | (313 105) |
| Transfer of EUA | 2 266 | 123 225 |
| Gross value as at 30 September 2018 | 10 995 | 145 777 |
| Depreciation and impairment as at 1 January 2018 | - | - |
| Impairment write-down | - | - |
| Depreciation and impairment as at 30 September 2018 | - | - |
| Net value as at 1 January 2018 | 261 654 | 273 036 |
| Net value as at 30 September 2018 | 10 995 | 145 777 |

# 19. Assets for overburden removal and other mining assets

As at 30 September 2018, the item of assets concerning overburden stripping and other mining assets includes the assets related to overburden stripping and other mining assets of PAK KWB Konin in the amount of PLN 81 882 thousand.

| | *30 September 2018 (unaudited)* | *12-month period ended 31 December 2017* |
|---|---|---|
| As at 1 January 2018 | 72 536 | 80 524 |
| Increase | 16 057 | 824 |
| Decrease | - | - |
| Depreciation for the period | (6 711) | (8 812) |
| As at 30 September 2018 | 81 882 | 72 536 |
| Long-term | 81 882 | 72 536 |
| Short-term | - | - |

# 20. Other assets

## 20.1. Other financial assets

| | *30 September2018 (unaudited)* | *31 December 2017* |
|---|---|---|
| Deposits for debt security service | 36 405 | 35 616 |
| Investments and deposits | - | 14 |
| Investments and FLZG* deposits | 6 065 | 8 365 |
| Shares | 352 | 313 |
| Other | 594 | 1 791 |
| Total of financial assets | 43 416 | 46 099 |
| Short-term | 11 554 | 35 788 |
| long-term | 31 862 | 10 311 |

**FLZG – mining liquidation fund*

## 20.2. Other non-financial assets

| | *30 September2018 (unaudited)* | *31 December 2017* |
|---|---|---|
| VAT receivables | 19 197 | 6 402 |
| Insurance | 293 | 1 527 |
| Other receivables from the state budget | 1 710 | - |
| Other accruals | 3 472 | 2 756 |
| Delivery prepayments | 133 | 115 |
| Prepayments for assets under construction | 749 | 2 451 |
| Other | 4 252 | 296 |
| Total other non-financial assets | 29 806 | 13 547 |
| short-term | 28 573 | 11 425 |
| long-term | 1 233 | 2 122 |

The largest components of the "Other" item in the period of 9 months ended 30 September 2018 are settlements regarding fees for excluding land from agricultural and forestry production in the amount of PLN 1 790 thousand, settlements related to the Social Fund in the amount of PLN 1 065 thousand, valuation of uninvoiced services in the amount of PLN 561 thousand

# 21. Inventories

| | *30 September2018 (unaudited)* | *31 December 2017* |
|---|---|---|
| Production fuel | 8 290 | 7 564 |
| Spare parts and other materials | 82 197 | 79 001 |
| Certificates of origin of energy | 20 584 | 11 119 |
| Goods | 396 | 74 |
| Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire | 111 467 | 97 758 |

Certificates of origin of energy due to the energy production from renewable energy sources, gas sources, and peak load co-generation are presented according to fair value at the end of the month, in which they were produced.

As at September 30, 2018, the Group held, in accordance with the register, 8 372.150 MWh of the property rights of green certificates produced and verified by the URE of green energy. From January 1, 2018 to September 30, 2018, the Group received 74 933,945 MWh certificates for production in June 2017 and for production in January, February, March and April 2018. During this period, an application was filed for the issue of 58 743.521 MWh for production in May and June 2018 (certificates were received on October 3, 2018). By September 30, 2018, 94 088.960 MWh were sold at TGE SA.

The amount of the impairment write-down on inventories as at September 30, 2018 is PLN 5 515 thousand, and the impairment write-down over the reporting period is PLN 771 thousand.

# 22. Trade and other receivables

| | *30 September2018 (unaudited)* | *31 December 2017* |
|---|---|---|
| Trade receivables | 117 014 | 151 814 |
| Receivables due to compensation related to the termination of the PPAs | 67 543 | 58 303 |
| Receivables due to security of purchase of electricity in the balancing market | 12 505 | 7 695 |
| Other receivables | 133 753 | 35 449 |
| Net receivables | 330 815 | 253 261 |
| Impairment write-down on receivables | 41 389 | 41 522 |
| Gross receivables | 372 204 | 294 783 |

In the ‘other receivables’ item, as of 30 September 2018, the Group presents mainly receivables due to the security deposit in the amount of PLN 54 611 thousand. These are mainly deposits securing transactions at the Polish Power Exchange.

Receivables due to supplies and services are not subject to interest and the date of payment is usually within the 14-day period.

The Group has appropriate policy concerning the sale to the verified clients only. Thanks to that, according to the management, there is no additional credit risk exceeding the level specified by non-collectible receivables impairment write-downs, specific to the Group's trade receivables.

## 23. Cash and cash equivalents

Cash at bank are subject to interest at volatile interest rates, whose amount depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group's demand for cash and are subject to interest at fixed interest rates. The fair value of cash and cash equivalents as of 30 September 2018 amounts to PLN 312 804 thousand (as of 30 September 2017: PLN 370 425 thousand).

The balance of cash and cash equivalents in the consolidated cash flow statement consisted of the following items:

***Cash structure***

| | *30 September 2018 (unaudited)* | *30 September 2017 (unaudited)* |
|---|---|---|
| Cash in hand and at bank | 303 153 | 242 051 |
| Short-term deposits | 9 651 | 128 374 |
| **Total cash and cash equivalents in the balance sheet** | 312 804 | 370 425 |
| Foreign exchange differences | (1 240) | (1 412) |
| **Total cash and cash equivalents in cash flow statement** | 311 564 | 369 013 |

## 24. Dividends paid and proposed for payment

On 22 June 2018 the Ordinary General Meeting of the Company adopted the resolution on distribution of the net profit for 2017 in the amount of PLN 90 636 796.27 in the following way:

a) amount of PLN 60 988 256.40 was allocated for a dividend for shareholders, which means that dividend per a share was PLN1.20,
b) remaining part of the profit in the amount of PLN 29 648 539.87 was allocated for the reserve capital.

Dividend was paid in the following dates:

16 August 2018 - I tranche in the amount of PLN 30 494 128.20 (PLN 0.60 per one share),

30 October 2018 - II tranche in the amount of PLN 30 494 128.20 (PLN 0.60 per one share).

As the day of this report the dividend was paid.

## 25. Interest-bearing loans and borrowings

| **Short-term** | *Maturity* | *30 September 2018 (unaudited)* | *31 December 2017* |
|---|---|---|---|
| Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin | 20.07.2019 | 142 041 | 136 840 |
| Overdraft facility at Santander Bank Polska SA in the amount of PLN 40 000 thousand; interest rate at WIBOR 1M + bank margin | 30.06.2019 | 33 736 | 23 |

| | | | |
|---|---|---|---|
| Overdraft facility at Alior Bank SA in the amount of PLN 66 700 thousand, interest rate at WIBOR 1M + bank margin | 30.05.2019 | 59 561 | 59 025 |
| Bank loan (syndicated) in the amount of PLN 577 000 thousand (Loan A), interest rate at WIBOR 3M+ bank margin | 20.03.2020 | 140 317 | 141 662 |
| Bank loan in the amount of PLN 90 000 thousand (Loan B). interest rate at WIBOR 3M+bank margin | 20.03.2020 | 11 767 | 12 023 |
| Overdraft facility at Pekao SA bank in the amount of PLN 10 000 thousand, interest rate at WIBOR 1M + bank margin | 30.11.2018 | 65 | - |
| Overdraft facility at mBank SA in the amount of PLN 10 000 thousand, interest rate at WIBOR 1M + bank margin | 31.05.2019 | 1 254 | - |
| **TOTAL** | | **388 741** | **349 573** |

| **Long-term** | *Maturity* | *30 September 2018 (unaudited)* | *31 December 2017* |
|---|---|---|---|
| Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin | 20.07.2019 | - | 101 431 |
| Syndicated investment loan in amount of PLN 577 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin | 20.03.2020 | 52 945 | 150 931 |
| Syndicated overdraft facility in amount of PLN 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin | 20.03.2020 | 42 501 | 50 103 |
| **TOTAL** | | **95 446** | **302 465** |

# 26. Provisions and accruals

## 26.1. Accruals

| | *30 September 2018 (unaudited)* | *31 December 2017* |
|---|---|---|
| Bonus and holiday leave provisions | 23 524 | 28 770 |
| Provision for employment terminations | - | 2 173 |
| Provision for fees for economic use of the environment | 13 876 | - |
| Audit of the financial statements | 67 | 563 |
| Other | 1 292 | 1 328 |
| Total | 38 759 | 32 834 |
| Short-term | 38 759 | 32 834 |
| Long-term | - | - |

The main component of the item "Other" is the provision for a penalty for exceeding the amount of dust introduced into the air in 2015 in the amount of PLN 1 190 thousand. The group appealed against this decision to the Provincial Inspectorate for Environmental Protection in Poznań. The case was referred to the Chief Inspector of Environmental Protection. As at the date of this report, the procedure for collecting and analysing documents related to Adamów Power Plant has been completed. Currently, the Group is awaiting a decision.

## 26.2. Change in provisions

| | *Provision for EUA redemption* | *Provision for the fixed assets liquidation costs* | *Provision for the reclamation of ash storage yards* | *Provision for the long-term contract loss* | *Provision for the certificates of origin of energy redemption* | *Reclamation provisions and other provisions related to mining activities* | *Other* | *Total* |
|---|---|---|---|---|---|---|---|---|
| **As of 1 January 2018 (transformed data)** | 289 942 | 16 593 | 42 207 | 370 | 8 522 | 362 416 | 24 754 | 743 804 |
| Increase | 338 043 | 410 | - | 234 | 3 298 | 9 950 | 21 947 | 373 882 |
| decrease | (289 942) | - | (120) | (547) | (804) | (13 279) | (4 898) | (309 590) |
| **As of 30 September 2018** | 338 043 | 17 003 | 41 087 | 57 | 11 016 | 359 087 | 41 803 | 808 096 |
| Long-term | - | 17 003 | 40 990 | - | - | 334 209 | 14 432 | 406 634 |
| Short-term | 338 043 | - | 97 | 57 | 11 016 | 24 878 | 27 371 | 401 462 |
| | | | | | | | | |
| **As of 1 January 2017 (transformed data)** | 313 105 | 16 848 | 41 456 | 13 | 7 838 | 307 837 | 37 552 | 724 649 |
| increase | 289 942 | 747 | 1 | 397 | 1 616 | 70 385 | 1 023 | 364 111 |
| decrease | (313 105) | (1 002) | (250) | (40) | (932) | (15 806) | (13 821) | (344 956) |
| **As of 31 December 2017 (transformed data)** | 289 942 | 16 593 | 41 207 | 370 | 8 522 | 362 416 | 24 754 | 743 804 |
| Long-term | - | 16 593 | 40 991 | - | - | 336 292 | 4 477 | 398 353 |
| Short-term | 289 942 | - | 216 | 370 | 8 522 | 26 124 | 20 277 | 345 451 |

## 26.3. Description of significant titles of provisions

### *26.3.1. The provision for liabilities due to the emission of greenhouse gases (EUA)*

The Group recognises the provision for the redemption of greenhouse gases emission allowances.

Since 1 January 2013, the next reporting period of 2013 – 2020 concerning emission allowances has been applicable. This period's assumption is granting the Group the free EUA allowances resulting from the production of heat, although power engineering was additionally covered by opportunity of derogation. Derogation resulting from Article 10c of the ETS Directive is based on granting additional free allowances, provided that declared investment expenses for investments reported to the National Investment Plan are paid. The ZE PAK SA submits to the Ministry of the Environment the annual material and financial statements from investment expenses paid for tasks reported to the National Investment Plan, applying for granting free EUAs for the subsequent reporting years at the same time.

In September 2017, the Company submitted a material and financial statement to the Ministry of Environment regarding the free EUAs under article 10c for the incurred investment expenses in the period from 1 July 2016 to 30 June 2017. However, due to the uncertainty in terms of the creation of a dual-commodity market, implementation of the power market at that moment, which will impact directly the modernisation of units number 3 and 4 in the Pątnów Power Plant, the Company did not apply for the free allowances. In connection with the above, the Group did not receive EUAs for 2017 due to art. 10c.

As at January 1, 2018, the Group had physical assets in its EUA accounts in the amount of 9 776 059 tons. In February 2018, the Group received free EUA for heat for 2018 (Article 10a of the ETS Directive) in the amount of 69 066 EUA. In addition, in the first quarter of 2018, the Group completed purchases of emission allowances under futures contracts concluded for the production needs of 2017 in the amount of 1 330 000 EUA. After these operations, the status of the EUAs held on the Group's accounts in the Union Register as at March 31, 2018 was 11 175 125 EUA. After the cancellation process in April 2018, the EUA units in the accounts of the Group in the Union account in the amount of 309 021, which will be used for the needs of 2018 cancellations. In May 2018, ZE PAK purchased 82,000 units of EUA. As at September 30, 2018, the Group physically accounted for 391 021 units of EUA on its account in KOBIZE. At the same time, at the end of III quarter of 2018, the Group concluded futures contracts for the needs of redemption in 2018 in the amount of 6 142 000 EUA units and for the needs of cancellation in 2019 – 3 645 000 EUA. The provision of CO2 for the Group, which the Group intends to redeem for 2017, is charged to basic operating activities. Upon the actual cancellation of entitlements, the previously created reserve will be used.

### *26.3.2. Provision for reclamation of ash storage yards and costs of liquidation of fixed assets*

The Group creates the provision for future costs of reclamation of the land on the basis of legal obligation resulting from the "Integrated Permits." The basis of estimation of the provision size are data developed by domestic services The value of the provision is estimated and verified on every balance sheet date on the basis of estimated costs to bear in the future and discount. As of 30 September 2018, the created provision amounted to PLN 41 087 thousand. Descriptions of the created reserve can be found in notes 5 and 8.

Due to the legal obligation to liquidate fixed assets after their period of use, the Group creates the provision for projected future costs, which will be necessary to pay for fulfilment of this obligation. As of 30 September 2018, the provision due to this amounted to PLN 17 003 thousand.

### *26.3.3. Reclamation provision and other provisions related to mining activities*

PAK KWB Konin SA and PAK KWB Adamów SA are obliged to reclaim areas of extraction works pursuant to the Geological and Mining Law act. Due to this, the Group creates the provision both for costs of area reclamation related to current coal extraction on a given open pit and for costs of the final excavation reclamation in the state of advancement of coal extraction in particular open pits on every balance sheet day.

The provision is created on the basis of estimation of future reclamation costs based on reports of independent experts estimating reclamation costs on the order of the Management Board. Estimates concerning projected reclamation costs are analysed periodically; on every reporting date, the volume of provision is verified in accordance with current assumptions within discount rate, inflation, and the volume of extraction.

PAK KWB Konin SA and PAK KWB Adamów SA, within run activities, are obliged to restore to the original condition, or to rebuild damages caused by the mine operations. Due to this, the Group creates the provision for projected costs, to pay which it is obliged on the basis of concluded agreements. Estimates concerning the projected costs related to the mine operations are updated on every reporting date.

The provision for decommissioning and reclamation of mining areas and for the preparation of operational areas at PAK KWB Konin SA and PAK KWB Adamów SA as at September 30, 2018 amounted to PLN 359 087 thousand and decreased compared to the year ended December 31, 2017 by PLN 3 329 thousand. While calculating the provision, the Group adopted the following assumptions: discount rate at 3.3%, inflation level at 2.5%.

### *26.3.4. Provision for redemption of Energy certificates*

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load co-generation. As of 30 September 2018, the provision due to this amounted to PLN 11 016 thousand.

### *26.3.5. Other provisions*

The main items of the other provisions as at 30 September 2018 are in PAK KWB Konin SA: provisions for mining damage in the amount of PLN 13 532 thousand, provisions for pending court proceedings in the amount of PLN 536 thousand, provision for mining use fee in the amount of PLN 2 987 thousand. In PAK KWB Adamów SA: provisions for permanent exclusion from production for the final tank after the Adamów open pit in the amount of PLN 15 828 thousand, a reserve for mining damage in the amount of PLN 3 383 thousand, provision for a service charge in the amount of PLN 545 thousand, provision for mining utility fee in the amount of PLN 333 thousand, provisions for court proceedings in the amount of PLN 175 thousand.

## 27. $CO_2$ emission allowances

Since 1 January 2013, the next reporting period of 2013 – 2020 concerning emission allowances has been applicable. This period's assumption is granting the Group the free EUA allowances resulting from the production of heat, although power engineering was additionally covered by opportunity of derogation. Derogation resulting from Article 10c of the ETS Directive is based on granting additional free allowances, provided that declared investment expenses for investments reported to the National Investment Plan are paid.

The Group submitted a material and financial statement to the Ministry of the Environment for the incurred investment expenses from 1 July 2016 to 30 June 2017. However, due to the uncertainty regarding the emergence of a dual-commodity energy market, including power market, which will have a direct impact on the possible modernisation of units nos. 3 and 4 in the Pątnów Power Plant, despite showing further small expenses, the Group has not applied for free allowances in view of the possible need to return them for not carrying out further modernisation of these units. Therefore, the Group did not receive EUAs for 2017 under Article 10c.

For Elektrownia Pątnów II sp. z o.o.'s system, a specified number of $CO_2$ emission allowances was allocated. However, for this system, any investment task that would cover receivables for $CO_2$ emission allowances were not reported to the National Investment Plan, so allocation of free EUA units for this system depends on expenses for tasks conducted for the systems of ZE PAK SA. In 2013-2017, ZE PAK SA did not incur significant expenses so that the part of them would meet the requirements for receiving free EUA allowances by Elektrownia Pątnów II. Currently, Elektrownia Pątnów II sp. z o.o. does not assume that it will receive any free allowances for surplus of the expenses incurred by ZE PAK SA.

As at 1 January 2018, the Group had physical assets in its EUA accounts in the amount of 9 776 059 tonnes. In the first quarter of 2018, the Group received free EUA for heat for 2018 (Article 10a of the ETS Directive) in the amount of 69 066 tons. In addition, the Group purchased purchases of emission allowances under forward contracts concluded for the production needs of 2017 in the amount of 1 330 000 EUA. In connection with the above, the balance of EUA units on accounts in the ZE PAK SA Group as at 31 March 2018 is 11 175 125 EUA. In April 2018, the Group will redeem CO2 emissions for 2017 in the amount of 10 866 104 tons, including ZE PAK SA in the amount of 8 260 668 tons and Elektrownia Pątnów II sp. Z o.o. in the amount of 2 605 436 tons. In May 2018, PAK purchased 82,000 EUA in spot transactions. As at 30 September 2018 in ZE PAK SA Group there is 391 021 of EUA.

**Risk of return of free allowances for CO2 emissions due to discontinuation of investments in blocks 3 and 4 and a gas-steam block**

Due to the suspension of investments in blocks 3 and 4 and the gas and steam block, the Management Board of the Company estimated the potential risk of returning free CO2 emission rights in the amount of approximately EUR 6.5 million with interest.

In connection with the submission to the European Commission of a revised National Investment Plan for 2013-2020, the Company asked the Minister of the Environment for the possibility of replacing suspended investment tasks with new tasks. In response, the Minister of the Environment asked for a list of tasks whose deadline for completion indicated in the plan is endangered.

On February 28, 2018, the Company filed a letter to the Minister of the Environment, in which it expressed a desire to balance the value of issued CO2 emission rights for investments related to blocks 3 and 4, the costs of planned investments to be converted. By the date of this report, the Company did not receive a response from the Minister of the Environment.

As at the date of this report, there was no risk of potential reimbursement of free CO2 allowances received related to the above investment tasks and no grounds for creating any provisions for this. The report discloses a conditional obligation regarding the return of allowances.

The following tables present the carbon dioxide emission rights granted under the National Allocation Plan, purchased on the secondary in the periods ended on September 30, 2018 and September 30, 2017.

### *CO2 emission allowance for the period of 9 months ended 30 September2018 (unaudited)*

| *(in tons)* | | ***Zespół Elektrowni Pątnów-Adamów-Konin SA*** | ***Elektrownia Pątnów II sp. z o.o.*** |
|---|---|---|---|
| | $CO_2$ emission* | 3 639 057 | 1 845 708 |
| **EUA** | Balance at the beginning of the period | 7 051 715 | 2 724 344 |
| | Purchased | 1 412 000 | - |
| | Free of charge | 69 066 | - |
| | Redemption | (8 260 668) | (2 605 436) |
| | Balance at the end of the period | 272 113 | 118 908 |

### *CO2 emission allowance for the period of 9 months ended 30 September 2017 (unaudited)*

| *(in tons)* | | ***Zespół Elektrowni Pątnów-Adamów-Konin SA*** | ***Elektrownia Pątnów II sp. z o.o.*** |
|---|---|---|---|
| | $CO_2$ emission* | 6 255 811 | 2 174 334 |
| **EUA** | Balance at the beginning of the period | 12 900 660 | 920 181 |
| | Purchased | 1 110 000 | 1 345 000 |
| | Free of charge | 83 317 | - |
| | Redemption | (9 428 262) | (2 027 837) |
| | Balance at the end of the period | 4 665 715 | 237 344 |

** Physical redemption of the allowances for a given year takes place in the first months of the next year.*

# 28. Trade liabilities, other liabilities and accruals

## 28.1. Trade liabilities and other financial liabilities (short-term)

| | *30 September 2018 (unaudited)* | *31 December 2017* |
|---|---|---|
| Trade liabilities: | 114 220 | 100 503 |
| Other liabilities: | | |
| Liabilities due to the „put" option | 3 566 | 3 755 |
| Investment liabilities | 7 289 | 15 530 |
| Liabilities to employees due to salaries | 16 471 | 14 452 |
| Other liabilities | 38 828 | 12 176 |
| Total | 180 374 | 146 416 |

In the other liabilities line as of 30 September 2018, the Group presents mainly liabilities due to the dividend in the amount of PLN 30 494 thousand, financial lease in the amount of PLN 1 837 thousand (PLN 1 636 thousand in 2017). The remaining amount in the other liabilities item as of 30 September 2018 concerns mostly settlements with employees and deductions from the pay roll amounting to PLN 1 924 thousand (PLN 7 104 in 2017) and settlements due to security amounting to PLN 1 243 thousand (PLN 1 111 thousand in 2017).

Liabilities due to the put option concern obligation of ZE PAK SA to redeem the employee shares pursuant to the PAK KWB Konin SA and PAK KWB Adamów SA's shares sale agreement, in case when employees request for re-sale. The agreement's provisions determine the price and term of redemption. In accordance with IFSR, ZE PAK recognised the obligation to redeem shares owned by non-controlling interests on the day of the acquisition of control. In relation with the ongoing process of the employee shares redemption, as of 30 September 2018, the remaining liability amount is PLN 3 566 thousand.

Principles and terms of payment of above financial liabilities:

Liabilities due to supplies and services are not subject to interest and are usually settled within either the 14-day, or 30-day period. Liabilities due to interests are usually settled within either monthly or quarterly periods during the whole financial year.

## 28.2. Trade liabilities and other financial liabilities (long-term)

| | *30 September 2018 (unaudited)* | *31 December 2017* |
|---|---|---|
| Liability due to financial lease | 1 727 | 2 606 |
| Short-term liabilities to other entities - over 12 months | 411 | 415 |
| Other | 2 079 | 2 125 |
| Total | 4 217 | 5 146 |

## 28.3. Other non-financial liabilities

| | *30 September 2018 (unaudited)* | *31 December 2017* |
|---|---|---|
| VAT tax liabilities | 38 315 | 18 238 |
| Liabilities due to environmental charges | 313 | 39 115 |
| Liabilities due to the excise tax | 2 053 | 971 |
| Liabilities due to social insurance | 19 306 | 23 203 |
| Individual income tax | 4 637 | 6 273 |
| Other budget liabilities | 314 | 5 115 |
| Advanced payments for deliveries | 237 | 936 |
| Service charge | - | 11 060 |
| Other | 540 | 2 476 |
| Total | 65 715 | 107 387 |

Liabilities due to environmental charges concern charges for air pollution, waste storage, intake of water, and wastewater disposal. The year is a settlement period.

Liabilities due to mining fees concern charges for the extracted mineral resulting from the Geological and Mining Law. The half-year is a settlement period.

## 28.4. Derivative financial instruments

| | *30 September 2018 (unaudited)* | *31 December 2017* |
|---|---|---|
| Instruments securing floating interest rates (SWAP) | 1 537 | 4 112 |
| Other currency options | - | 897 |
| Total | 1 537 | 5 009 |
| Short-term | 1 537 | 4 139 |
| Long-term | - | 870 |

In the balance sheet assets, in the position of derivative financial instruments there are presented forward contracts that hedge the EUR exchange rate related to the purchase of CO2 emission allowance units. The current net market value of contracts as at September 30, 2018 is PLN 325 thousand.

## 28.5. Grants and deferred income (long-term)

| | *30 September 2018 (unaudited)* | *31 December 2017* |
|---|---|---|
| Long-term grants | 40 378 | 41 504 |
| Other | 3 004 | 3 005 |
| Total | 43 382 | 44 509 |

## 28.6. Grants and deferred income (short-term)

| | *30 September 2018 (unaudited)* | *31 December 2017* |
|---|---|---|
| Short-term grants | 1 502 | 1 502 |
| Other | 2 | 5 |
| Total | 1 504 | 1 507 |

Elektrownia Pątnów II sp. z o.o. identified a loan received in 2005 from the National Fund for Environmental Protection and Water Management, granted on terms other than market (preferential). In accordance with the provisions of IAS 39, the loan was valued as if it had been granted on market terms. The difference between the value from the valuation and the nominal value was recognized as a subsidy and is subject to settlement in time according to IAS 20 - in accordance with the period of economic use of the 474 MW unit.

# 29. Contingent liabilities and description of significant judicial cases

Apart from liabilities described in the following note and in notes 26 and 27 below, as of 30 September 2018, the Group did not have any other contingent liabilities, guarantees and sureties granted.

## 29.1. Court proceedings

***Proceedings due to determining the amount of the annual adjustment of the stranded costs for 2017***

The President of the Energy Regulatory Office ("the President of ERO") on 28 March 2018 instituted administrative proceedings regarding the arrangement of the amount of the annual adjustment of stranded costs for 2017 for Elektrownia Pątnów II sp. z o.o. On July 23, 2018, the President of ERO issued a decision on the amount of the annual adjustment for 2017 for Elektrownia Pątnów II sp. z o.o. The adjustment amount is plus PLN 58 305 thousand. This amount was credited to the account of Elektrownia Pątnów II sp. Z o.o. on September 28, 2018.

The proceeding is completed.

***Prosecution of individual interpretation of tax law in scope of returns of negative adjustments resulting from LTC Act to Zarządca Rozliczeń SA***

On 7 July 2017 Elektrownia Pątnów II sp. z o.o. submitted to the Provincial Administrative Court in Poznań (through the Director of National Tax Information Office) a complaint about the individual interpretation of the tax law issued by the Director of National Tax Information dated 20 April 2017 in scope of repayment for Zarządca Rozliczeń SA, on the basis of the agreement between the Parties, liability for repayment of stranded costs for 2008 and other future repayments (negative corrections) from Elektrownia Pątnów II Sp. Z o.o. for Zarządca Rozliczeń S.A., that validity will be based on the Act dated 29 June 2007 of the principles of covering the costs incurred by generators in connection with the termination of long-term contracts for sale of power and electricity (Dz. U. z 2017 r., item 569 with changes, hereinafter referred to as “LTC Act”).

On 10 August 2017, the Director of the National Treasury Information Division sent to the Voivodship Administrative Court in Poznań the answers to the above mentioned complaint.

In the opinion of Elektrownia Pątnów II sp. z o.o., all the repayments from Elektrownia Pątnów II Sp. z o.o. for Zarządca Rozliczeń S.A. arising from the LTC Act constitutes the costs of obtaining revenues at the actual time of those payments. The Company reserves the right to include these costs in the settlement for the tax year, in which Zarządca Rozliczeń SA was paid / will be paid. The above is included in the regulation in article 42 pint 4 of LTC Act.

The above opinion complies also with the broad case law in this scope.

Having a different opinion the Director of National Treasury Department, who issued the individual interpretation considered the Company’s position to be incorrect and stated that the repayments for Zarządca on the basis of the agreement made in 2014-2017 (within the scope of repayments) in 2017 (in scope of future, not made repayments), and other repayments from The Company for Zarządca, which validity will be based on LCT Act, constitute or will constitute the revenue costs on the day of incurring the costs, i.e. posting in accounting books.

On 18 January 2018, the company won a dispute with the Director of the National Tax Information in the aforementioned case, before the Court of Appeals in Poznań. The verdict of the court means that the company correctly recognized the costs of obtaining income from the abovementioned title.

On 27 March 2018, the Director of the National Tax Information appealed against the court's judgment.

The proceeding is in progress.

### *The initiation of tax proceedings against Elektrownia Pątnów II sp. z o.o. on the settlement of corporate income tax for 2016*

On April 13, 2018, the Head of the Second Wielkopolska Tax Office in Kalisz initiated tax proceedings against Elektrownia Pątnów II sp. z o.o. on the settlement of corporate income tax for the fiscal year 2016.

The above-mentioned proceedings are a direct consequence of the appeal of the Head of the National Tax Information to the judgment of the court referred to above.

On June 14, 2018 Elektrownia Pątnów II Sp. z o.o. applied to the Head of the Second Wielkopolska Tax Office in Kalisz to suspend tax proceedings until the court settled the case.

On June 21, 2018, the Head of the Second Wielkopolska Tax Office in Kalisz approved the company's application and suspended the tax proceedings pending the court's decision.

### *Proceedings due to failure to perform obligation to maintain stocks of fuel*

On 17 September 2008 and 29 May 2009, the ERO President initiated proceedings on imposing a pecuniary penalty on the ZE PAK SA company due to failure to perform the obligation to maintain fuel stocks securing continuity of electricity and heat supplies to recipients as of 31 December 2007, 31 March 2008, 1 July 2008, 1 September 2008, 1 October 2008, 1 November 2008, 1 December 2008, 1 January 2009, 1 February 2009, and 1 March 2009.

On the basis of the decision of the ERO President of 28 December 2010, the pecuniary penalty, due to failure to perform the obligation to maintain fuel stocks in the quantity securing continuity of electricity and heat supplies to recipients, was imposed on ZE PAK SA in 2008 and 2009 in the amount of zloty 1,500 thousand. Initially, the Company created the provision for the costs of the penalty in the full amount in 2010, which it then redeemed in 2015 in connection with the penalty payment.

On 30 January 2014, the Court for Protection of Competition and Consumers decided about a dismissal of the company's appeal against the ERO President's decision. On 30 April 2014, the Company submitted the appeal to the Court of Appeal in Warsaw.

On 13 May 2015, the Court of Appeal in Warsaw dismissed the Company’s appeal against the judgement of the Court for Protection of Competition and Consumers of 30 January 2014 that consequently upholds the decision of the ERO President.

On 11 December 2015, the Company submitted a cassation appeal from the judgement of the Court of Appeal of Warsaw of 13 May 2015 before the Supreme Court.

On 22 March 2017, the Supreme Court issued a judgement, which revoked the contested sentence of the Court of Appeal in Warsaw of 13 May 2015 and handed over the case to the Court of Appeal in Warsaw for repeated examination and stating on costs of cassation proceedings.

On April 11, 2018, the Warsaw Court of Appeal passed a judgment, which changed the verdict of the Court of Competition and Consumer Protection of January 30, 2014 – by repealing the decision of the President of the Energy Regulatory Office of December 28, 2010. The company sent a request to ERO for reimbursement of the fine paid on September 10, 2015 in the amount of PLN 1 500 thousand.

The proceeding is completed.

### *Proceedings on refund of excise duty overpayment*

In light of the regulations mandatory within the European Union, especially regulations of Article 21 paragraph 5 of the Energy Directive, in relation to Article 6 paragraph 1 of the Horizontal Directive, after 1 January 2006, the object of excise tax is sale of energy at the last stage of trade, i.e. sale by the distributor to the final recipient (consumer). Taxation with this tax does not cover an earlier stage of trade, e.g. between the producer of electricity and its distributor. In this case, the tax obligation arises at the time of supply of electricity to the consumer.

As at 1 March 2009, the Act of 6 December 2008 on excise duty entered into force, according to which the sale of electricity to an entity which is not its final customer is not subject to excise duty.

Due to the above fact, pursuant to Article 75 § 1, in relation to Article 75 § 2 of the Act of 29 August 1997 – Tax Ordinance, ZE PAK SA submitted applications for stating overpayment of the excise tax for 2006, 2007, 2008, as well as January and February 2009 for the total amount of PLN 626 million, with the justification that pursuant to the regulations of the EU law and the judicial decisions of the Provincial Administrative Courts, the activities executed by ZE PAK SA are not subject to the excise tax. Particular applications were recognised at the following levels: the Customs Office in Kalisz, the Customs Chamber in Poznań, and, currently, the Provincial Administrative Court in Poznań („PAC"), as well as the Supreme Administrative Court. Due to the position of judicature presented in the course of court proceedings, the amount of overpayment, the repayment of which the Company submits, has been reduced to the amount of damages caused by economic analyses, i.e. currently up to the amount of approximately PLN 108 million.

Moreover, in association with the rulings of the Administrative Courts regarding other power companies, in the subject of overpaid excise duty and the resolution I GPS 1/11 of the National Administrative Court ("NSA") of 22 June 2011 (where the NSA ruled that transferring the tax load in price, excludes the possibility to return the overpayment), notwithstanding the ongoing administrative proceedings, on 10 February 2012, the Company initiated a civil-law proceedings, filling an application to summon the State Treasury to a conciliation hearing regarding the amount of PLN 626 406 thousand, to the District Court Warszawa Śródmieście. A conciliatory settlement was not reached since during the hearing of 16 April 2012, the representatives of the Treasury did not agree to settle. Simultaneously, the Company, waiting for the results of the tax proceedings regarding the previously submitted application for overpayment, submitted in writing, on 14 September 2012, in the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic analysis, the purpose of which was to demonstrate whether the Company suffered loss related to the payment of excise tax to which it was not obliged. The Company's opinion is that the submitted document also applies to other overpayment applications from the entire period embraced by the proceedings, i.e. between January 2006 and February 2009. Ultimately, all applications were included in the cause lists of the Provincial Administrative Court (WSA) and the Supreme Administrative Court (NSA). As of the date of development of this statement, the status of the proceeding is as follows:

- Twenty two cases for the period of January 2006 – November 2007 (excluding November 2006) were conducted again from the start by the Head of the Customs Office, after the cases returned from the Supreme Administrative Court. The Company submitted monthly economic analyses of suffering the prejudice. After the negative decisions of the Head of the Customs Office and then of the Head of Customs Chamber, complaints were submitted to the Provincial Administrative Court in Poznań, Hearings before the Provincial Administrative Court in Poznań took place on 4 and 18 November 2015. In all cases, negative judgements for the Company were issued. In February 2016, the Company submitted cassation appeals to the Supreme Administrative Court. The Supreme Administrative Court dismissed the Company's cassation appeals in the abovementioned 22 cases at the hearings held on April 10 and 11, 2018.
- 14 proceedings for the period of December 2007 – February 2009 (excluding July 2008) on 26 January 2017, hearings took place before the Provincial Administrative Court in Poznań. In all the cases, the Company's appeals against the Customs Chamber in Poznań were dismissed. The Company submitted applications for a written justification of the judgement, which were obtained on 7 March 2017, to the Provincial Administrative Court. Currently, the Company analyses justifications and prepares the applications of cassation appeals to the Supreme Administrative Court,
- the proceeding for November 2006 was concluded with a negative judgement of the Supreme Administrative Court of 8 December 2011,
- the proceeding for July 2008 reached the recognition of our cassation appeal by the Supreme Administrative Court. On the hearing on 29 April 2015, the Supreme Administrative Court dismissed the Company's cassation appeal and pointed out that it fully agrees with the Provincial Administrative Court in Poznań in the judgement, against which the cassation appeal was submitted.

Notwithstanding the foregoing proceedings, ZE PAK SA lodged a complaint against the actions of the Polish authorities to the European Commission ("EC"), pursuant to art. 258 of the Treaty on the Functioning of the European Union. The opinion issued by the EC may oblige the Polish tax authorities to pass a ruling beneficial to ZE PAK SA. On 21 March 2017, ZE PAK SA received a "pre-closure letter" from the EC, which initially denied the relevance of ZE PAK SA's position, however, at the same time giving the right to a second comment on the subject, which ZE PAK SA exercised. On 9 June 2017, a letter summarising the reasoning of ZE PAK SA, in terms of the overpaid excise tax. Currently, ZE PAK SA is awaiting the EC to take the final position on the case in question.

In case of the Elektrownia Pątnów II sp. z o.o., the proceedings for all periods (one case) were included in the cause lists of the Provincial Administrative Court after a negative decision of the Head of Customs Chamber. The aforementioned company does not have access to comparative analyses of suffering the prejudice. On 4 November 2015, a hearing in the Provincial Administrative Court in Poznań took place. On 18 November 2015, a negative ruling was given. On 8 February 2016, the company filed a cassation appeal to the Supreme Administrative Court. Currently, Elektrownia Pątnów II sp. z o.o. is awaiting the setting of a hearing before the Supreme Administrative Court. The Supreme Administrative Court dismissed the Company's cassation complaint at the hearing held on April 11, 2018.

### *Proceedings on an environmental decision issued to PAK KWB Konin SA concerning lignite deposit in Tomisławice*

PAK KWB Konin SA is a party in the administrative proceedings related to the environmental decision regarding the lignite deposit in Tomisławice. On 7 August 2007, the Head of Wierzbinek Commune issued an environmental decision regarding the lignite open cast. On 5 December 2008, this decision was contested by nine physical persons supported by the Greenpeace organisation due to alleged major infringement of the regulations of the law. On 25 March 2009, the Self-government Appeal Court dismissed the application to reverse the environmental decision. The plaintiffs applied for the judicial review. On 4 May 2009, after the judicial review, the Self-government Appeal Court sustained its previous decision. The plaintiffs again appealed against the environmental decision. On 5 May 2010, the Provincial Administrative Court in Poznań ruled that the environmental decision, pursuant to which the license for the extraction of lignite at the Tomisławice deposit was granted, infringes the regulations of the law in a major manner. PAK KWBK SA and the Self-government Appeal Court submitted an appeal against this judgement. On 21 March 2012, the Supreme Administrative Court overturned the contested decision of the Provincial Administrative Court in Poznań and referred the matter for reconsideration. On 6 November 2012, the Provincial Administrative Court in Poznań announced the decision repealing the decision of the Self-government Appeal Court of 25 March 2009 refusing to declare the invalidity of the environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune, related to the extraction of lignite from the Tomisławice open pit by PAK KWBK SA On 7 January 2013, PAK KWBK Konin SA submitted a cassation appeal from the described decision.

After the review on the hearing on 7 October 2014, the Supreme Administrative Court dismissed the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA from the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 repealing the decision of the Self-government Appeal Court in Konin of 25 March 2009 refusing the annulment of the environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune related to the extraction of lignite from Tomisławice open pit.

Dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA means that the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 became legally binding and the case regarding the statement of invalidity of the environmental decision will be examined again by the Self-government Appeal Court. On 1 October 2015, the Self-government Appeal Court issued a decision to suspend the proceedings on the statement of invalidity of the environmental decision issued by the Head of Wierzbinek Commune in connection with the unfinished European Commission proceedings against the Polish government on breach of the provisions concerning the environment protection in connection with the lignite deposit in Tomisławice. In the case of a ruling on suspending the proceedings, a separate proceeding is under way. On June 12, 2018, the Supreme Administrative Court in Warsaw ordered in its judgment that the Local Government Appeal Court is to resume the suspended proceedings.

The decision of the Supreme Administrative Court in Warsaw of 7 October 2014 does not invalidate the environmental decision issued by the Head of Wierzbinek Commune and does not halt the extraction and utilisation works at Tomisławice open pit. The environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune is still in legal transactions, and until the issue of a final judgement by the Self-government Appeal Court, it exerts legal effects.

### *Proceedings on an environmental decision on lignite deposit in Ościsłowo*

On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") of 10 March 2017, refusing the establishment of the environmental conditions for the investment titled: "Extraction of lignite and associated minerals from the Ościsłowo Open Pit." The decision of RDOŚ in Poznań is not final. PAK KWB Konin SA appealed accordingly to the General Directorate for Environmental Protection in Warsaw. The appeal included a request to revoke the appealed ruling in its entirety and determine the environmental conditions for the execution of the above-mentioned project. On 30 November 2017, General Director of Environmental Protection in Warsaw has decided to repeal a decision in its entirety (contested by PAK KWB Konin SA - a subsidiary of the Company) of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań")

dated March 10, 2017, refusing to specify environmental conditions for the project entitled: " Extraction of lignite and associated minerals from Ościsłowo Open Pit" and forward the case for reconsideration by RDOŚ in Poznań.
PAK KWB Konin SA, by letter of December 18, 2017 filed an objection against the abovementioned decision of GDOŚ in Warsaw to the Provincial Administrative Court in Warsaw (WSA). In the opinion of PAK KWB Konin S.A. there were grounds for issuing a reformatory decision by GDOŚ in Warsaw, i.e. amending the contested decision of RDOŚ in Poznań and substantive decision in this matter, not referring the matter for reconsideration. The other party also opposed the WSA. Both objections were dismissed by the WSA. The verdict was passed on March 1, 2018. On April 12, 2018, PAK KWB Konin SA filed a cassation complaint with the Supreme Administrative Court in Warsaw against the verdict of the WSA in Warsaw of 1 March 2018. The Supreme Administrative Court in Warsaw, by a judgment of September 25, 2018, repealed the appealed judgment and forwarded the case to the Provincial Administrative Court in Warsaw for reconsideration. The Provincial Administrative Court by judgment of 18 October 2018 annulled the contested decision of 30 November 2017 issued by GDOŚ in Warsaw.

Another, postponed date of solving the case was designated by RDOŚ in Poznań, on December 10, 2018.

The proceedings for issuing the environmental decision were initiated on 16 September 2015.

## 29.2. Tax settlements

Tax settlements and other regulated areas of activities (for example, customs or foreign exchange matters) may be the subject of inspection of the administrative authorities entitled to impose high penalties and sanctions. The lack of reference to fixed legal regulations in Poland causes ambiguities and inconsistencies of the laws in force. Common differences in opinions as to the legal interpretation of the tax law, both inside national authorities, as well as between them and companies, cause uncertainty and conflicts. Such phenomena result in the significantly higher tax risk in Poland than these normally existing in the countries of a more developed tax system. The tax authorities may inspect the books and accounting records at any time, within five years from the end of the year in which the tax return was made and impose additional tax burdens, including penal interest and other penalties. The Management Board of the Company is not aware of any circumstances that could lead to potential material liabilities on this account.

In addition, from July 15, 2016, the provisions of the General Anti Abuse Rule("GAAR") are in force to prevent the creation and use of artificial legal structures created to avoid payment of tax in Poland. Frequent changes in legal regulations and frequent differences in the interpretation of tax regulations by tax administration authorities result in instability of the tax system and difficulties in accurately predicting tax consequences in the long run.

Tax settlements may be subject to inspection for a period of five years, starting from the end of the year of the tax payment. As a result of the conducted inspections, the current tax settlements of the Group may be increased by additional tax liabilities. In the Group's opinion, as of 30 September 2018 and 31 December 2017, appropriate provisions for the recognised and calculable tax risk were created.

### *The initiation of tax proceedings against Elektrownia Pątnów II sp. z o.o. on the settlement of corporate income tax for 2016*

In 2017, the audit of the corporate income tax for 2016 was carried out in the company Elektrownia Pątnów II sp. z o.o. In the opinion of Elektrownia Pątnów II sp. z o.o. all returns / repayments from Elektrownia Pątnów II sp. o.o. for Zarządca Rozliczeń SA arising from the LTC Act constitute tax deductible costs when the repayments are actually made. Elektrownia Pątnów II sp. z o.o. has the right to include these costs in the settlement for the tax year in which the settlement was / will be made to Zarządca Rozliczeń SA. This is determined by the regulation contained in art. 42 section 4 of the LTC Act. The company's above-mentioned opinion is also in line with broad court decisions in this area.

Having a different opinion the Director of National Treasury Department, who issued the individual interpretation considered the Company's position to be incorrect and stated that the repayments for Zarządca on the basis of the agreement made in 2014-2017 (within the scope of repayments) in 2017 (in scope of future, not made repayments), and other repayments from The Company for Zarządca, which validity will be based on LCT Act, constitute or will constitute the revenue costs on the day of incurring the costs, i.e. posting in accounting books.

On January 18, 2018, the Provincial Administrative Court in Poznań responded to the abovementioned complaint of Elektrownia Pątnów II sp. o.o., issued a verdict abrogating the contested Interpretations of the Director of the National Tax Information dated 20 April 2017. In the justification of the judgment, the WSA shared the position of Elektrownia Pątnów II sp. z o.o. that in the present case, contrary to the tax authority's position, general rules defining the day of tax deductible costs, which were set out in the Act on Corporate Income Tax (hereinafter 'u.p.d.o.p'), cannot be applied, in

particular in art. 15. In the present case, the provision of Article 42 section 4 of the LTC Act as "Lex Specialis" to the provisions of the Law on u.p.d.o.p.

The verdict of the Provincial Administrative Court in Poznań confirmed that the Pątnów II Power Plant sp. Z o.o. proceeded correctly including all refunds / repayments from Elektrownia Pątnów II sp. o.o. to Zarządca Rozliczeń SA under the LTC Act to the tax deductible costs at the time of actual repayment.

For Elektrownia Pątnów II sp. Z o.o. the above sentence means lowering the tax risk and confirming the correct tax asset settlement for the years 2014-2016. The above verdict of the Provincial Administrative Court, at the same time, constitutes a security for the position of Elektrownia Pątnów II sp. z o.o., which disagreed with the result of the 2016 tax audit carried out in 2017 on the basis of income tax from legal persons.

In the minutes of the inspection of October 31, 2017, the Head of the Second Wielkopolska Tax Office in Kalisz shared the position expressed by the Director of the National Tax Information in the interpretation of 20 April 2017.

On November 14, 2017, Elektrownia Pątnów II sp. z o.o. raised objections to the aforementioned tax inspection protocol and disagreed with the position of the tax authorities, in the scope of the Tax Office's questioning of the manner of recognition as tax-deductible costs, expenses due to the return of funds to cover stranded costs by Zarządca Rozliczeń SA At the same time, Elektrownia Pątnów II sp. z o.o. indicated that the most reasonable solution would be to abstain from all actions in this case until a judicial decision on the complaint regarding the individual interpretation of tax law, issued by the Director of the National Tax Information dated 20 April 2017, was obtained.

On 27 March 2018, the Director of the National Tax Information filed a cassation complaint from the Judgment of the Provincial Administrative Court in Poznań of January 18, 2018.

With reference to the above, on 17 April 2018 Elektrownia Pątnów II sp. Z o.o. received the decision of the Head of the Second Wielkopolska Tax Office in Kalisz to initiate tax proceedings regarding the settlement of the corporate income tax for 2016.

As at the date of the report, Elektrownia Pątnów II sp. Z o.o. expects that in the next step, the Head of the Second Wielkopolska Tax Office in Kalisz will suspend the tax proceedings initiated in April 2018 pending resolution of the matter concerning the recognition by the Tax Office of the method of recognition in 2016 as tax deductible expenses, expenses due to the return of the Clearing Administrator funds to cover stranded costs.

On 25 June 2018 Elektrownia Pątnów II sp. z o.o. was given the decision of the Head of the Second Wielkopolska Tax Office on suspension of the tax proceeding initiated in April 2018, on the settlement of the corporate income tax for 2016, until the issue is resolved by the Supreme Administrative Court.

***Initiation of tax proceedings against ZE PAK SA regarding the settlement of corporate income tax for 2014, including transfer prices***

On April 13, 2016, the Director of the Tax Inspection Office in Poznań instituted tax proceedings against ZE PAK SA ex officio in the area of reliability of declared tax bases and correctness of calculation of corporate income tax for the fiscal year 2014, including the issue of transfer pricing.

As at the date of this report, the Company did not receive any applications and protocols from the tax authorities indicating the potential result of the audit.

The tax authority, by a decision of September 24, 2018, set the date for completing the inspection proceedings as at December 31, 2018.

# 30. Liability repayment securities

In order to protect the repayment of liabilities, the Group uses many forms of protections. Mortgages and registered pledges are the most common ones.

As of 30 September 2018 and 31 December 2017, the Group had liabilities protected with its assets and other protections of payment of liabilities:

### *Liabilities secured with the assets*

| *Agreement* | *Kind of security* | *30 September 2018 (unaudited)* *Security amount* | *Currency* | *31 December 2017* *Security amount* | *currency* |
|---|---|---|---|---|---|
| Syndicated loan agreement of 13 March 2014 for PLN 667 million for ZE PAK SA | Registered pledge on a collection of items<br>Registered and financial pledge on bank accounts<br>Joint contractual mortgage established on real estate | Up to 2 040 000 | PLN | Up to 2 040 000 | PLN |
| Syndicated loan agreement dated 14 January 2011 for EUR 240 million for Pątnów II Power Plant | Registered pledge on shares of ZE PAK in PAK Infrastruktura<br>Registered pledge on shares of ZE PAK in Elektrownia Pątnów II<br>Joint contractual mortgage established on the property of Pątnów II and PAK Infrastruktura<br>Registered pledge on a collection of items<br>Registered pledge on bank accounts | Up to 400 000<br>up to 339 750 | EUR<br>PLN | Up to 400 000<br>up to 339 750 | EUR<br>PLN |
| Multi-purpose line of November 20, 2013 for PLN 76.7 million for PAK KWB Konin SA | Registered pledge on fixed assets | - | | Up to 153 400 | PLN |
| Agreement of the guarantee line of June 8, 2007 for PAK Serwis Sp. z o.o. | Registered pledge on fixed assets | Up to 5 674 | PLN | Up to 5 674 | PLN |

### *Other securities of liabilities*

*Guarantees given*

| *Kind of guarantee* | *30 September 2018 (unaudited)* *Security amount* | *currency* | *31 December 2017* *Security amount* | *Currency* |
|---|---|---|---|---|
| Guarantees of good performance of the contract | 16 890 | PLN | 14 500 | PLN |
| Guarantees to remove defects and faults | 4 500<br>341 | PLN<br>EUR | 4 135<br>419 | PLN<br>EUR |
| Payment guarantees | 147 | PLN | 145 | PLN |
| Guarantee of advance payment | 169 | PLN | 1 329 | PLN |

In addition, the Group uses as collateral the repayment of liabilities, assignments from sales contracts, assignment from insurance policies, power of attorney to bank accounts and a statement on submission to enforcement.

The table below shows the sum of granted guarantees.

| | *30 September 2018 (unaudited)* | *currency* | *31 December 2017* | *currency* |
|---|---|---|---|---|
| Intra-Group Guarantees | 126 700 | PLN | 50 000 | PLN |

# 31. Obtained guarantees and sureties

| *Kind of guarantee* | *30 September 2018 (unaudited)* *Security amount* | *currency* | *31 December 2017* *Security amount* | *currency* |
|---|---|---|---|---|
| Guarantees of good performance of the contract | 14 922 | PLN | 19 752 | PLN |
| Guarantees to remove defects and faults | 5 166<br>18 | PLN<br>EUR | 2 245<br>18 | PLN<br>EUR |
| Payment guarantees | 22 689<br>- | PLN<br>EUR | 32 004<br>5 149 | PLN<br>EUR |
| Guarantee of advance payment | - | PLN | 2 399 | PLN |

The value of guarantees received is in line with the value of sureties granted described in Note 30.

# 32. Information about related entities

The following table shows the total amounts of transactions concluded with related entities for nine months ended September 30, 2018 and September 30, 2017, and receivables and liabilities as at September 30, 2018 and December 31, 2017. Transactions with related entities are carried out on market principles.

| *Related entity* | | *Sales to related entities (unaudited)* | *Purchase from related entities (unaudited)* | *Receivables from related entities (unaudited)* | *Liabilities towards related entities (unaudited)* |
|---|---|---|---|---|---|
| Elektrim S.A. | 2018 | - | 60 | - | - |
| | 2017 | - | 90 | - | - |
| Megadex Serwis Sp. z o.o. | 2018 | - | 25 497 | - | - |
| | 2017 | 2 | - | - | - |
| Polkomtel sp. z o.o. | 2018 | 141 502 | 1 601 | 19 587 | 571 |
| | 2017 | 96 080 | 1 982 | 15 413 | 287 |
| Laris Investments sp. z o.o. | 2018 | 363 | 621 | 287 | - |
| | 2017 | 357 | 616 | 221 | - |
| CPE sp. z o.o. | 2018 | - | 4 | - | - |
| | 2017 | - | - | - | - |
| Plus Flota sp. z o.o. | 2018 | - | 237 | - | 14 |
| | 2017 | - | - | - | - |
| **Total** | **2018** | **141 865** | **28 020** | **19 874** | **585** |
| | **2017** | **96 439** | **2 688** | **15 634** | **287** |

Transactions with Polkomtel sp. z o.o. mainly concern the sale of electricity.

As at September 30, 2018, the Group discloses a liability for dividends to related entities under common control in the amount of PLN 15 721 thousand. On August 16, 2018, PLN 15 720 thousand was paid, which is half of the total liability due to dividend payment to related entities being under common control. These are estimated data based on the notifications provided by shareholders about the acquisition / sale of shares.

## 32.1. Loan granted to a member of the Management Board

During the period of 9 months ended 30 September 2018 as well as during the period of 9 months ended 30 September 2017 the Parent Company did not grant any loans and similar benefits to members of the management and supervisory staff.

## 32.2. Other transactions involving members of the Management Board

During the period of 9 months ended 30 September 2018 as well as during the period of 9 months ended 30 September 2017 there were no transactions with members of management and supervisory Staff.

## 32.3. Remuneration of Chief executive Staff of the Group

### *32.3.1. Remuneration paid or payable to the Members of the Management Board and to the Members of the Supervisory Board of the Group*

| | *9-month period ended 30 September 2018 (unaudited)* | *9-month period ended 30 September 2017 (unaudited)* |
|---|---|---|
| **Management Board of the parent company** | | |
| Short-term employee benefits | 2 029 | 1 991 |
| **Supervisory Board of the parent company** | | |
| Short-term employee benefits | 824 | 724 |
| **Management Boards of subsidiaries** | | |
| Short-term employee benefits | 2 300 | 3 418 |
| Post-employment benefits | - | 19 |
| Termination benefits | - | 31 |
| **Supervisory Board of subsidiaries** | | |
| Short-term employee benefits | 1 | - |
| **Total** | 5 154 | 6 183 |

### *32.3.2. Remuneration paid or entitled to other members of the main management*

| | *9-month period ended 30 September 2018 (unaudited)* | *9-month period ended 30 September 2017 (unaudited)* |
|---|---|---|
| Short-term employee benefits | 9 490 | 11 621 |
| Post-employment benefits | - | 15 |
| Benefits for termination of the contract of employment | 183 | 165 |
| Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board) | 9 673 | 11 801 |

# 33. Goals and rules of financial risk management

Apart from derivatives, the main financial instruments, used by the Group, consist of bank credits, loans granted from affiliates and other institutions, funds, and short-term deposits. The main goal of these financial instruments is to obtain funds for the Group's activities. The Group also has other financial instruments, such as receivables and liabilities due to supplies and services created directly within its conducted activities.

The Group also concludes transactions with the use of derivatives, above all, the contracts for a change in interest rates (interest rate swaps). The goal of these transactions includes the interest rate risk management arising within the Group's activities, and resulting from financing resources used by it.

The rule which is applied by the Group currently and through the whole period included in the statement is non-conducting of the exchange of financial instruments.

The main kinds of the risk resulting from the Group's financial instruments include the interest rate risk, liquidity risk, foreign currency risk, and credit risk. The Management Board verifies and consults the rules of management of each of these kinds of risk – these rules were discussed shortly below. The Group also monitors the market price risk regarding all its held financial instruments.

## 33.1. Interest rate risk

Exposure of the Group to risk caused by the changes of interest rates mainly concerns long-term financial liabilities.

The Group uses financial liabilities, mostly variable rate credits and loans.

In order to minimise interest rate risk, the Group concludes contract for interest rates change (interest rate swaps), within which it agreed to change, within specified time intervals, the difference between the amount of interests calculated according to the fixed and the variable rate of the agreed main amount. The transactions are to protect incurred financial liabilities.

### *Interest rate risk – the sensitivity gap*

In the interest rate sensitivity gap analysis, the Group uses yield curve shift by potential possible change of benchmark interest rates during the coming year. For the needs of the interest rate sensitivity gap analysis, average levels of benchmark interest rates in a given year were used. The scale of potential interest rate sensitivity gap was estimated on the basis of volatilities implied of ATMF options for the interest rate quoted on the inter-bank market for foreign currencies, for which the Group has the exposition to interest rate risk from the balance sheet date.

| ***Classes of financial instruments*** | ***30 September 2018*** | | ***Interest rate risk sensitivity as of 30 September 2018*** | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | ***WIBOR*** | | | | ***EURIBOR*** | | | |
| | | | ***WIBOR + 47pb*** | | ***WIBOR - 47pb*** | | ***EURIBOR + 15.69pb*** | | ***EURIBOR – 15.69pb*** | |
| | ***Carrying amount*** | ***value at risk*** | ***Profit/loss*** | ***Other comprehensive income*** | ***Profit/loss*** | ***Other comprehensive income*** | ***Profit/loss*** | ***Other comprehensive income*** | ***Profit/loss*** | ***Other comprehensive income*** |
| Other financial assets | 43 416 | 24 268 | 29 | - | (29) | - | 29 | - | (29) | - |
| Trade and other receivables | 330 815 | - | - | - | - | - | - | - | - | - |
| Derivative financial instruments | 325 | - | - | - | - | - | - | - | - | - |
| Cash and cash equivalents | 312 804 | 312 804 | 1 371 | - | (1 371) | - | 33 | - | (33) | - |
| Interest-bearing loans and borrowings | (484 187) | (484 187) | (1 608) | - | 1 608 | - | (223) | - | 223 | - |
| Liabilities for deliveries and services and other financial liabilities | (184 591) | - | - | - | - | - | - | - | - | - |
| Derivative financial instruments | (1 537) | (1 537) | - | - | - | - | - | 72 | - | (72) |
| **Total** | **17 045** | **(148 652)** | **(208)** | **-** | **208** | **-** | **(161)** | **72** | **161** | **(72)** |

| *Classes of financial instruments* | *30 September 2017 (unaudited)* | | *Interest rate risk sensitivity as of 30 September 2017* | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | *WIBOR* | | | | *EURIBOR* | | | |
| | | | *WIBOR + 57pb* | | *WIBOR - 57pb* | | *EURIBOR + 12.8pb* | | *EURIBOR – 12.8pb* | |
| | *Carrying amount* | *value at risk* | *Profit/loss* | *Other comprehensive income* | *Profit/loss* | *Other comprehensive income* | *Profit/loss* | *Other comprehensive income* | *Profit/loss* | *Other comprehensive income* |
| Other financial assets | 51 212 | 47 718 | 64 | - | (64) | - | 47 | - | (47) | - |
| Trade and other receivables | 241 479 | - | - | - | - | - | - | - | - | - |
| Derivative financial instruments | 588 | - | - | - | - | - | - | - | - | - |
| Cash and cash equivalents | 370 425 | 370 425 | 1 898 | - | (1 898) | - | 48 | - | (48) | - |
| Interest-bearing loans and borrowings | (737 689) | (737 689) | (2 613) | - | 2 613 | - | (358) | - | 358 | - |
| Liabilities for deliveries and services and other financial liabilities | (129 380) | - | - | - | - | - | - | - | - | - |
| Derivative financial instruments | (5 457) | (5 457) | - | - | - | - | - | 212 | - | (212) |
| **Total** | **(208 822)** | **(325 003)** | **(651)** | **-** | **651** | **-** | **(263)** | **212** | **263** | **(212)** |

*pb – base points*

## 33.2. Currency risk

The Group is exposed to currency risk due to concluded transactions. Such a risk relates to liabilities due to loans and advances. As at 30 September 2018, one company of the Group applied instruments to limit the risk resulting from changes in foreign exchange rates. ZE PAK SA hedged the euro exchange rate for a part of cash flows related to the purchase of CO2 emission allowances. To hedge the exchange, forward transactions were made with the settlement date on 18 December 2018. Potential possible changes in exchange rates have been calculated on the basis of the annual volatilities implied for currency options quoted on the interbank market for a given currency pair from the balance sheet date.

The Group identifies the exposure to EUR/PLN exchange rate changes. The below table presents the gross financial result sensitivity for exchange rate changes rationally possible to occur, assuming non-variability of other risk factors for these classes of financial instruments exposed to the exchange rate change risk.

| ***Classes of financial instruments*** | ***30 September 2018*** | | ***Sensitivity analysis for currency risk as of September 30, 2018*** | | | |
|---|---|---|---|---|---|---|
| | | | ***EUR/PLN*** | | | |
| | | | ***EUR/PLN + 5.338%*** | | ***EUR/PLN – 5.338%*** | |
| | | | ***4.4994*** | | ***4.0434*** | |
| | ***Carrying amount*** | ***Value at risk*** | ***Profit/loss*** | ***Other comprehensive income*** | ***Profit/loss*** | ***Other comprehensive income*** |
| Other financial assets | 43 416 | 18 203 | 972 | - | (972) | - |
| Receivables for deliveries and services and other financial receivables | 330 815 | 5 165 | 276 | - | (276) | - |
| Derivative financial instruments | 325 | - | - | - | - | - |
| Cash and cash equivalents | 312 804 | 21 156 | 1 129 | - | (1 129) | - |
| Interest-bearing loans and borrowings | (484 187) | (142 041) | (7 582) | - | 7 582 | - |
| Liabilities for deliveries and services and other financial liabilities | (184 591) | (2 052) | (110) | - | 110 | - |
| Derivative financial instruments | (1 537) | - | - | - | - | - |
| **Total** | **17 045** | **(99 569)** | **(5 315)** | **-** | **5 315** | **-** |

| ***Classes of financial instruments*** | ***30 September 2017 (unaudited)*** | | ***Sensitivity analysis for currency risk as of September 30, 2017*** | | | |
|---|---|---|---|---|---|---|
| | | | ***EUR/PLN*** | | | |
| | | | ***EUR/PLN + 6.675%*** | | ***EUR/PLN - 6.675%*** | |
| | | | ***4.5967*** | | ***4.0215*** | |
| | ***Carrying amount*** | ***Value at risk*** | ***Profit/loss*** | ***Other comprehensive income*** | ***Profit/loss*** | ***Other comprehensive income*** |
| Other financial assets | 51 212 | 36 498 | 2 436 | - | (2 436) | - |
| Receivables for deliveries and services and other financial receivables | 241 479 | 7 916 | 528 | - | (528) | - |
| Derivative financial instruments | 588 | 588 | 39 | - | (39) | - |
| Cash and cash equivalents | 370 425 | 37 487 | 2 502 | - | (2 502) | - |
| Interest-bearing loans and borrowings | (737 689) | (279 297) | (18 643) | - | 18 643 | - |
| Liabilities for deliveries and services and other financial liabilities | (129 380) | (1 078) | (72) | - | 72 | - |
| Derivative financial instruments | (5 457) | - | - | - | - | - |
| **Total** | **(208 822)** | **(197 886)** | **(13 210)** | **-** | **13 210** | **-** |

## 33.3. Credit risk

The credit risk is a potential credit event, which may be materialised in the form of the following factors: the counterparty's insolvency, partial repayment of receivables, significant delay in repayment of receivables, or another not predicted derogation from contractual terms.

The Group concludes transactions only with reputable companies of good credit rating. All clients who want to use trade credit terms, are subject to procedures of initial verification. Moreover, thanks to current monitoring of receivables, the Group's exposure to the risk of unrecoverable receivables is insignificant.

The main recipients of electricity include the companies with a significant position in the electricity trade sector, such as Energa Obrót, ENEA Trading, Tauron Polska Energia, InterEnergia, Polenergia, GetEntra and PSE Operator. The transactions concluded on the exchange market are settled on a day-to-day basis by the Towarowa Giełda Energii SA Company, which minimises the credit risk.

In relation to other financial assets of the Group, such as funds and their equivalents, financial assets available for sale, and some derivatives, the Group's credit risk occurs as a result of incapability of payment by the other party of the agreement, and the maximum exposure to this risk is equal to the balance sheet value of these derivatives.

## 33.4. Liquidity risk

The Group monitors risk to a shortage of funds by means of the tool for periodic planning of liquidity. This tool takes into account maturity dates of both investment and financial assets (e.g. receivables accounts, other financial assets), as well as projected cash flows from operating activities.

The goal of the Group is maintenance of balance between continuity and flexibility of financing through use of various resources of financing, such as overdraft facilities, long-term bank credits, debentures, preferred shares, financial lease agreements, and lease agreements with purchase option.

The tables on the next page present financial liabilities of the Group as of 30 September 2018 and 31 December 2017 according to the maturity date based on contractual non-discounted payments.

| ***30 September 2018*** | *Less than 3 months* | *3 - 12 months* | *1 - 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|
| Interest-bearing loans and borrowings | 74 787 | 317 747 | 99 699 | - | 492 233 |
| Liabilities for deliveries and services and other financial liabilities | 163 633 | 16 741 | 4 215 | 2 | 184 591 |
| Derivative financial instruments | 565 | 18 978 | - | - | 19 543 |
| | **238 985** | **353 466** | **103 914** | **2** | **696 367** |

| ***31 December 2017*** | *Less than 3 months* | *3 - 12 months* | *1 - 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|
| Interest-bearing loans and borrowings | 75 064 | 281 629 | 321 592 | - | 678 285 |
| Liabilities for deliveries and services and other financial liabilities | 64 728 | 81 688 | 5 146 | - | 151 562 |
| Derivative financial instruments | 39 176 | 25 618 | 812 | - | 65 606 |
| | **178 968** | **388 935** | **327 550** | **-** | **895 453** |

Derivative instruments indicated in above tables were presented in gross values of non-discounted payments. However, these contracts can be settled either in gross values, or net amounts.

The tables shown below present agreements of these values to balance sheet values of derivative instruments:

| ***30 September 2018*** | *On demand* | *Less than 3 months* | *3 - 12 months* | *1 - 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|---|
| Inflows | - | (59) | (79) | - | - | (138) |
| Outflows | - | 565 | 832 | - | - | 1 397 |
| Net amounts | - | (624) | (911) | - | - | (1 535) |
| **Discounted using appropriate interbank rates** | **-** | **(624)** | **(913)** | **-** | **-** | **(1 537)** |

| ***31 December 2017*** | *On demand* | *Less than 3 months* | *3 - 12 months* | *1 - 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|---|
| Inflows | - | (102) | (203) | (55) | - | (360) |
| Outflows | - | 950 | 1 983 | 812 | - | 3 745 |
| Net amounts | - | (1 052) | (2 186) | (867) | - | (4 105) |
| **Discounted using appropriate interbank rates** | **-** | **(1 949)** | **(2 190)** | **(870)** | **-** | **(5 009)** |

# 34. Financial instruments

## 34.1. Balance sheet value and fair value of particular classes of financial instruments

The table shown below presents a comparison between balance sheet values and fair values of all financial instruments of the Group, divided into particular classes and categories of assets and liabilities according to IAS 9.

| *Financial assets* | Category according to IAS 9 | *30 September 2018 (unaudited)* | *31 December 2017 (transformed data)* |
|---|---|---|---|
| Other financial assets | AFwgZK | 43 416 | 46 099 |
| Receivables for deliveries and services and other financial receivables | AFwgZK | 330 815 | 252 624 |
| Derivative financial instruments | WwWGpWF | 325 | - |
| Cash and cash equivalents | | 312 804 | 322 201 |
| *Financial liabilities* | | | |
| Interest-bearing bank credits and loans, including: | | 484 188 | 656 756 |
| Long-term | PZFwgZK | 95 446 | 305 086 |
| Short-term | PZFwgZK | 388 741 | 351 670 |
| Liabilities for deliveries and services and other financial liabilities | PZFwgZK | 184 591 | 151 562 |
| Derivative financial instruments | WwWGpWF | 1 537 | 5 009 |

*Used abbreviations:*

WwWGpWF – *Financial assets/liabilities evaluated in the fair value by the financial result/capitals*
PZFwgZK – *Other financial liabilities evaluated according to the depreciated cost*
AFwgZK – *Financial assets according to the depreciated cost*

As of 30 September 2018 and 31 December 2017, the Group had following financial instruments evaluated in the fair value:

| | *30 September 2018 (unaudited)* | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|---|
| Derivatives hedging assets | - | - | 325 | - |
| Derivatives hedging liabilities | - | - | 1 537 | - |

| | 31 *December 2017* | Level *1* | Level *2* | *Level 3* |
|---|---|---|---|---|
| Derivatives hedging assets | - | - | - | - |
| Derivatives hedging liabilities | - | - | 5 009 | - |

The fair value of financial instruments other than derivatives as at September 30, 2018 and December 31, 2017 did not deviate significantly from the carrying amounts, mainly due to the fact that for short-term instruments the effect of discounting is not material and the fact that the transactions are concluded at market conditions; for this reason, the fair value of these instruments has been presented at the carrying amount.

The valuation of interest-bearing loans and credits after the initial recognition is carried out according to the depreciated cost method, taking into account the contractual costs related to obtaining a given loan or borrowing as well as discounts and earned bonuses.

As at September 30, 2018, Interest Rate Swap derivatives and forward transactions for currency purchase as well as futures transactions for the purchase of CO2 emission allowances were valued at fair value. The Interest Rate Swap valuation methodology and the details of forward transaction for the currency and CO2 are presented in note 34.2. For the purposes of valuing foreign exchange contracts, the difference between discounted future cash flows is calculated between the forward price on the valuation day and the transaction price, according to quotations prepared by the relevant bank, multiplied by the nominal value of the contract in a foreign currency. The valuation of these instruments has been classified to level 2 of the fair value measurement hierarchy.

In the period ended 30 September 2018 and the one ended 31 December 2017, there were no shifts between the level 1 and the level 2 of the fair value hierarchy, and none of instruments was shifted to the level 3 of the fair value hierarchy.

## 34.2. Interest rate risk

The below table presents the interest rate gap constituting the Group's exposure to interest rate risk and concentration of this risk divided into currencies and kind of interest rate taking into account the effect of protection transactions Interest Rate Swap exchanging the stream of cash interest payments based on the variable EURIBOR rate for the fixed rate in EUR.

| | *Type of interest rate* | *Carrying amount as of 30 September 2018 (unaudited)* | *Carrying amount as of 31 December 2017* |
|---|---|---|---|
| A Financial assets at interest rate risk – PLN | Fixed | - | - |
| | Variable | 297 713 | 292 331 |
| Financial assets at interest rate risk – Other currencies | Fixed | - | - |
| | Variable | 39 359 | 73 866 |
| Financial liabilities at interest rate risk - PLN | Fixed | - | - |
| | Variable | 342 147 | 413 767 |
| Financial liabilities at interest rate risk – Other currencies | Fixed | 70 703 | 118 839 |
| | Variable | 71 338 | 119 432 |
| Net exposure -PLN | Fixed | - | - |
| | Variable | (44 434) | (121 436) |
| Net exposure - other currencies | Fixed | (70 703) | (118 839) |
| | Variable | (31 979) | (45 566) |

Interest rate of financial instrument of variable interest rate is updated in periods shorter than one year. Interests on financial instruments of the fixed interest rate are fixed through the whole period to the date of maturity of these instruments. Other financial instruments of the Group not included in the above tables are not subject to interest and they are not subject to interest rate risk.

### *34.2.1. Hedging*

The Group secures interest rate risk related to the incurred corporate credit denominated in EUR of variable interest rate based on the EURIBOR 3M benchmark interest rate using derivative transactions. The instrument securing exposure to interest risk rate is the Interest Rate Swap transaction, within which the Groups exchanges stream of cash interest payments based on the variable EURIBOR 3M rate for payments of fixed interest rate at 3.1050%. The Groups indicates designated derivative instruments as protecting instruments in the model of cash flow security, and includes them in accordance with protections accounting rules.

In the tables shown below, basic parameters of derivative transaction indicates as security instruments, including periods, when cash flows due to cash flow securities and when they will influence the financial result, as well as their fair value in zloty as of 30 September 2018 and 31 December 2017 are presented.

| *Instrument type* | *Nominal value in the transaction currency [euro]** | *Fair value in zloty* | *Expected duration of hedged item's realisation* |
|---|---|---|---|
| | *30 September2018 (unaudited)* | *30 September 2018 (unaudited)* | *30 September 2018 (unaudited)* |
| IRS transactions | 16 553 | (1 537) | in quarterly periods, in January, April, July, and October each year, until the date of maturity of IRS, i.e. July 2019 |

** the nominal values depreciated in accordance with the credit repayment schedule*

| *Instrument type* | *Nominal value in the transaction currency [euro]** | *Fair value in zloty* | *Expected duration of hedged item's realisation* |
|---|---|---|---|
| | *31 December 2017* | *31 December 2017* | *31 December 2017* |
| IRS transactions | 28 492 | (4 112) | in quarterly periods, in January, April, July, and October each year, until the date of maturity of IRS, i.e. July 2019 |

** the nominal values depreciated in accordance with the credit repayment schedule*

The change in the fair value of cash flow securities transferred onto the equity is presented below:

| | *9-month period ended 30 September 2018* | *Year ended 31 December 2017* |
|---|---|---|
| Opening balance | (3 306) | (6 883) |
| Effective part of profits / losses on a security instrument | 2 623 | 6 352 |
| Amounts charged to the income statement, including: | 376 | 2 776 |
| – adjustment of costs of interest | 376 | 2 776 |
| – adjustment under ineffective hedging | - | - |
| Closing balance | (1 059) | (3 307) |
| Deferred tax assets – recognized in the revaluation reserve | 201 | 628 |
| Closing balance including deferred tax | (858) | (2 679) |

As at 30 September 2018, one company of the Group applied instruments to limit the risk resulting from changes in foreign exchange rates. ZE PAK SA hedged the euro exchange rate for a part of cash flows related to the purchase of CO2 emission allowances. To hedge the exchange, forward transactions were made with the settlement date on 18 December 2018.

| *Type of concluded transactions* | *Currency cross* | *Transaction amount (nominal value in euro thousand) 30 September 2018 (unaudited)* | *Net market value (fair value in zloty thousand) 30 September 2018 (unaudited)* | *Maturity* |
|---|---|---|---|---|
| Purchase of euro transactions (forward) | (euro/PLN) | 4 300 | 325 | 18 December 2018 |

The Group also hedges the risk of changes in prices of CO2 emission allowances by using forward transactions to purchase allowances for its own needs. The table below presents a summary of forward transactions active as at September 30, 2018.

***30 September 2018 (unaudited)***

| *Type of concluded transactions* | *Number of purchased allowances (unaudited)* | *Total value of transactions in EUR thousand (unaudited)* | *Currency of transactions* | *Maturity* |
|---|---|---|---|---|
| Forward transactions | 6 142 000 | 97 829 | EUR | Up to 1 year |
| Forward transactions | 3 645 000 | 76 038 | EUR | Over 1 year |

***30 September 2017 (unaudited)***

| *Type of concluded transactions* | *Number of purchased allowances* | *Total value of transactions in EUR thousand* | *Currency of transactions* | *Maturity* |
|---|---|---|---|---|
| Forward transactions | 5 125 000 | 27 834 | EUR | Up to 1 year |

# 35. Capital management

The main goal of the management of the Group's capital is maintenance of good credit rating and safe equity ratios, which would support the Group's operating activities and increased the values for its shareholders.

The Group manages the capital structure, and, as a result of changes of economic conditions, introduces amendments to it. In the period ended 30 September 2018 and on 31 December 2017, there were no introduced amendments to goals, rules and processes applying in this area.

The Group monitors the balance of its capitals using the leverage ratio, which is calculated as a relation of net debt to the sum of capitals enlarged with net debt. The Group includes interest bank credits and loans, liabilities due to supplies and services, and other liabilities, decreased by the cash and cash equivalents in the net debt. The capital includes the equity decreased by reserve capitals due to unrealised net profits.

| | *30 September 2018 (unaudited)* | *31 December 2017 (transformed data)* |
|---|---|---|
| Interest-bearing credits and loans | 484 187 | 652 038 |
| Derivative financial instruments (liabilities) | 1 537 | 5 009 |
| Liabilities for deliveries and services and other financial liabilities | 184 591 | 151 562 |
| Minus cash and cash equivalents | 312 804 | 322 201 |
| Net debt | 357 511 | 486 408 |
| Equity | 2 100 071 | 2 227 489 |
| Capitals from revaluation of security instruments | (858) | (2 678) |
| Total capital | 2 100 929 | 2 230 167 |
| **Net capital and debt** | 2 458 440 | 2 716 575 |
| Leverage ratio | 14.54% | 17.91% |

# 36. Significant events after the balance sheet date

After the balance sheet date to the date of preparation of these interim condensed consolidated financial statements for the period of 9 months ended 30 September 2018, there were no significant events except those described in the additional explanatory notes.

| | | | | | |
|---|---|---|---|---|---|
| *Adam Kłapszta /President of the Board/* | *Aneta Lato-Żuchowska /Vice President of the Board/* | *Zygmunt Artwik / Vice President of the Board /* | *Elżbieta Niebisz / Vice President of the Board /* | *Marcin Ginel / Vice President of the Board /* | *Aneta Desecka /Chief Accountant/* |

# ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA

## STANDALONE CONDENSED FINANCIAL STATEMENTS
## FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2018

(*This is a translation of the document issued originally in Polish language.*
*The Polish original should be referred to in matters of interpretation.)*

14 November 2018

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# BALANCE SHEET

## Assets

| | *30 September 2018 (unaudited)* | *30 June 2018 (unaudited)* | *31 December 2017 (transformed data)* | *30 September 2017 (unaudited transformed)* | *30 June 2017 (unaudited transformed)* |
|---|---|---|---|---|---|
| **A. Fixed assets** | **1 817 997** | **1 831 631** | **2 024 918** | **1 988 574** | **1 985 319** |
| **I. Intangible assets** | **11 415** | **11 629** | **196 877** | **139 861** | **140 068** |
| 1. Development expenses | - | - | - | - | - |
| 2. Goodwill | - | - | - | - | - |
| 3. Other intangible assets | 11 415 | 11 629 | 196 877 | 139 861 | 140 068 |
| 4. Prepayments for intangible assets | - | - | - | - | - |
| **II. Tangible fixed assets** | **629 106** | **638 308** | **647 725** | **648 368** | **645 792** |
| 1. Tangible assets | 575 243 | 581 810 | 582 725 | 590 931 | 599 840 |
| a) land (including perpetual usufruct) | 1 282 | 1 284 | 1 286 | 1 287 | 1 288 |
| b) buildings, premises and constructions | 173 911 | 174 013 | 177 803 | 179 643 | 182 421 |
| c) plant and machinery | 398 109 | 404 538 | 401 664 | 408 104 | 414 319 |
| d) motor vehicles | 925 | 887 | 715 | 647 | 627 |
| e) other | 1 016 | 1 088 | 1 257 | 1 250 | 1 185 |
| 2. Construction in progress | 53 863 | 56 498 | 64 302 | 53 448 | 42 043 |
| 3. Prepayments for construction in progress | - | - | 698 | 3 989 | 3 909 |
| **III. Long-term receivables** | - | - | - | - | - |
| 1. from affiliates | - | - | - | - | - |
| 2. from others, of which entity has capital engagement | - | - | - | - | - |
| 3. from others | - | - | - | - | - |
| **IV. Long-term investment** | **1 173 421** | **1 177 587** | **1 176 097** | **1 196 086** | **1 195 148** |
| 1. Property | - | - | - | - | - |
| 2. Intangible fixed assets | - | - | - | - | - |
| 3. Long-term financial assets | 1 173 421 | 1 177 587 | 1 176 097 | 1 196 086 | 1 195 148 |
| a) in affiliates | 1 173 269 | 1 177 435 | 1 175 946 | 1 195 935 | 1 194 997 |
| – shares | 1 142 334 | 1 142 384 | 1 142 196 | 1 142 146 | 1 142 053 |
| – other securities | - | - | - | - | - |
| – loans granted | 30 935 | 31 551 | 30 250 | 46 789 | 45 944 |
| – other long-term financial assets | - | 3 500 | 3 500 | 7 000 | 7 000 |
| b) in other entities of which entity has capital engagement | - | - | - | - | - |
| – shares | - | - | - | - | - |
| – other securities | - | - | - | - | - |
| – loans granted | - | - | - | - | - |
| – other long-term financial assets | - | - | - | - | - |
| c) in other entities | 152 | 152 | 151 | 151 | 151 |
| – shares | 152 | 152 | 151 | 151 | 151 |
| – other securities | - | - | - | - | - |
| – loans granted | - | - | - | - | - |
| – other long-term financial assets | - | - | - | - | - |
| 4. Other long-term investments | - | - | - | - | - |
| **V. Long-term prepayments and deferred costs** | **4 055** | **4 107** | **4 219** | **4 259** | **4 311** |
| 1. Deferred tax assets | - | - | - | - | - |
| 2. Other prepayments and deferred costs | 4 055 | 4 107 | 4 219 | 4 259 | 4 311 |
| **B. Current assets** | **417 815** | **294 463** | **346 620** | **313 472** | **334 598** |

## BALANCE SHEET (continued)

| | | | | | |
|---|---|---|---|---|---|
| **I. Inventories** | **60 321** | **54 764** | **41 617** | **46 424** | **45 932** |
| 1. Raw materials | 42 259 | 45 067 | 39 601 | 44 857 | 44 145 |
| 2. Semi-finished goods and work-in-progress | - | - | - | - | - |
| 3. Finished products | - | - | - | - | - |
| 4. Property rights | 18 062 | 9 669 | 1 985 | 1 565 | 1 787 |
| 5. Inventory prepayments | - | 28 | 31 | 2 | - |
| **II. Short-term receivables** | **227 393** | **96 908** | **138 406** | **126 567** | **122 498** |
| 1. Receivables from affiliates | 139 196 | 46 306 | 38 983 | 43 491 | 50 586 |
| a) trade receivables, due in: | 43 981 | 41 091 | 36 626 | 37 845 | 41 640 |
| – up to 12 months | 43 981 | 41 091 | 36 626 | 37 845 | 41 640 |
| – over 12 months | - | - | - | - | - |
| b) other | 95 215 | 5 215 | 2 357 | 5 646 | 8 946 |
| 2. Receivables from other entities of which entity has capital engagement | - | - | - | - | - |
| a) trade receivables, due in: | - | - | - | - | - |
| – up to 12 months | - | - | - | - | - |
| – over 12 months | - | - | - | - | - |
| b) other | - | - | - | - | - |
| 3. Receivables from other entities | 88 197 | 50 602 | 99 423 | 83 076 | 71 912 |
| a) trade receivables, due in: | 26 706 | 20 404 | 60 899 | 56 068 | 48 708 |
| – up to 12 months | 26 706 | 20 404 | 60 899 | 56 068 | 48 708 |
| – over 12 months | - | - | - | - | - |
| b) taxation, subsidy, customs duty, social security, health insurance and other debtors | 5 146 | 3 705 | 19 371 | 7 593 | 7 977 |
| c) other | 56 345 | 26 493 | 19 153 | 19 415 | 15 227 |
| d) submitted to court | - | - | - | - | - |
| **III. Short-term investments** | **129 288** | **141 415** | **166 063** | **139 335** | **162 558** |
| 1. Short-term financial assets | 129 288 | 141 415 | 166 063 | 139 335 | 162 558 |
| a) in affiliates | 22 880 | 19 585 | 18 714 | 16 195 | 15 752 |
| – shares | - | - | - | - | - |
| – other securities | - | - | - | - | - |
| – loans granted | 15 880 | 16 085 | 15 214 | 16 195 | 15 752 |
| – other short-term financial assets | 7 000 | 3 500 | 3 500 | - | - |
| b) in other entities | 325 | 840 | - | 587 | - |
| – shares | - | - | - | - | - |
| – other securities | - | - | - | - | - |
| – loans granted | - | - | - | - | - |
| – other short-term financial assets | 325 | 840 | - | 587 | - |
| c) cash and other monetary assets | 106 083 | 120 990 | 147 349 | 122 553 | 146 806 |
| – cash on hand and cash at bank | 106 083 | 120 990 | 147 349 | 122 553 | 146 806 |
| – other cash and cash equivalents | - | - | - | - | - |
| – other monetary assets | - | - | - | - | - |
| 2. Other short-term investments | - | - | - | - | - |
| **IV. Short-term prepayments and deferred costs** | **813** | **1 376** | **534** | **1 146** | **3 610** |
| **C. Unpaid share capital (basic)** | **-** | **-** | **-** | **-** | **-** |
| **D. Own shares** | **-** | **-** | **-** | **-** | **-** |
| **Total assets** | **2 235 812** | **2 126 094** | **2 371 538** | **2 302 046** | **2 319 917** |

*Konin, 14 November 2018*

| | | | | | |
|---|---|---|---|---|---|
| *Adam Kłapszta* | *Aneta Lato-Żuchowska* | *Zygmunt Artwik* | *Elżbieta Niebisz* | *Marcin Ginel* | *Aneta Desecka* |
| *President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Chief Accountant* |

## BALANCE SHEET (continued)

# Liabilities and equity

| | *30 September 2018 (unaudited)* | *30 June 2018 (unaudited)* | *31 December 2017 (transformed data)* | *30 September 2017 (unaudited transformed)* | *30 June 2017 (unaudited transformed)* |
|---|---|---|---|---|---|
| **A. Equity** | **1 480 021** | **1 422 622** | **1 480 129** | **1 450 608** | **1 423 884** |
| **I. Equity capital** | **101 647** | **101 647** | **101 647** | **101 647** | **101 647** |
| **II. Reserve capital, including:** | **1 124 347** | **1 124 143** | **1 094 493** | **1 094 493** | **1 094 492** |
| – surplus of sales value (issue value) over nominal value of shares | 380 030 | 380 030 | 380 030 | 380 030 | 380 030 |
| **III. Revaluation reserve, including:** | **227 496** | **227 496** | **227 497** | **227 497** | **227 498** |
| – for fair value revaluation | | - | - | 227 497 | - |
| **IV. Other reserves, including:** | **3 472** | **3 472** | **3 472** | **3 472** | **3 472** |
| – created in accordance with the company's articles of association | - | - | - | - | - |
| – for own shares | - | - | - | - | - |
| **V. Profits (losses) from previous years** | **(37 617)** | **(37 617)** | **(37 617)** | **(37 617)** | **(37 617)** |
| **VI. Net profit (loss) for the period** | **60 676** | **3 481** | **90 637** | **61 116** | **34 392** |
| **VII. Deductions from net profit during the period (negative value)** | - | - | - | - | - |
| **B. Liabilities and provisions for liabilities** | **755 791** | **703 472** | **891 409** | **851 438** | **896 033** |
| **I. Provisions for liabilities** | **370 236** | **260 194** | **370 391** | **309 968** | **266 879** |
| 1. Deferred tax liability | 66 510 | 74 100 | 79 212 | 69 546 | 74 158 |
| 2. Provision for retirement benefits and similar obligations | 10 072 | 10 180 | 10 398 | 9 687 | 9 764 |
| – long-term | 9 436 | 9 360 | 9 210 | 9 093 | 9 006 |
| – short-term | 636 | 820 | 1 188 | 594 | 758 |
| 3. Other provisions | 293 654 | 175 914 | 280 781 | 230 735 | 182 957 |
| – long-term | 57 994 | 57 857 | 57 583 | 57 703 | 57 565 |
| – short-term | 235 660 | 118 057 | 223 198 | 173 032 | 125 392 |
| **II. Long-term liabilities** | **96 907** | **132 450** | **203 524** | **238 970** | **272 473** |
| 1. To affiliates | - | - | - | - | - |
| 2. To other entities of which entity has capital engagement | - | - | - | - | - |
| 3. To other entities | 96 907 | 132 450 | 203 524 | 238 970 | 272 473 |
| a) loans and credits | 94 398 | 129 937 | 201 035 | 236 537 | 272 087 |
| b) debt securities issued | - | - | - | - | - |
| c) other financial liabilities | 509 | 513 | 489 | 433 | 386 |
| d) bills of exchange | - | - | - | - | - |
| e) other | 2 000 | 2 000 | 2 000 | 2 000 | - |
| **III. Short-term liabilities** | **260 118** | **285 858** | **289 597** | **257 293** | **321 791** |
| 1. To affiliates | 28 355 | 51 380 | 29 736 | 34 759 | 72 521 |
| a) trade liabilities: | 12 407 | 18 043 | 26 687 | 34 263 | 38 275 |
| – up to 12 months | 12 407 | 18 043 | 26 687 | 34 263 | 38 275 |
| – over 12 months | - | - | - | - | - |
| b) other | 15 948 | 33 337 | 3 049 | 496 | 34 246 |
| 2. To other entities of which entity has capital engagement | - | - | - | - | - |

## BALANCE SHEET (continued)

| | | | | | |
|---|---|---|---|---|---|
| a) trade liabilities: | - | - | - | - | - |
| – up to 12 months | - | - | - | - | - |
| – over 12 months | - | - | - | - | - |
| b) other | - | - | - | - | - |
| 3. To other entities | 227 183 | 229 396 | 255 659 | 217 607 | 243 824 |
| a) loans and credits | 149 987 | 151 187 | 153 684 | 154 921 | 156 152 |
| b) debt securities issued | - | - | - | - | - |
| c) other financial liabilities | 391 | 326 | 961 | 156 | 694 |
| d) trade liabilities: | 33 510 | 25 840 | 21 586 | 24 262 | 18 661 |
| – up to 12 months | 33 510 | 25 840 | 21 586 | 24 262 | 18 661 |
| – over 12 months | - | - | - | - | - |
| e) advance payments received | - | - | - | 78 | 75 |
| f) bills of exchange | - | - | - | - | - |
| g) taxation, customs duty and social security creditors | 21 983 | 14 970 | 60 402 | 28 953 | 27 602 |
| h) payroll | 3 262 | 3 325 | 5 644 | 4 025 | 4 123 |
| i) other | 18 050 | 33 748 | 13 382 | 5 212 | 36 517 |
| 4. Special funds | 4 580 | 5 082 | 4 202 | 4 927 | 5 446 |
| **IV. Accruals and deferred income** | **28 530** | **24 970** | **27 897** | **45 207** | **34 890** |
| 1. Negative goodwill | - | - | - | - | - |
| 2. Other accruals and deferred income | 28 530 | 24 970 | 27 897 | 45 207 | 34 890 |
| – long-term | 14 016 | 14 027 | 14 051 | 14 062 | 14 074 |
| – short-term | 14 514 | 10 943 | 13 846 | 31 145 | 20 816 |
| **Total Liabilities and equity** | **2 235 812** | **2 126 094** | **2 371 538** | **2 302 046** | **2 319 917** |

*Konin, 14 November 2018*

| | | | | | |
|---|---|---|---|---|---|
| *Adam Kłapszta* | *Aneta Lato-Żuchowska* | *Zygmunt Artwik* | *Elżbieta Niebisz* | *Marcin Ginel* | *Aneta Desecka* |
| *President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Chief Accountant* |

## **PROFIT & LOSS STATEMENT** (calculation type)

| | *9-month period ended 30 September 2018 (unaudited)* | *3-month period ended 30 September 2018 (unaudited)* | *9-month period ended 30 September 2017 (unaudited)* | *3-month period ended 30 September 2017 (unaudited)* |
|---|---|---|---|---|
| **A. Net sales of finished goods, goods for resale and raw materials, of which:** | **851 632** | **351 645** | **1 086 592** | **388 034** |
| – from affiliates | 293 416 | 101 573 | 329 540 | 114 182 |
| I. Net sales of finished products | 726 673 | 290 613 | 947 372 | 326 019 |
| II. Net sales of goods for resale and raw materials | 124 959 | 61 032 | 139 220 | 62 015 |
| **B. Cost of finished products, goods for resale and raw materials sold, of which:** | **887 117** | **377 624** | **988 819** | **345 869** |
| – to affiliates | 370 303 | 144 048 | 326 267 | 112 468 |
| I. Cost of finished products sold | 770 291 | 315 605 | 879 664 | 296 557 |
| II. Cost of goods for resale and raw materials sold | 116 826 | 62 019 | 109 155 | 49 312 |
| **C. Gross profit (loss) on sales (A–B)** | **(35 485)** | **(25 979)** | **97 773** | **42 165** |
| D. Selling expenses | 1 445 | 501 | 2 190 | 674 |
| E. Administrative expenses | 37 025 | 11 065 | 22 608 | 7 003 |
| **F. Profit (loss) on sales (C–D–E)** | **(73 955)** | **(37 545)** | **72 975** | **34 488** |
| G. Other operating income | 2 418 | 1 803 | 1 459 | (97) |
| I. Gains on the sale of non-financial fixed assets | 4 | - | 9 | - |
| II. Grants | 35 | 12 | 35 | 12 |
| III. Revaluation of non-financial assets | - | - | - | - |
| IV. Other operating income | 2 379 | 1 791 | 1 415 | (109) |
| H. Other operating expenses | 1 859 | 911 | 1 336 | 77 |
| I. Loss on the sale of non-financial fixed assets | - | - | - | - |
| II. Impairment of non-financial assets | 771 | 660 | - | (548) |
| III. Other | 1 088 | 251 | 1 336 | 625 |
| **I. Operating profit (loss) (F+G–H)** | **(73 396)** | **(36 653)** | **73 098** | **34 314** |
| J. Financial income | 132 034 | 89 290 | 14 816 | 1 010 |
| I. Dividends and shares in profits, including: | 127 774 | 90 000 | 12 285 | - |
| a) from affiliates, including: | 127 692 | 90 000 | 12 085 | - |
| – of which the entity has capital engagement | 127 692 | 90 000 | 12 085 | - |
| b) from others, including: | 82 | - | 200 | - |
| – of which the entity has capital engagement | - | - | - | - |
| II. Interest, including: | 1 709 | 652 | 1 808 | 703 |
| – from affiliates | 320 | 108 | 460 | 153 |
| III. Profit on the disposal of financial assets, including: | - | - | - | - |
| – affiliates | - | - | - | - |
| IV Revaluation of investments | 2 161 | (1 443) | 292 | 292 |
| V. Other | 390 | 81 | 431 | 15 |
| K Financial costs | 10 651 | 3 019 | 15 304 | 2 334 |
| I. Interest, including: | 9 235 | 2 796 | 13 063 | 4 094 |
| – to affiliates | - | - | - | - |
| II. Loss on the disposal of financial assets, including: | - | - | - | - |
| – in affiliates | - | - | - | - |
| III. Impairment of investments | - | - | 1 566 | (1 986) |
| IV. Other | 1 416 | 223 | 675 | 226 |
| **L. Gross profit (loss) (I+J–K)** | **47 987** | **49 618** | **72 610** | **32 990** |

## PROFIT & LOSS STATEMENT (calculation type) (continued)

| | | | | |
|---|---|---|---|---|
| M. Corporate profits tax | **(12 689)** | **(7 577)** | **11 494** | **6 266** |
| N. Other tax charges | **-** | **-** | **-** | **-** |
| **O. Net profit (loss) (L–M–N)** | **60 676** | **57 195** | **61 116** | **26 724** |

*Konin, 14 November 2018*

| | | | | | |
|---|---|---|---|---|---|
| *Adam Kłapszta* | *Aneta Lato-Żuchowska* | *Zygmunt Artwik* | *Elżbieta Niebisz* | *Marcin Ginel* | *Aneta Desecka* |
| *President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Chief Accountant* |

## **CASH FLOW STATEMENTS** (indirect method)

| | *9-month period ended 30 September 2018 (unaudited)* | *3-month period ended 30 September 2018 (unaudited)* | *9-month period ended 30 September 2017 (unaudited)* | *3-month period ended 30 September 2017 (unaudited)* |
|---|---|---|---|---|
| A. Cash flow from operating activities | | | | |
| I. Net profit (loss) | **60 676** | **54 984** | **61 116** | **26 724** |
| II. Adjustments, total | **37 566** | **799** | **96 917** | **61 683** |
| 1. Depreciation | 28 901 | 9 631 | 28 723 | 9 690 |
| 2. Foreign exchange gains (losses) | (1 031) | 928 | 1 651 | (1 135) |
| 3. Interest and shares in profits (dividends) | (118 890) | (87 313) | 314 | 3 941 |
| 4. Profit (loss) on investing activities | (1 134) | 514 | (301) | (1 144) |
| 5. Change in provisions | 221 897 | 112 251 | 172 309 | 43 090 |
| 6. Change in inventories | (18 704) | (5 557) | 7 491 | (492) |
| 7. Change in receivables | 6 266 | (40 528) | 16 453 | (7 568) |
| 8. Change in short-term liabilities, except for loans and borrowings | (42 959) | 6 702 | (64 989) | 2 467 |
| 9. Change in prepayments, accruals and deferred income | 513 | 4 171 | 17 769 | 12 833 |
| 10. Other adjustments | (37 293) | - | (82 503) | 1 |
| **III. Net cash flow from operating activities (I±II)** | **98 242** | **55 783** | **158 033** | **88 407** |
| B. Cash flow from investing activities | | | | |
| I. Inflows | **32 563** | **82** | **6 695** | **3 500** |
| 1. Sale of intangible assets and tangible fixed assets | 4 | - | 56 | - |
| 2. Sale of investments in property and intangible assets | - | - | | - |
| 3. From financial assets, including: | 32 559 | 82 | 6 639 | 3 500 |
| a) in affiliates | 32 477 | - | 6 439 | 3 300 |
| b) in others | 82 | 82 | 200 | 200 |
| – disposal of financial assets | - | - | - | - |
| – dividends and share in profits | 82 | 82 | 200 | 200 |
| – repayment of long-term loans granted | - | - | - | - |
| – interests | - | - | - | - |
| – other inflows from financial assets | - | - | - | - |
| 4. Other investing inflows | - | - | - | - |
| II. Outflows | **22 097** | **908** | **22 457** | **9 672** |
| 1. Purchase of intangible assets and tangible fixed assets | 21 909 | 909 | 13 058 | 9 579 |
| 2. Investments in property and intangible assets | - | - | - | - |
| 3. For financial assets, including: | 188 | (1) | 9 399 | 93 |
| a) in affiliates | 188 | (1) | 9 399 | 93 |
| b) in others | - | - | - | - |
| – purchase of financial assets | - | - | - | - |
| – long-term loans granted | - | - | - | - |
| 4. Other investing outflows | - | - | - | - |
| **III. Net cash flow from investing activities (I-II)** | **10 466** | **(826)** | **(15 762)** | **(6 172)** |
| C. Cash flow from financing activities | | | | |
| I. Inflows | - | - | - | - |
| 1. Net inflows from issue of shares, issue of other capital instruments and additional payments to capital | - | - | - | - |

## CASH FLOW STATEMENTS (indirect method) (continued)

| | | | | |
|---|---|---|---|---|
| 2. Loans and credits | - | - | | - |
| 3. Issue of debt securities | - | - | | - |
| 4. Other financial inflows | - | - | | - |
| II. Outflows | **175 170** | **95 060** | **189 234** | **106 488** |
| 1. Reacquisition of own shares | - | - | - | - |
| 2. Dividends and other payments to shareholders | 55 466 | 55 466 | 65 562 | 65 562 |
| 3. Outflows due to appropriation of profit other than payments to shareholders | - | - | | - |
| 4. Repayment of loans and credits | 111 408 | 37 136 | 111 408 | 37 136 |
| 5. Redemption of debt securities | - | - | - | - |
| 6. Relating to other financial liabilities | - | - | - | - |
| 7. Finance lease payments | 138 | 51 | 104 | 37 |
| 8. Interest paid | 8 158 | 2 407 | 12 160 | 3 753 |
| 9. Other financial outflows | - | - | - | - |
| **III. Net cash flow from financial activities (I-II)** | **(175 170)** | **(95 060)** | **(189 234)** | **(106 488)** |
| **D. Total net cash flow (A.III±B.III±C.III)** | **(66 462)** | **(40 103)** | **(46 963)** | **(24 253)** |
| E. Balance sheet change in cash and cash equivalents,, including: | **(66 462)** | **(40 103)** | **(47 048)** | **(24 253)** |
| – change in cash and cash equivalents due to foreign exchange gains/losses | - | - | (85) | - |
| **F. Cash and cash equivalents at the beginning of the period** | **172 546** | **146 187** | **169 516** | **146 806** |
| **G. Cash and cash equivalents at the end of the period (F±D), including** | **106 084** | **106 084** | **122 553** | **122 553** |
| – of restricted use | 3 496 | 97 | 4 648 | (3) |

*Konin, 14 November 2018*

| | | | | | |
|---|---|---|---|---|---|
| *Adam Kłapszta* | *Aneta Lato-Żuchowska* | *Zygmunt Artwik* | *Elżbieta Niebisz* | *Marcin Ginel* | *Aneta Desecka* |
| *President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Chief Accountant* |

# STATEMENT OF CHANGES IN EQUITY

| | *30 September 2018 (unaudited)* | *30 June 2018 (unaudited)* | *31 December 2017 (transformed data)* | *30 September 2017 (unaudited transformed)* | *30 June 2017 (unaudited transformed)* |
|---|---|---|---|---|---|
| **I. Equity at the beginning of the period (OB)** | **1 516 912** | **1 516 912** | **1 491 837** | **1 491 837** | **1 491 837** |
| – changes in accounting policy | - | - | - | - | - |
| – correction of prior period error | (36 783) | (36 783) | (36 783) | (36 783) | (36 783) |
| **I.a. Equity at the beginning of the period (OB), after adjustments** | **1 480 129** | **1 480 129** | **1 455 054** | **1 455 054** | **1 455 054** |
| 1. Share capital at the beginning of the period | 101 647 | 101 647 | 101 647 | 101 647 | 101 647 |
| 1.1. Changes in share capital | - | - | - | - | - |
| a) increases | - | - | - | - | - |
| b) decreases | - | - | - | - | - |
| **1.2. Share capital at the end of the period** | **101 647** | **101 647** | **101 647** | **101 647** | **101 647** |
| 2. Reserve capital at the beginning of the period | 1 094 493 | 1 094 493 | 1 028 647 | 1 028 647 | 1 028 647 |
| 2.1. Changes in reserve capital | - | 29 650 | 65 846 | 65 846 | 65 845 |
| a) increases | 29 854 | 29 650 | 65 846 | 65 846 | 65 845 |
| – issue of shares | - | - | - | - | - |
| – profit distribution | 29 649 | 29 649 | 65 845 | 65 845 | 65 845 |
| – disposal of fixed assets | 1 | 1 | 1 | 1 | - |
| – acquisition of company | 204 | - | - | - | - |
| b) decreases | - | - | - | - | - |
| – redemption of shares | - | - | - | - | - |
| – cover of loss | - | - | - | - | - |
| **2.2. Reserve capital at the end of the period** | **1 124 347** | **1 124 143** | **1 094 493** | **1 094 493** | **1 094 492** |
| 3. Capital from revaluation at the beginning of the period – changes of accountancy policies | 227 497 | 227 497 | 227 498 | 227 498 | 227 498 |
| 3.1. Changes of capital from revaluation | (1) | (1) | (1) | (1) | - |
| a) increases | - | - | - | - | - |
| b) decreases | 1 | 1 | 1 | 1 | - |
| – disposal of fixed assets | 1 | 1 | 1 | 1 | - |
| **3.2. Capital from revaluation at the end of the period** | **227 496** | **227 496** | **227 497** | **227 497** | **227 498** |
| 4. Other reserves at the beginning of the period | 3 472 | 3 472 | 3 472 | 3 472 | 3 472 |
| 4.1. Changes in other reserves | - | - | - | - | - |
| a) increases | - | - | - | - | - |
| b) decreases | - | - | - | - | - |
| – cover of loss | - | - | - | - | - |
| **4.2. Other reserves at the end of the period** | **3 472** | **3 472** | **3 472** | **3 472** | **3 472** |
| 5. Profit (loss) from previous years at the beginning of the period | 89 803 | 89 803 | 130 573 | 130 573 | 130 573 |
| 5.1. Profit from previous years at the beginning of the period | 90 637 | 90 637 | 131 407 | 131 407 | 131 407 |
| – changes of accountancy rules | - | - | - | - | - |
| – error adjustments | (36 783) | (36 783) | (36 783) | (36 783) | (36 783) |
| 5.2. Profit from previous years at the beginning of the period, after adjustments | 53 854 | 53 854 | 94 624 | 94 624 | 94 624 |
| a) increases | - | - | - | - | - |
| – distribution of profits from previous years | - | - | - | - | - |
| b) decreases | 90 637 | 90 637 | 131 407 | 131 407 | 131 407 |
| – distribution of profit for reserve capital | 29 649 | 29 649 | 65 845 | 65 845 | 65 845 |
| – dividend payment | 60 988 | 60 988 | 65 562 | 65 562 | 65 562 |
| 5.3. (Loss) from previous years at the end of the period | (36 783) | (36 783) | (36 783) | (36 783) | (36 783) |

## STATEMENT OF CHANGES IN EQUITY (continued)

| | | | | | |
|---|---|---|---|---|---|
| 5.4. (Loss) from previous years at the beginning of the period | (834) | (834) | (834) | (834) | (834) |
| – changes of accountancy rules | - | - | - | - | - |
| – error adjustments | - | - | - | - | - |
| 5.5. Loss from previous years at the beginning of the period, after adjustments | (834) | (834) | (834) | (834) | (834) |
| a) increases | - | - | - | - | - |
| – transfer of loss from previous years to cover | - | - | - | - | - |
| b) decreases | - | - | - | - | - |
| – cover of loss from reserve capital | - | - | - | - | - |
| 5.6. Loss from previous years at the end of the period | (834) | (834) | (834) | (834) | (834) |
| **5.7. Profit (loss) from previous years at the end of the period** | **(37 617)** | **(37 617)** | **(37 617))** | **(37 617)** | **(37 617)** |
| **6. Net result** | **60 676** | **3 481** | **90 637** | **61 116** | **34 392** |
| a) net profit | 60 676 | 3 481 | 90 637 | 61 116 | 34 392 |
| b) net loss | - | - | - | - | - |
| c) result impairments | - | - | - | - | - |
| **II. Equity at the end of the period (CB)** | **1 480 021** | **1 422 622** | **1 480 129** | **1 450 608** | **1 423 884** |
| **III. Equity after proposed result distribution (cover of loss)** | **1 480 021** | **1 422 622** | **1 480 129** | **1 450 608** | **1 423 884** |

*Konin, 14 November 2018*

| | | | | | |
|---|---|---|---|---|---|
| *Adam Kłapszta* | *Aneta Lato-Żuchowska* | *Zygmunt Artwik* | *Elżbieta Niebisz* | *Marcin Ginel* | *Aneta Desecka* |
| *President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Chief Accountant* |

# ADDITIONAL INFORMATION TO THE CONDENSED SUMMARY FINANCIAL STATEMENT FOR 9 MONTHS

## 1. General information about the Company

Zespół Elektrowni Pątnów-Adamów-Konin Spółka Akcyjna ("ZE PAK SA", "the Company") was established by the Notarial Deed of 29 December 1994. The Company's registered office is in Konin at Kazimierska 45.

The Company is entered into the Register of Entrepreneurs under the KRS number 0000021374 assigned on 21 June 2001.

The Company has been operating under the NIP number: 665-00-01-645 assigned on 17 September 1993, and the REGON symbol: 310186795.

The Company has been established for an indefinite period.

The Company is the parent company of the Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin (“Group”, “Capital Group”, “ZE PAK SA Group”).

According to articles of association, the subject of the Company’s activities is:

1) production and distribution of electricity,
2) production and distribution of heat (steam and hot water).

The summary quarterly financial statement of ZE PAK SA as developed based on the provisions of the regulation of the Minister of Finances of 29 March 2018 on current and periodic information published by issuers of securities and the conditions for regarding information required by the law of a non-member state as equivalent (Journal of Laws 2018 item 757). The format, basis and scope of the developed statement are in accordance with the requirements of that regulation.

## 2. Determination and clarification of differences in the disclosed data and significant differences regarding the adopted accounting principles (policy) between the statement and the comparable data as well as the statement and the comparable data developed according to IFRS

The Company is the parent company of the Capital Group, which is obliged to develop a consolidated financial statement in accordance with IFRS standards approved by the EU ("IFRS"). The Company did not prepare and does not prepare an individual financial statement in accordance with IFRS.

The main potential differences between the IFRS and the AoA (DZ.U. 2018 item 395 and its subsequent amendments) developed with the assumption of using the IFRS based on the IFRS 1 guidelines and adoption of the financial data resulting from the consolidated financial statement of the ZE PAK SA Group are presented below. The date of transition of the ZE PAK SA Group to the IFRS is 1 January 2009.

If the financial statement was developed in accordance with the IFRS, the main differences between the accounting principles adopted for the enclosed statement and the IFRS, with the assumption that the date of transition to the IFRS is 1 January 2009:

1. Tangible fixed assets

   a) Valuation of the tangible fixed assets

      According to the IFRS 1, as of the date of the first application of the IFRS, the body can make a fair value quotation of the fixed assets and recognise their fair value as the assumed cost at this date. The Company established the assumed cost of the selected tangible fixed assets by assignment of the fair value of these assets as of 1 January 2009, i.e. the assumed date of transition to the application of the IFRS.

      Due to differences in the valuation of property, plant and equipment under the Accounting Act and IFRS, the amount of impairment losses on property, plant and equipment also varies.

b) Allotment of renovation components

The International Financial Reporting Standards project the allotment within the scope of fixed assets of components, provided that their use period differs from the use period of a given fixed asset. The components are depreciated during their usability period. According to the IFRS, the specific component consists of renovations and periodical inspections. Therefore, the Company allotted the components of the planned values to bear the costs of overhauls and made depreciation of components in the period remaining until the planned commencement of the next renovation. The recognition of this adjustment also resulted in the need to charge the deferred tax.

c) Valuation of land and their perpetual usufruct

According to the AoA, the perpetual usufruct of land is subject to depreciation, and the depreciation write-downs are recognised in the income statement in the prime cost item.

For the purpose of the IFRS, due to the unspecified period of economic use of the perpetual usufruct of land, the Company would eliminate the recognised depreciation write-downs.

d) Capitalisation of external financing costs

According to the AoA, the Company recognised in the capital work in progress all the costs of servicing liabilities incurred in order to finance them along with the exchange rate differences that took place.

For the purpose of the IFRS, the Company would make an adjustment of the capitalised exchange rate differences on the liabilities incurred in foreign currencies, consisting in the adaptation of the value of these exchange rate differences to the value, in which they comprise the adjustment of the interest costs.

Furthermore, the Company would execute the capitalisation of external financing costs on the liabilities of general nature, used for the financing of capital work in progress.

Due to the above fact, in the financial statement developed according to the IFRS, the Company would capitalise the external financing costs in the value not higher than the financing costs, which would occur if the liabilities were incurred in the functional currency, i.e. PLN.

Described areas of differences between the AoA and the IFRS were identified during the process of development of the Group's consolidated financial statement according to the IFRS and do not include the potential adjustments of the IFRS in relation to transactions with affiliated entities, which were eliminated in the scope of the Group's financial statement.

The International Accounting Standards Board (IASB) introduced many changes into the current accounting principles and issued new standards. New standards and changes to the current standards are still in the works. Furthermore, these standards are subject to the approval process by the EU. In relation to the above, it is possible that the standards, according to which the Company will develop its first financial statement compliant with the IFRS, which can include data from the past years, will differ from the standards used for the development of the below explanatory note describing the differences between the IFRS and the Polish accounting standards.

Furthermore, only a complete financial statement embracing the statement on the financial position, total income statement, statement of changes in the equity, as well as the cash flow statement, and the comparative data and explanatory notes can present the full and reliable view of the Company's financial position, the results of its activities and cash flows in accordance with the IFRS.

The presentation of some of the items of the financial statements according to the AoA and the IFRS can differ. The differences in the presentation will not affect the equity and the Company's net result.

The components of particular items in the financial statement, as well as the scope of additional information to the financial statement compliant with the AoA and the IFRS can differ substantially.

*The following table presents the differences as of 30 September 2018 (unaudited data):*

| | *Balance sheet value Acc. to AoA* | *Balance sheet value Acc. to IFRS* | *Value adjustment* |
|---|---|---|---|
| Tangible fixed assets | 629 106 | 638 465 | 9 359 |
| Equity | 1 480 021 | 1 421 658 | (58 363) |
| Deferred tax provision | 66 510 | 127 388 | 60 878 |

*Description of the effects of disclosed differences in net profit and equity:*

| | *30 September 2018 (unaudited)* |
|---|---|
| AoA net profit | 60 676 |
| Adjustment of the tangible fixed assets | 483 |
| IAS 19 adjustment – Actuarial profits / losses | 324 |
| IAS 9 adjustment – Impairment of financial assets | 1 326 |

| | *30 September 2018 (unaudited)* |
|---|---|
| AoA capital | 1 480 021 |
| Adjustment of the tangible fixed assets | (55 815) |
| IAS 9 adjustment – Impairment of financial assets | (2 548) |
| IAS 19 adjustment – Actuarial profits / losses | (324) |

## 3. Assumption of continuation of economic activity

The Company's financial statements have been prepared on the assumption that the Company will continue its business activity in the foreseeable future, at least 12 months after the balance sheet date, i.e. after September 30, 2018.

As at the date of signing these financial statements, the Management Board of the Company does not identify any facts and circumstances that could affect the Company's ability to continue operations.

## 4. Merger of commercial companies

On August 1, 2018, the following companies merged: Zespół Elektrowni Pątnów - Adamów - Konin SA (the acquiring company) and PAK - Holdco sp. z o.o. (company being acquired).

## 5. Accepted principles (policy) of accounting

The accounting principles adopted by the Company, including the methods of valuation of assets and liabilities and the measurement of the financial result are compliant with the provisions of the Accounting Act of September 29, 1994 (Journal of Laws of 2018, item 395, as amended) and are described in the financial statements of Zespół Elektrowni Pątnów - Adamów - Konin SA for the financial year ended December 31, 2017, published on April 19, 2018.

### Accounting policies in the field of ash reclamation reserve

The Management Board assessed that the legal obligation to reclaim the area of ash landfills arises at the start of their operation, therefore the Group should include the asset and provision for the reclamation of ash storage sites at the discounted value of estimated reclamation costs to be incurred in the future. In subsequent periods, this asset is amortized using the straight-line method over the estimated period of operation of a given ash landfill. At the same time, in subsequent periods, the Group recognizes an increase in the provision resulting from the effect of unwinding the discount in correspondence with financial costs. Subsequent possible changes in the estimated costs of reclamation adjust the value of the asset and the provision.

As at the balance sheet date, the Management Board of ZE PAK SA Group estimated the value of reclamation costs to be borne in the future based on the knowledge of the area of ash landfills used and the currently incurred costs of reclamation for similar areas. While calculating the provision, the Group adopted the following assumptions: discount rate at 3.3%, inflation level at 2.5%.

# 6. Comparability of financial data for the previous period with the report for the current period

In the current period, the Company did not change the accounting principles, therefore it was not obliged to present numerical information that would ensure comparability of data for the financial statements for the preceding period with the statement for the current financial period.

# 7. Error adjustment

As at June 30, 2018, the Management Board of the Parent Company made a detailed re-analysis of the legal regulations relating to land reclamation in terms of the need to establish a provision for future costs of damage removal.

As a result of the analysis, it was considered that on June 30, 2018 and in previous years, the Group was under a legal obligation consisting in the necessity of removing damage and reclamation of land used as ash landfills. In the opinion of the Management Board, the fact of creating a given ash storage facility, including incurring necessary expenses for its establishment, causes an obligating event that creates the Group's obligation to remove it in the future, because legal requirements cause that there is an obligation from which the Group cannot withdraw or avoid meeting it. The failure to adopt a provision for restoration of primary status in previous years, despite the existence of such an obligation, meets the definition of error in accordance with IAS 8 para. 43, and its adjustment affects the financial data presented for comparable periods.

As a result, as at December 31, 2017 and December 31, 2016, the Company recognized a provision for liquidation of damage and reclamation of ash storages used by the Group in the amount of discounted reclamation costs to be incurred in the future in the amount of PLN 40,451 thousand and PLN 36 783 thousand respectively, in correspondence with profits from previous years and the item of accruals to the extent that the obligation to remove and restore the original state concerns an unamortized part.

The Company did not transform the previously published consolidated profit and loss accounts and consolidated statement of comprehensive income prepared for 2017 (presented in these interim financial statements), because in the opinion of the Management Board, the described adjustment has no material impact and does not distort comparative data.

At the same time, the Management Board assessed that the impact of the adjustment introduced on the income statement for the first half of 2018 is immaterial and therefore introduced a change in the comparative data as at January 1, 2017 and December 31, 2017 in the same values as at June 30, 2018.

The total impact of the adjustment on the Group's equity amounted to PLN 36 783 thousand as at September 30, 2018.

The introduced adjustment had an impact on the following items of the financial statements:

| | | *Published data* | *Transformed data* | *Adjustment* | *Published data* | *Transformed data* | *Adjustment* | *Published data* | *Transformed data* | *Adjustment* |
|---|---|---|---|---|---|---|---|---|---|---|
| | | *31 December 2017* | | | *30 September 2017* | | | *30 June 2017* | | |
| | *Assets* | | | | | | | | | |
| A. | Fixed assets | 2 021 250 | 2 024 918 | 3 668 | 1 984 906 | 1 988 574 | 3 668 | 1 981 651 | 1 985 319 | 3 668 |
| V. | Long-term prepayments (accruals) | 551 | 4 219 | 3 668 | 591 | 4 259 | 3 668 | 643 | 4 311 | 3 668 |
| 2. | Other prepayments (accruals) | 551 | 4 219 | 3 668 | 591 | 4 259 | 3 668 | 643 | 4 311 | 3 668 |
| | *Liabilities and equity* | | | | | | | | | |
| A. | Equity | 1 516 912 | 1 480 129 | (36 783) | 1 487 391 | 1 450 608 | (36 783) | 1 460 667 | 1 423 884 | (36 783) |
| V. | Net profit from previous years | (834) | (37 617) | (36 783) | (834) | (37 617) | (36 783) | (834) | (37 617) | (36 783) |
| B. | Liabilities and provisions for liabilities | 850 958 | 891 409 | 40 451 | 810 987 | 851 438 | 40 451 | 855 582 | 896 033 | 40 451 |
| I. | Provisions for liabilities | 329 940 | 370 391 | 40 451 | 269 517 | 309 968 | 40 451 | 226 428 | 266 879 | 40 451 |
| 3. | Other provisions | 240 330 | 280 781 | 40 451 | 190 284 | 230 735 | 40 451 | 142 506 | 182 957 | 40 451 |
| | - long-term | 17 132 | 57 583 | 40 451 | 17 252 | 57 703 | 40 451 | 17 114 | 57 565 | 40 451 |

## 8. The amount and nature of items affecting assets, liabilities, equity, net income or cash flows that are abnormal due to their nature, value or frequency

During the current reporting period, there were no events affecting assets, liabilities, equities, net result or cash flow, that were unusual at their type, value or frequency.

## 9. Information on impairment write-downs against provisions value, impairing to the net value possible to achieve and on the reversal of such write-downs

The gross financial result for the current period includes the effects of creating and reversing the provision impairment write-down:

| *Impairment write-downs* | *31 December 2017* | *changes* | | | *30 September 2018 (unaudited)* |
|---|---|---|---|---|---|
| | | *creation* | *use* | *liquidation* | |
| Inventories | 2 521 | 771 | - | - | 3 292 |

Certificates of origin of energy arising from the energy production from renewable energy sources and peak load co-generation are presented according to fair value at the end of the month, in which the energy based on renewable sources was produced.

As at September 30, 2018, the Group held, in accordance with the register, 8,372.150 MWh of the property rights of green certificates produced and verified by the URE of green energy. From January 1, 2018 to September 30, 2018, the Group received 74,933,945 MWh certificates for production in June 2017 and for production in January, February, March and April 2018. During this period, an application was filed for the issue of 58 743,521 MWh for production in May and June 2018 (certificates were received on October 3, 2018). By September 30, 2018, 94 088.960 MWh were sold at TGE SA.

## 10. Information on the write-downs against the impairment of financial assets, tangible fixed assets, non-material and legal values or other assets and the reversal of such write-downs

The gross financial result for the current year includes the effects of creating and reversing impairment write-downs, in particular:

| *Impairment write-downs* | *31 December 2017* | *changes* | | | *30 September 2018 (unaudited)* |
|---|---|---|---|---|---|
| | | *creation* | *use* | | |
| Intangible assets | 1 278 | - | - | - | 1 278 |
| Tangible fixed assets | 1 560 589 | - | - | - | 1 560 589 |
| Financial assets | 28 249 | - | - | 1 | 28 248 |
| Receivables | 35 223 | - | 56 | 56 | 35 111 |

## 11. Information on the creation, increase, use or liquidation of the provisions

The gross financial result for the current year includes the effects of creating the estimates of future obligations, in particular:

| *Provisions and accruals* | *31 December 2017 (transformed data)* | *changes* | | | *30 September 2018 (unaudited)* |
|---|---|---|---|---|---|
| | | *creation* | *use* | | |
| Provisions for pension and similar benefits | 10 398 | 1 535 | - | 1 861 | 10 072 |
| Provisions for CO2 emission allowances | 221 792 | 234 373 | - | 221 792 | 234 373 |
| Provisions for reclamation (note no. 5 and 7) | 41 206 | - | - | 118 | 41 088 |
| Provisions for liquidation | 16 593 | 410 | - | - | 17 003 |
| Other provisions | 1 190 | - | - | - | 1 190 |
| Accruals and deferred expenses, incl.: | 13 792 | 11 884 | 11 189 | 120 | 14 367 |
| – annual bonus provision | 10 436 | - | 9 319 | - | 1 117 |
| – unused holidays provision | 2 373 | 374 | 860 | - | 1 887 |
| – fees for commercial utilization of the environment | - | 10 986 | - | 120 | 10 866 |
| – duty to redeem property rights | 804 | 524 | 831 | - | 497 |
| – other provisions | 179 | - | 179 | - | - |
| Prepayment income settlement | 14 105 | 337 | 278 | - | 14 164 |
| **Total** | **319 076** | **248 539** | **11 467** | **223 891** | **332 257** |

## 12. Information on the provisions and assets related to deferred income tax

In the 9-month period ended on 30 September 2018, there had been a change in the state of the provisions and assets related to deferred income tax, i.e.:

- a change in the state of assets, increasing tax burden in the amount of PLN 2 257 thousand,
- a change in the state of the provisions, decreasing tax burden in the amount of PLN 14 960 thousand.

## 13. Information on significant acquisition and sales transactions of tangible fixed assets and any significant liability due to purchasing tangible fixed assets

In the 9-month period ended on 30 September 2018, the Company:

- Purchased or accepted from investments, tangible fixed assets in the amount of PLN 20 854 thousand,
- sold or liquidated fixed tangible asset component in the net amount of PLN 139 thousand.

As of 30 September 2018, the liabilities of the Company for the purchase of tangible fixed assets amount to PLN 2 330 thousand.

## 14. Information about the failure to repay a bank credit or loan, or the breach of significant provisions of a bank credit or loan agreement, in relation to which no remedial actions have been undertaken until the end of the reporting period

During the current reporting period, the Company made bank credit payments in accordance with the provisions of credit agreements. As of the balance sheet day of 30 September 2018, the Company met the covenants, pursuant to the credit agreement of 13 March 2014.

## 15. Information on the issuer or its subsidiary, concluding one or multiple transactions with associated entities, should they have been concluded under conditions other than market conditions

Zespół Elektrowni Pątnów-Adamów-Konin SA and subsidiaries, consolidated under the Group, did not conclude any transactions with the affiliates pursuant to conditions other than market conditions in the period of 9 months of 2018.

## 16. Information on the change in the manner (method) of appraisal of financial instruments, appraised at fair value

There have been no changes to the manner (method) of appraising financial instruments according to fair value in the Company's financial statement presented for the current reporting period.

## 17. Information on the changes in the classification of financial assets

In the current reporting period, there have been no changes to the classification of financial assets.

## 18. Information on the issue, redemption and repayment of non-equity and equity securities

In the current reporting period, the Company did not issue, redeem or repay any non-equity and equity securities.

## 19. Events of the accounting period not specified in the balance sheet and the income statement

During the reporting period until the development date of this financial statement, i.e. till 14 September 2018, there were no events that were not, and should be included in the accounting books and financial statements for the period ended September 30, 2018.

## 20. Events of previous years recognised in the financial statement

As of the date of preparation of the financial statements for the period ended September 30, 2018, i.e. until September 14, 2018, there were no other significant events related to previous years which were not and should be included in the financial statements of the accounting year.

## 21. Information on the changes in the business or economic circumstances that significantly affect the fair value of the entity's financial assets and financial liabilities, regardless of the fact, whether those assets and liabilities are recognised in the fair value or the corrected purchase cost (amortised cost)

***Proceedings on an environmental decision on lignite deposit in Ościsłowo***

On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") of 10 March 2017, refusing the establishment of the environmental conditions for the investment titled: "Extraction of lignite and associated minerals from the Ościsłowo Open Pit." The decision of RDOŚ in Poznań is not final. PAK KWB Konin SA appealed accordingly to the General Directorate for Environmental Protection in Warsaw. The appeal included a request to revoke the appealed ruling in its entirety and determine the environmental conditions for the execution of the above-mentioned project. On 30 November 2017, General Director of Environmental Protection in Warsaw has decided to repeal a decision in its entirety (contested by PAK KWB Konin SA - a subsidiary of the Company) of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") dated March 10, 2017, refusing to specify environmental conditions for the project entitled: " Extraction of lignite and associated minerals from Ościsłowo Open Pit" and forward the case for reconsideration by RDOŚ in Poznań.

PAK KWB Konin SA, by letter of December 18, 2017 filed an objection against the abovementioned decision of GDOŚ in Warsaw to the Provincial Administrative Court in Warsaw (WSA). In the opinion of PAK KWB Konin S.A. there were grounds for issuing a reformatory decision by GDOŚ in Warsaw, i.e. amending the contested decision of RDOŚ in Poznań and substantive decision in this matter, not referring the matter for reconsideration. The other party also opposed the WSA. Both objections were dismissed by the WSA. The verdict was passed on March 1, 2018. On April 12, 2018, PAK KWB Konin SA filed a cassation complaint with the Supreme Administrative Court in Warsaw against the verdict of the WSA in Warsaw of 1 March 2018. The Supreme Administrative Court in Warsaw, by a judgment of September 25, 2018, repealed the appealed judgment and forwarded the case to the Provincial Administrative Court in Warsaw for reconsideration. The Provincial Administrative Court by judgment of 18 October 2018 annulled the contested decision of 30 November 2017 issued by GDOŚ in Warsaw.

Another, postponed date of solving the case was designated by RDOŚ in Poznań, on December 10, 2018.

The proceedings for issuing the environmental decision were initiated on 16 September 2015.

## 22. Additional information

Additional information and disclosures required by the provisions of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and the conditions for regarding information required by the law of a non-member state as equivalent (J.o.L. Of 2018, item 757), which could significantly impact the assessment of the economic, financial situation and, which have been, as a result of the issuer's financial result, included in the explanatory notes to the interim condensed consolidated financial report (iccfr), including:

- explanations regarding the seasonality or cyclicality of the issuer's activities in the presented period (item 10 of iccfr),
- information on significant settlements due to lawsuits (29.1 iccfr),
- information on changes of contingent liabilities or contingent assets, which had occurred from the end of the last financial year (items 30 and 31 of iccfr),
- information regarding the paid (or declared) dividends (item 24 of iccfr).

*Konin, 14 November 2018*

| | | | | | |
|---|---|---|---|---|---|
| *Adam Kłapszta* | *Aneta Lato-Żuchowska* | *Zygmunt Artwik* | *Elżbieta Niebisz* | *Marcin Ginel* | *Aneta Desecka* |
| *President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Vice President of the Board* | *Chief Accountant* |

# ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA CAPITAL GROUP

## OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT FOR III QUARTER 2018

*(This is a translation of the document issued originally in Polish language.*
*The Polish original should be referred to in matters of interpretation.)*

14 NOVEMBER 2018

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# 1. SELECTED FINANCIAL DATA

| *Selected consolidated financial data* | *zloty thousand*<br>*9 months 2018 period od 01.01.2018 do 30.09.2018* | *zloty thousand*<br>*9 months 2017 period od 01.01.2017 do 30.09.2017* | *euro thousand*<br>*9 months 2018 period od 01.01.2018 do 30.09.2018* | *euro thousand*<br>*9 months 2017 period od 01.01.2017 do 30.09.2017* |
|---|---|---|---|---|
| Sales revenue | 1 623 410 | 1 813 089 | 381 665 | 425 948 |
| Operating profit/loss | (33 621) | 237 761 | (7 904) | 55 857 |
| Profit/loss before tax | (57 087) | 212 592 | (13 421) | 49 944 |
| Net profit/loss for the period | (62 726) | 169 976 | (14 747) | 39 932 |
| Net profit attributable to equity holders of the parent | (62 087) | 169 368 | (14 597) | 39 790 |
| Total comprehensive income | (62 017) | 172 817 | (14 580) | 40 600 |
| Net cash flow from operating activities | 264 888 | 409 850 | 62 275 | 96 286 |
| Net cash flow from investing activities | (50 681) | (30 984) | (11 915) | (7 279) |
| Net cash flow from financing activities | (225 213) | (358 500) | (52 948) | (84 222) |
| Net increase / (decrease) in cash and cash equivalents | (11 006) | 20 366 | (2 588) | 4 785 |
| Net profit per share (in zloty/euro per share) | (1.22) | 3.33 | (0.29) | 0.78 |
| Weighted average number of shares | 50 823 547 | 50 823 547 | 50 823 547 | 50 823 547 |
| | *As of 30.09.2018* | *As of 31.12.2017* | *As of 30.09.2018* | *As of 31.12.2017* |
| Total assets | 4 210 064 | 4 459 380 | 985 640 | 1 069 165 |
| Fixed assets | 3 392 761 | 3 451 444 | 794 297 | 827 506 |
| Current assets | 816 286 | 1 006 898 | 191 105 | 241 410 |
| Total equity | 2 100 071 | 2 227 489 | 491 659 | 534 055 |
| Share capital | 101 647 | 101 647 | 23 797 | 24 371 |
| Share capital attributable to equity holders of the parent | 2 100 071 | 2 227 489 | 491 659 | 534 055 |
| Total liabilities | 2 109 993 | 2 231 891 | 493 982 | 535 110 |
| Long-term liabilities | 1 019 261 | 1 232 409 | 238 625 | 295 478 |
| Short-term liabilities | 1 090 732 | 999 482 | 255 357 | 239 632 |
| Book value per share (in zloty/euro per share) | 41.32 | 43.83 | 9.67 | 10.51 |
| Weighted average number of shares | 50 823 547 | 50 823 547 | 50 823 547 | 50 823 547 |

| *Selected financial data of ZE PAK SA* | *zloty thousand* *9 months 2018 period od 01.01.2018 do 30.09.2018* | *zloty thousand* *9 months 2017 period od 01.01.2017 do 30.09.2017* | *euro thousand* *9 months 2018 period od 01.01.2018 do 30.09.2018* | *euro thousand* *9 months 2017 period od 01.01.2017 do 30.09.2017* |
|---|---|---|---|---|
| Sales revenues | 851 632 | 1 086 592 | 200 219 | 255 272 |
| Operating profit/loss | (73 396) | 73 098 | (17 255) | 17 173 |
| Profit/loss before tax | 47 987 | 72 610 | 11 282 | 17 058 |
| Net profit/loss for the period | 60 676 | 61 116 | 14 265 | 14 358 |
| Net cash flow from operating activities | 98 242 | 158 033 | 23 097 | 37 127 |
| Net cash flow from investing activities | 10 466 | (15 762) | 2 461 | (3 703) |
| Net cash flow from financing activities | (175 170) | (189 234) | (41 183) | (44 457) |
| Net increase / (decrease) in cash and cash equivalents | (66 462) | (46 963) | (15 625) | (11 033) |
| Net profit per share (in zloty/euro per share) | 1.19 | 1.20 | 0.28 | 0.28 |
| Weighted average number of shares | 50 823 547 | 50 823 547 | 50 823 547 | 50 823 547 |
| | *As of 30.09.2018* | *As of 31.12.2017* | *As of 30.09.2018* | *As of 31.12.2017* |
| Total assets | 2 235 812 | 2 371 538 | 523 438 | 568 591 |
| Fixed assets | 1 817 997 | 2 024 918 | 425 621 | 485 487 |
| Current assets | 417 815 | 346 620 | 97 817 | 83 104 |
| Total equity | 1 480 021 | 1 480 129 | 346 496 | 354 870 |
| Share capital | 101 647 | 101 647 | 23 797 | 24 371 |
| Total liabilities | 755 791 | 891 409 | 176 942 | 213 721 |
| Long-term liabilities | 96 907 | 203 524 | 22 687 | 48 796 |
| Short-term liabilities | 260 118 | 289 597 | 60 898 | 69 433 |
| Book value per share (in zloty/euro per share) | 29.12 | 29.12 | 6.82 | 6.98 |
| Weighted average number of shares | 50 823 547 | 50 823 547 | 50 823 547 | 50 823 547 |

*Above financial data were converted into EUR according to the following exchange rates:*

- *particular items of statement of comprehensive income (Profit & loss account) and statement of cash flows (Cash flow) – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period starting from 1 January 2018 to 28 September 2018 which is EUR/PLN 4.2535 and from 1 January 2017 to 29 September 2017, which is EUR/PLN 4.2566;*
- *particular items of the Statement of financial position (Balance sheet) according to average EUR/PLN exchange rate published by the National Bank of Poland as of 28 September 2018 which is EUR/PLN 4.2714 and as of 29 December 2017 which is EUR/PLN 4.1709.*

# 2. DESCRIPTION OF THE GROUP

## 2.1. Basic information

As of 30 September 2018, ZE PAK Capital Group (hereinafter referred to as the "Group", "Capital Group" the "ZE PAK SA Group") is composed of a dominant entity Zespół Elektrowni Pątnów – Adamów – Konin SA (hereinafter referred to as "ZE PAK SA" or "Company") and nine subsidiaries i.e. Elektrownia Pątnów II sp. z o.o., PAK – Volt SA, PAK Kopalnia Węgla Brunatnego Adamów SA (hereinafter referred to as the "PAK KWB Adamów SA"), PAK Kopalnia Węgla Brunatnego Konin SA (hereinafter referred to as the "PAK KWB Konin SA"), Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o. (hereinafter referred to as the "PAK SERWIS sp. z o.o."), PAK Górnictwo sp. z o.o., PAK Infrastruktura sp. z o.o., PAK Adamów sp. z o.o., Aquakon sp. z o.o. in liquidation. All the above-mentioned companies are consolidated.

The companies of the biggest importance for the Group due to their scale of activity are: ZE PAK SA, dealing with production of electricity and heat, Elektrownia Pątnów II sp. z o.o., dealing with production of electricity, and PAK KWB Adamów SA and PAK KWB Konin SA, dealing with lignite mining. In addition to companies from the aforementioned main areas of activity, the Group also includes other companies that deal, among others, with the execution of construction and assembly works, maintenance works, service, production and trade activities aimed at satisfying the needs and comprehensive industry service.

The production facilities of the Group include three lignite-fired power plants located in the central part of Poland in Wielkopolskie voivodship. These are: Pątnów II – equipped with a supercritical power unit, Pątnów I and Konin – equipped additionally with power unit with a boiler dedicated to biomass firing. Total installed gross power output of the production facilities as at the date of this report is 1896 MW.

The Group's main mining assets are concentrated in two companies: PAK KWB Konin, which currently operates on Jóźwin, Tomisławice and Drzewce open casts, and PAK KWB Adamów operating on Adamów open cast.

Majority of the Group's sales revenue is derived from sale of electricity. This is supplemented by revenues from sale of heat, contracts for construction repair services and certificates of Energy origin. An additional source of sales revenues, depending on the level of production costs, energy prices on the market and production volume, are revenues from the termination of long-term contracts (Power Purchase Agreements) for the sale of electricity, generated by Elektrownia Pątnów II sp. z o.o. The Group, having lignite mines in its structure, provides power plants with an access to uninterrupted lignite supplies for own production installations located in the immediate vicinity of the mines. The vertically integrated Group enables optimization of coal inventories and supplies by coordinating coal mining with the demand for this fuel. The demand for biomass is covered on the basis of contracts concluded with suppliers.

The structure of ZE PAK SA Group as at September, 30 2018 is presented at Picture 1.

Apart from the Capital Group, ZE PAK SA owns shares in Zakłady Pomiarowo-Badawcze Energetyki Energopomiar sp. z o.o. with headquarters in Gliwice and providing measurement, research and consultancy services regarding, among others power engineering. The Company holds one share in the aforementioned company with the value of PLN 151 201.01, which constitutes 2.81% of the total capital.

The main shareholder makes the Group affiliated with other entities, in which Zygmunt Solorz holds substantial direct or indirect share.

## 2.2. Structure

*Picture 1: Structure of the Group as of 30 September 2018*

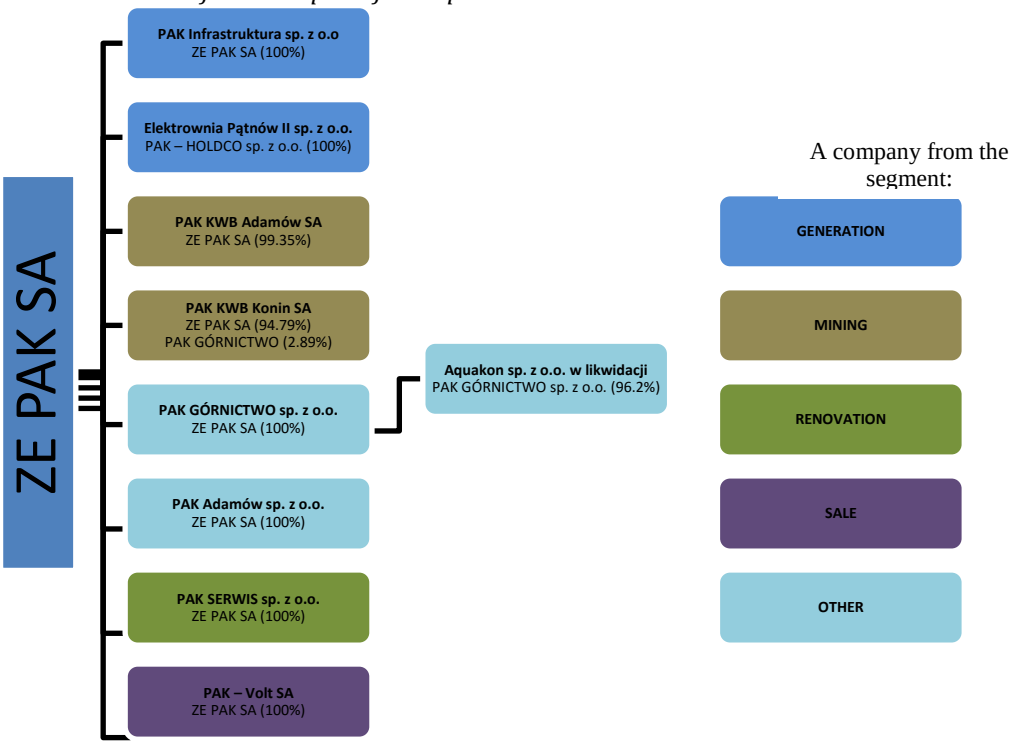



*Table 1: Description of the Group's companies (excluding ZE PAK SA)*

| *Entity* | *Registered office* | *Scope of operations* | *Group's share in the capital in %* | |
|---|---|---|---|---|
| | | | *30.09.2018* | *31.12.2017* |
| Elektrownia Pątnów II sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | Electric Energy production and distribution from the 464 MW power unit | 100.00% | 100.00%* |
| PAK Kopalnia Węgla Brunatnego Konin SA | 62-540 Kleczew ul. 600-lecia 9 | Lignite extraction | 97.68%* | 97.63%* |
| PAK Kopalnia Węgla Brunatnego Adamów SA | 62-700 Turek Warenka 23 | Lignite extraction | 99.35% | 99.31% |
| Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o. | 62-510 Konin ul. Przemysłowa 158 | Construction and repair services | 100.00% | 100.00% |
| PAK GÓRNICTWO sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | Rail transport services, vulcanization services (conveyor belts), electrical services, drilling, mining, mechanical and reclamation services, repair and assembly services of equipment, | 100.00% | 100.00% |
| PAK – Volt SA | 00-834 Warszawa ul. Pańska 77/79 | Trade of electricity | 100.00% | 100.00% |
| PAK Infrastruktura sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | General construction of engineering objects, not classified elsewhere | 100.00% | 100.00% |
| PAK Adamów sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | Buying and selling real estate | 100.00% | 100.00% |
| Aquakon sp. z o.o. in liquidation | 62-610 Sompolno Police | In liquidation | 96.2%* | 96.2%* |
| PAK – Holdco sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | Holding activity | - | 100.00% |
| Energoinwest Serwis sp. z o.o. in liquidation | 62-510 Konin ul. Spółdzielców 3 | In liquidation | - | 100.00%* |
| Eko-Surowce sp. z o.o. in liquidation | 62-540 Kleczew ul. 600-lecia 9 | In liquidation | - | 100.00%* |
| EL PAK Serwis sp. z o.o. in liquidation | 62-510 Konin ul. Przemysłowa 158 | In liquidation | - | 100.00%* |

* *Entities with partial or total indirect share via other companies from ZE PAK Group.*

## 2.3. Description of the changes in the Group's structure

On July 31, there was a merger of ZE PAK SA and PAK-HOLDCO Sp. z o.o. in the mode of art. 492 § 1 point 1, art. 515 § 1 and art. 516 CCC, i.e.

1) by transferring all assets of PAK HOLDCO Sp. z o.o. at ZE PAK SA;
2) without increasing the share capital of ZE PAK SA;
3) without issuing new shares of ZE PAK SA in exchange for shares of PAK HOLDCO Sp. z o.o.;
4) using a simplified connection procedure.

In addition, on August 1, 2018, there was a merger of companies belonging to the Group, also in accordance with art. 492 § 1, art. 515 § 1 and art. 516 § 6 of the Commercial Companies Code. On this day, an entry was made in the National Court Register by merging PAK Górnictwo Sp. z o.o. with EL PAK Serwis Sp. z o.o. in liquidation, Energoinwest Serwis Sp. z o.o. in liquidation and EKO-Surowce Sp. z o.o. in liquidation.

The above changes aimed at simplifying the structure of the Group.

## 2.4. Composition of the Management Board

As the day of the report publication, ZE PAK SA Management Board is composed of the following members:

- Adam Kłapszta – President of the Management Board,
- Aneta Lato-Żuchowska – Vice President of the Management Board,
- Zygmunt Artwik – Vice President of the Management Board,
- Elżbieta Niebisz – Vice President of the Management Board,
- Marcin Ginel – Vice President of the Management Board.

The current composition of the Management Board has changed in relation to the composition of 30 June 2018. On November 13, 2018, the Supervisory Board of ZE PAK SA appointed Mr. Marcin Ginel as the Vice President of the Management Board.

# 3. SIGNIFICANT EVENTS AFFECTING THE GROUP'S ACTIVITY

## 3.1. Significant achievements and failures during the period covered by the report

### Short description of the achieved financial results

In the third quarter of 2018 total sale revenues amounted to PLN 640 570 thousand and in comparison to the third quarter of 2017 increased by PLN 5 037 thousand, i.e. by 0.79%.

In the analysed period, compared to the corresponding period of the previous year, the Group decreased electricity sales from 3.13 TWh to 2.48 TWh, i.e. by 20.77%. At the same time, up to PLN 219.73 / MWh, i.e. by 23.91%, the average sale price of electricity increased (average price calculated as revenues from the sale of own energy, resold from the market and system services divided by the volume of sales). The cumulated impact of the two factors mentioned above caused that revenues from the sale of electricity (decreased by the excise duty) decreased by PLN 8 548 thousand, i.e. by 1.54%. The lower volume of electricity sales resulted mainly from lower sales of energy from own production. The main reason was the lack of production at Adamów power plant, in which production ended with the beginning of January 2018. Without considering Adamów power plant, production in both periods was at a comparable level. The volume of electricity sales from own production decreased from 2.31 TWh to 1.68 TWh, and the volume of energy resold from the market decreased only slightly from 0.82 TWh to 0.80 TWh (the net production volumes of particular Group power plants are shown in Figure 4 ).

In the third quarter of 2018, compared to the third quarter of 2017, revenues from the sale of property rights from certificates of origin increased by PLN 18 410 thousand. The increase is the result of production from the biomass block in the third quarter of 2018. In the corresponding period of the previous year, the Company did not produce energy from biomass, the revenues generated at that time concerned only red certificates (certificates of origin for energy generated in cogeneration).

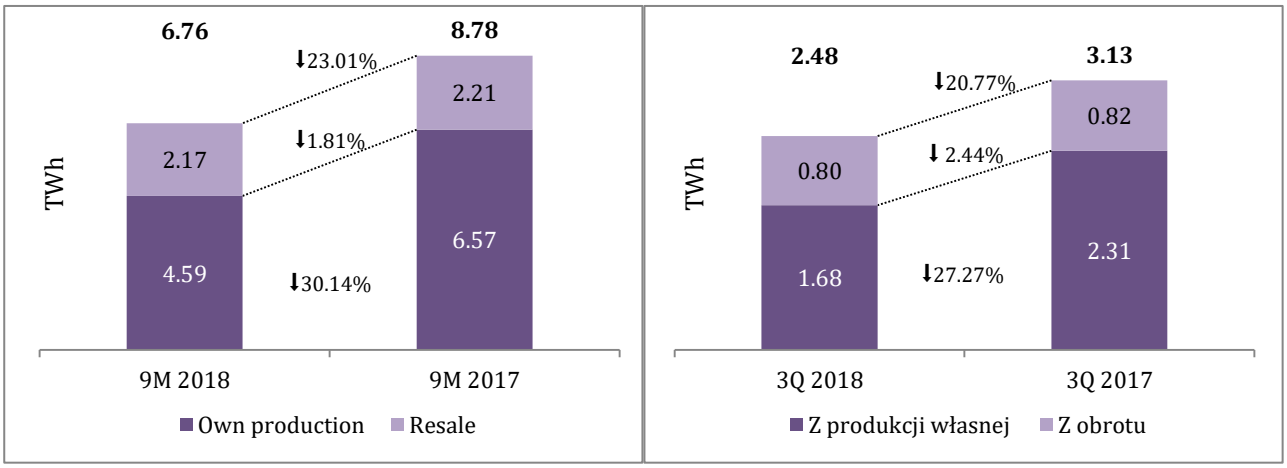
Revenues from the LTC termination (long-term sale of power and electricity) in the third quarter of 2018 amounted to PLN 42 486 thousand (including an advance of PLN 23 721 thousand and an adjustment of PLN 18 765 thousand), while in the third quarter of 2017 amounted to PLN 39 702 thousand (including an advance of PLN 30 757 thousand and an adjustment of PLN 8 945 thousand). Higher revenues from LTCs in the third quarter of 2018 are caused by a

higher adjustment compared to the corresponding period of 2017. This level of adjustment is the result of a lower operating result compared to the third quarter of 2017, mainly due to the increase in the purchase price of emission allowances as well as a lower advance payment in the third quarter of 2018 compared to the corresponding quarter of 2017. Too low advance payment did not cover appropriate level of cost. Lower advance payments result from the fact that according to the algorithm included in the Act of 29 June 2007 on the rules for covering costs incurred by generators in connection with early termination of long-term power and electricity sales contracts (LTC Act) from 2018 of Pątnów II power plant there are lower advances than previously (this is due to the adopted assumptions at the stage of designing the Act).

Revenues from construction services contracts in the third quarter of 2018 in relation to revenues earned in the corresponding period of the previous year decreased by PLN 3 436 thousand, i.e. by 14.41%. The decrease, mainly due to changes in the presentation method related to IFRS 15, in the case of using the same methodology as in the corresponding period of the previous year, revenues from construction services contracts would slightly increase.

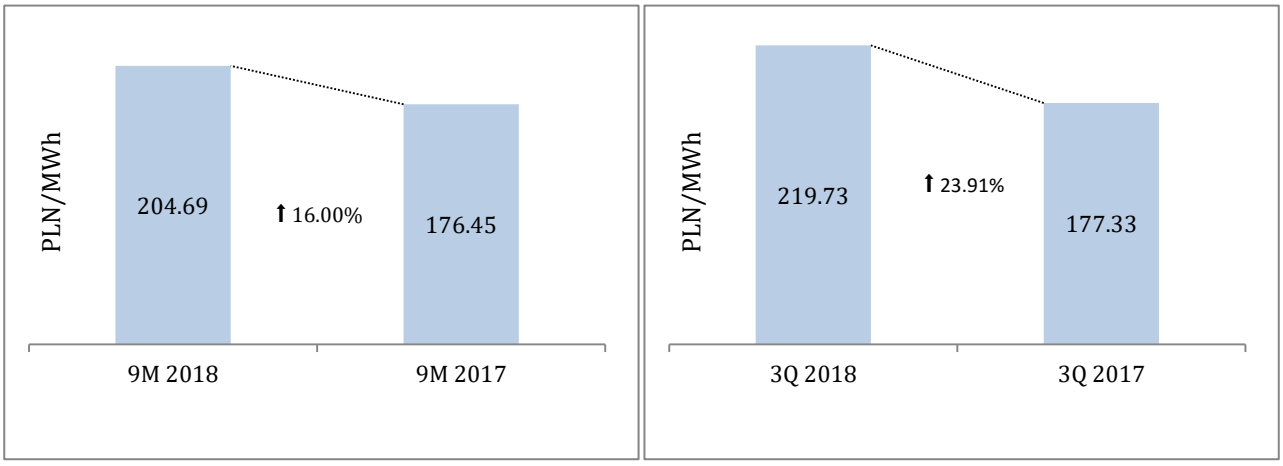
Revenues from heat sales in the third quarter of 2018 were lower than those obtained in the third quarter of 2017 by PLN 3 621 thousand, i.e. by 39.45%. The main reason for the decrease in revenues was the decrease in the amount of heat sold due to the end of the Adamów power plant's operation at the beginning of the year, which provided heat to the city of Turek.

*Chart 1: Electricity sale*




*Source: Internal data*

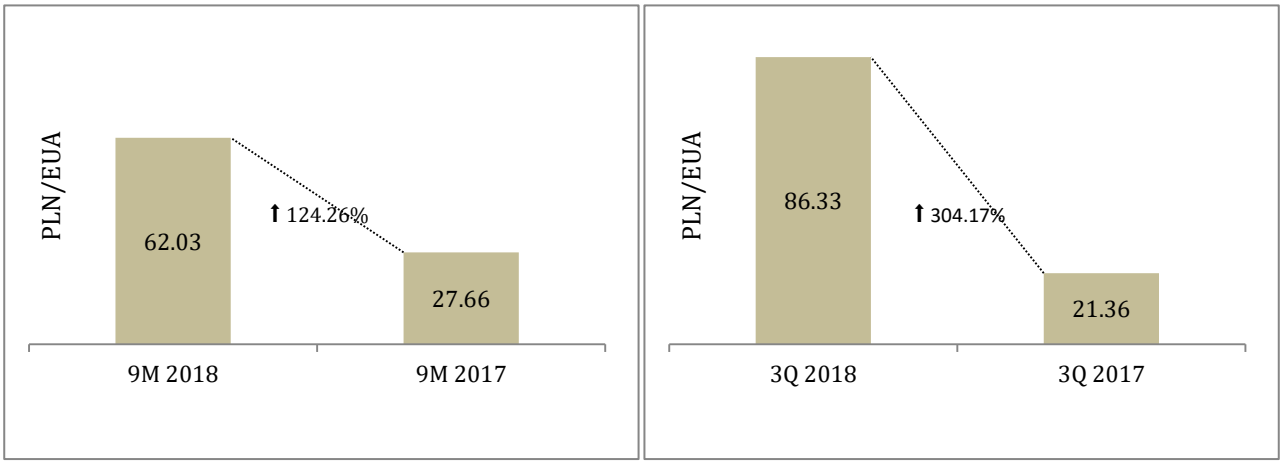
*Chart 2: Average electricity prices**




* *Average price, calculated as electricity sales revenues (own production, from resale and system service) divided by sales volume.*

*Source: Internal data*

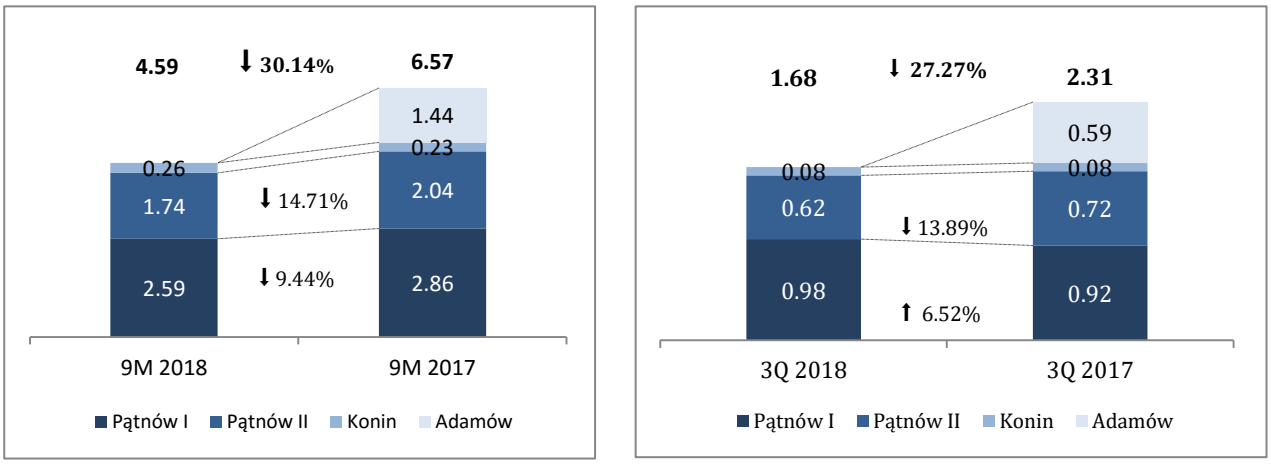
*Chart 3: Average prices of CO2 emission allowances purchase*(EUA)*




* *Average price is calculated as the purchase cost of emission allowances incurred to cover emission for the period divided by the volume of purchased allowances.*

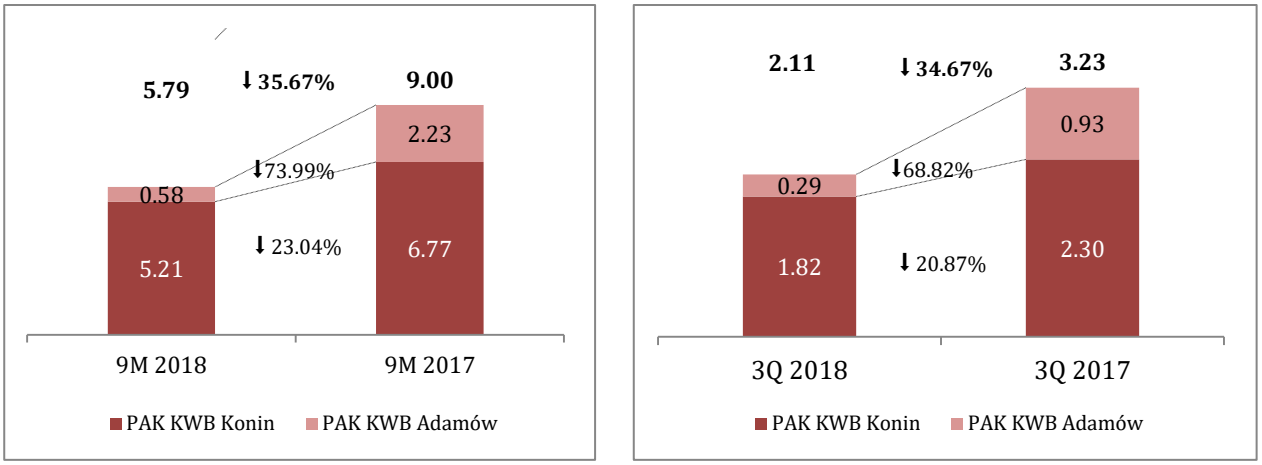
*Source: Internal data*

*Chart 4: Net electricity production*



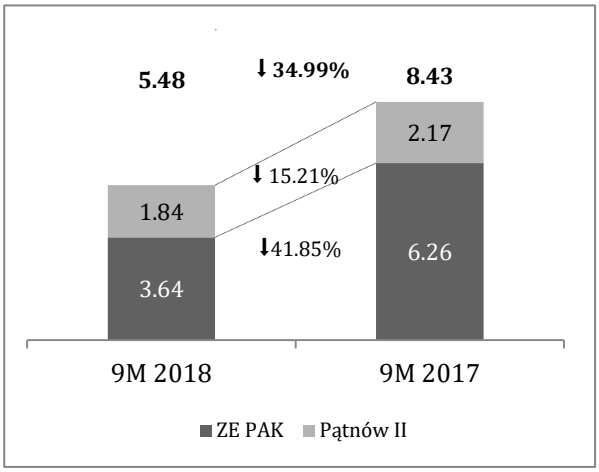

*Source: Internal data*

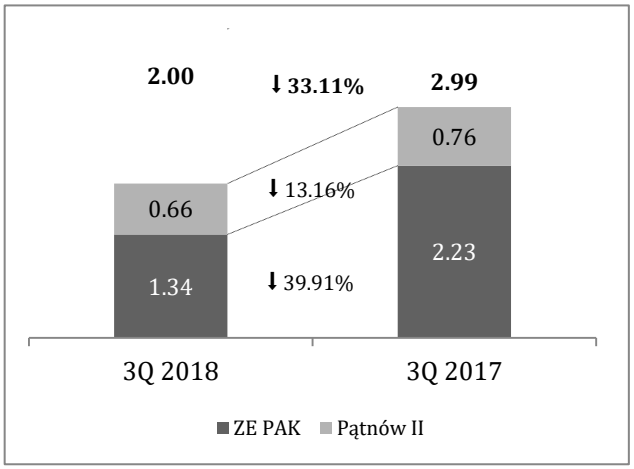
*Chart 5: Lignite consumption*




*Source: Internal data*

*Chart 6: $CO_2$ emission*




*Source: Internal data*

*Table 2: List of consolidated sale revenues*

| | *PLN thousand 3 months period ended 30 September 2018* | *PLN thousand 3 months period ended 30 September 2017* | *PLN thousand change* | *% dynamics* |
|---|---|---|---|---|
| Revenues from the sales of electricity (reduced by excise duty) | 378 927 | 411 785 | (32 858) | (7.98) |
| Revenues from sales of traded electricity | 168 045 | 143 735 | 24 310 | 16.91 |
| Property rights on energy certificates of origin | 18 480 | 70 | 18 410 | 26 300.00 |
| Revenues from contracts for construction services | 20 408 | 23 844 | (3 436) | (14.41) |
| Compensation for termination of long-term contracts | 42 486 | 39 702 | 2 784 | 7.01 |
| Revenues from sales of heat | 5 557 | 9 178 | (3 621) | (39.45) |
| Other sales revenues | 6 667 | 7 219 | (552) | (7.65) |
| **Total sales revenues** | **640 570** | **635 533** | **5 037** | **0.79** |

*Table 3: Selected items of the consolidated income statement*

| | *PLN thousand 3 months period ended 30 September 2018* | *PLN thousand 3 months period ended 30 September 2017* | *PLN thousand change* | *% dynamics* |
|---|---|---|---|---|
| **Sales revenues** | **640 570** | **635 533** | **5 037** | **0.79** |
| Prime cost | (622 369) | (511 085) | (111 284) | 21.77 |
| Gross sales profit (loss) | 18 201 | 124 448 | (106 247) | (85.37) |
| Other operating revenues | 1 724 | 1 923 | (199) | (10.35) |
| Cost of sales | (967) | (911) | (56) | 6.15 |
| General management costs | (27 376) | (33 928) | 6 552 | (19.31) |
| Other operating costs | (566) | (1 074) | 508 | (47.30) |
| **Profit (loss) from operating activities** | **(8 984)** | **90 458** | **(99 442)** | **(109.93)** |
| Financial revenues | 646 | (2 850) | 3496 | (122.67) |
| Financial costs | (4 154) | (9 513) | 5359 | (56.33) |
| **Gross profit (loss)** | **(12 492)** | **78 095** | **(90 587)** | **(116.00)** |
| Income tax (tax load) | 1 778 | (12 495) | 14 273 | (114.23) |

| | | | | |
|---|---|---|---|---|
| **Net profit (loss)** | **(10 714)** | **65 600** | **(76 314)** | **(116.33)** |
| Net other comprehensive income | (136) | 532 | (668) | (125.56) |
| **Comprehensive income** | (10 850) | **66 132** | (76 982) | (116.41) |
| **EBITDA*** | **41 063** | **141 235** | **(100 172)** | **(70.93)** |

* *The Company defines and calculates EBITDA as the profit/(loss) on operating activities (calculated as the net profit/(loss) for the accounting year corrected by the (i) income tax (tax load), (ii) financial revenues, as well as (iii) financial costs) corrected by the depreciation (shown in the income statement), as well as impairment write-downs against tangible assets, intangible assets, and mining assets.*

The prime cost in the third quarter of 2018 amounted to PLN 622 369 thousand and in relation to the one incurred in the third quarter of 2017 increased by PLN 111 284 thousand, i.e. by 21.77%. The increase in the cost of CO2 emissions was the most important factor contributing to the increase in the prime cost. It should be taken into account that the amount of CO2 emitted in the third quarter of 2018 decreased by 33.11% as compared to the third quarter of 2017, as a result of a lower production volume. However, the unit price paid for the emission allowance increased by as much as 304.17%. As a result, the total costs of CO2 emissions increased by PLN 108 523 thousand. The value of materials used was also increased due to the greater amount of biomass purchased (in the third quarter of 2017, the Company did not produce energy from the biomass unit) and the value of electricity purchased from sales purchased as a consequence of higher energy prices on the market. The increase in the cost of external services related to the maintenance segment and was the effect of changes in the presentation method related to IFRS 15, in the case of using the same methodology as in the corresponding period of the previous year, the cost of external services would be slightly lower. Once again, the cost of employee benefits decreased due to the decrease in average employment in the third quarter of 2018 compared to the third quarter of 2017.

*Table 4: Consolidated costs by type*

| | *PLN thousand 3 months period ended 30 September 2018* | *PLN thousand 3 months period ended 30 September 2017* | *PLN thousand change* | *% dynamics* |
|---|---|---|---|---|
| Depreciation | 50 050 | 50 777 | (727) | (1.43) |
| Impairment write-downs on fixed assets | (3) | | (3) | - |
| Impairment write-downs on inventory | 660 | (548) | 1 208 | - |
| Consumption of materials | 75 336 | 62 878 | 12 458 | 19.81 |
| Outsourcing | 29 422 | 26 532 | 2 890 | 10.89 |
| Taxes and fees excluding excise tax | 38 240 | 38 523 | (283) | (0.73) |
| Costs of $CO_2$ emissions | 172 063 | 63 540 | 108 523 | 170.79 |
| Costs of employee benefits | 100 741 | 109 804 | (9 063) | (8.25) |
| Other costs by type | 4 711 | 6 680 | (1 969) | (29.48) |
| Value of sold goods and materials and sold traded electricity | 184 860 | 135 424 | 49 436 | 36.50 |
| **Total costs by type** | **656 080** | **493 610** | **162 470** | **32.91** |

Other operating revenues in the third quarter of 2018 amounted to PLN 1 724 thousand and were close to PLN 1 923 thousand recorded in the corresponding quarter of the previous year.

Selling costs in the third quarter of 2018 amounted to PLN 967 thousand and also did not differ significantly from those incurred in the corresponding period of the previous year.

General administrative expenses in the third quarter of 2018 amounted to PLN 27 376 thousand and were lower than those incurred in the third quarter of 2017 by PLN 6 552 thousand, i.e. 19.31%. The decrease was due to the fact that in the third quarter of 2017 some part of the one-off increase in the provision related to unexploited outcrops was recognized in general and administrative expenses.

Other operating expenses in the reporting period amounted to PLN 566 thousand and decreased in relation to the third quarter of the previous year by PLN 508 thousand.

In the third quarter of 2018, the ZE PAK SA Group recorded a loss in the amount of PLN 8 984 thousand as compared to the profit from the third quarter of the previous year at PLN 90 458 thousand.

In the third quarter of 2018, the achieved results were adversely affected by the negative financial result in the amount of PLN 3 508 thousand. The impact of financial activity in the corresponding period of the previous year lowered the result much more strongly, by as much as PLN 12 363 thousand. The difference in the financial result in both compared periods was due to the strengthening of the zloty against the euro in the third quarter of 2018, which had a positive effect on the valuation of the syndicated loan in euro and a lower amount of interest on financial liabilities.

The gross loss in the third quarter of 2018 amounted to PLN 12 492 thousand, as compared to the gross profit for the third quarter of 2017 at the level of PLN 78 095 thousand.

The net loss in the third quarter of 2018 amounted to PLN 10 714 thousand, compared to the net profit for the third quarter of 2017 at PLN 65 600 thousand.

### The description of factors and events, especially unusual events substantially affecting the assets, liabilities, capital, net financial result or cash flow

In the third quarter of 2018, no unusual events were noted that had a significant impact on assets, liabilities, equity, net financial result or cash flows.

### Investment outlays

In the period from 1 January to 30 September 2018, the investment expenses in the Group amounted to PLN 9 184 thousand.

Currently, the ZE PAK SA Group does not implement big investment projects. The investment activity in the generation segment is focused on fulfilling the necessary tasks to ensure the maintenance of the current efficiency and maintenance of the held generation assets.

One of the most important tasks currently carried out is the modernization of the inter-block steam ducts in Pątnów Power Plant, under which the reduction station for the steam intended for block 1 was revitalized. The station is scheduled to start by the end of 2018.

Currently, ZE PAK SA conducts conceptual analysis and profitability related to two new investment projects:

• construction of a gas connection at Adamów power plant and adjustment of end-of-life gas blocks to the possibility of gas burning,

• adaptation of the K-7 coal boiler at Konin power plant to the exclusive biomass combustion together with the necessary technical infrastructure.

Financial analyses for these projects must demonstrate their profitability, and to be implemented for execution, they must obtain corporate approval.

In mining segment, PAK KWB Konin SA belonging to the Capital Group continued investment tasks on active open pitches - Jóźwin, Drzewce and Tomisławice, aimed at maintaining production capacity. There were works carried out related to the need to build drainage systems with feeding and tele technical infrastructure resulting from the progress of mining operations and the need to prepare the area for future exploitation. The largest expenditures were incurred for the purchase of real estate, the construction of a power supply system for basic machines and drainage, the route of coal removal on Tomisławice open pit and drilling of drainage wells.

## 3.2. Other significant events of the reporting period, events after the balance sheet date and other information which are relevant for the assessment of the human resources, property, financial situation and ability of the Company and the Group to fulfil its obligations

***The process of obtaining formal permits in order to launch Ościsłowo open pit***

As part of the activities aimed at ensuring the raw material for the Group's generation assets, project works on prospective lignite deposits are continued. PAK KWB Konin SA carries out the activities aimed at getting all the necessary decisions and documents allowing for obtaining a permit to grant a mining concession to the company. The current activities are concentrated on Ościsłowo open pit. The planned open pit is to provide coal necessary for energy generation in Elektrownia Pątnów II and renovated blocks in Elektrownia Pątnów I. Before getting the mining concession a number of formal and legal consents as well as documents specifying the way of conducting the mining

operations, its scope and impact on the surroundings of the planned investment must be obtained. An environmental decision is one of them. An institution authorized to issue an environmental decision for the project "Extraction of lignite and associated minerals from the Ościsłowo Open Pit" is Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań"). On 16 September 2015, proceedings against this authority regarding the issue of an environmental decision for Ościsłowo open pit were initiated. As part of the documentation necessary in the proceedings, inter alia, a report on the environmental impact of Ościsłowo open pit and expert opinion on the impact of the designed open-pit on uniform surface and underground waters as well as protected areas were prepared. PAK KWB Konin SA with due diligence provides data and supplements the documentation necessary for the proper conduct of the proceedings. The date of issuing the environmental decision has been postponed several times. On March, 10 2017 RDOŚ in Poznań made a decision refusing the establishment of the environmental conditions for the investment. The decision of RDOŚ in Poznań was not final and PAK KWB Konin SA appealed accordingly to the General Directorate for Environmental Protection in Warsaw within the time allowed by law. The appeal included a request to revoke the appealed ruling in its entirety and determine the environmental conditions for the execution of the above-mentioned project. On November 30, 2017, General Director of Environmental Protection has decided to repeal a decision in its entirety (contested by PAK KWB Konin SA - a subsidiary of the Company) of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") dated March 10, 2017, refusing to specify environmental conditions for the project entitled: " Extraction of lignite and associated minerals from Ościsłowo Open Pit", and forward the case for reconsideration by RDOŚ in Poznań.
PAK KWB Konin SA, by the letter of December 18, 2017 filed an objection against the abovementioned decision of GDOŚ in Warsaw to the Provincial Administrative Court in Warsaw (WSA). In the opinion of PAK KWB Konin S.A. there were grounds for issuing a reformatory decision by GDOŚ in Warsaw, i.e. amending the contested decision of RDOŚ in Poznań and substantive decision in this matter, and not referring the matter for reconsideration. The participant in the opposition proceedings to construct the open pit Ościsłowo also appealed to the Provincial Administrative Court. Both objections were dismissed by the WSA. The judgement was issued on March 1, 2018. On April 12, 2018, PAK KWB Konin SA filed a cassation complaint with the Supreme Administrative Court in Warsaw against the verdict of the WSA in Warsaw of 1 March 2018. The Supreme Administrative Court in Warsaw, by a judgment of September 25, 2018, repealed the appealed judgment and forwarded the case to the Provincial Administrative Court in Warsaw for reconsideration. The Provincial Administrative Court by judgment of 18 October 2018 annulled the contested decision of 30 November 2017 issued by GDOŚ in Warsaw.

Another, postponed date of solving the case was designated by RDOŚ in Poznań, on December 10, 2018.

Another condition necessary for the implementation of the project is the change of the local spatial development plan in the area to be covered by the planned outcrop. Decisions in this respect are taken by the self-governments of the three communes in which the Ościsłowo deposit is planned to be exploited. In December 2016, the Minister of Agriculture issued the approval for dedicating the agricultural lands of Ślesin and Skulsk communes in the area of the construction of the Ościsłowo brown coal open pit for non-agricultural purposes. Also in December 2016, media reports on an archaeological discovery on the part of the land for the planned open pit were published. On September 26, 2017, Wielkopolski Voivodship Monument Conservator initiated administrative proceedings regarding the entry of the archaeological site "Góry stan. 24, AZP area 52-40 / 193 - a multiphase cemetery", i.e. a burial ground of cell-less funerary culture tombs from the Neolithic period and a burial mound of the Lusatian culture from the Bronze Age. On February 9, 2018, Wielkopolska Voivodship Conservator in Poznań issued a decision on the entry of the archaeological site "Góry stan. 24, AZP area 52-40 / 193 - multiphase cemetery" in the village of Góry, gm. Wilczyn area Konin. However, this decision has not become legally binding as a result of appealing to the Minister of Culture and National Heritage by one of the parties to the proceedings. On June 7, 2018, the Minister of Culture and National Heritage issued a resolution which upheld the contested decision. It is worth noting that in the past, on the other open pits exploited by the mines, archaeological and excavation works took place many times. PAK KWB Konin SA cooperated in the past and is going to cooperate in such cases with all relevant institutions.

# 4. INFORMATION ON SIGNIFICANT PROCEEDINGS PENDING BEFORE A COURT, A BODY COMPETENT FOR ARBITRATION PROCEEDINGS OR A PUBLIC ADMINISTRATION BODY RELATED TO ZE PAK SA OR SUBSIDIARIES CONSOLIDATED UNDER THE GROUP

In the III quarter of 2018, Zespół Elektrowni Pątnów – Adamów – Konin SA and the consolidated companies under the Group were not a party in any proceedings pending before a court, a body competent for arbitration proceedings or a public administration body, which single or total value would exceed 10% of equity of ZE PAK SA, except the ones specified below.

***Proceedings on the refund of excise duty overpayment***

In light of the regulations mandatory within the European Union, especially regulations of Article 21 paragraph 5 of the Energy Directive, in relation to Article 6 paragraph 1 of the Horizontal Directive, after 1 January 2006, the object of excise tax is sale of energy at the last stage of trade, i.e. sale by the distributor to the final recipient (consumer). Taxation with this tax does not cover an earlier stage of trade, e.g. between the producer of electricity and its distributor. In this case, the tax obligation arises at the time of supply of electricity to the consumer.

As at 1 March 2009, the Act of 6 December 2008 on excise duty entered into force, according to which the sale of electricity to an entity which is not its final customer is not subject to excise duty.

Due to the above fact, pursuant to Article 75 § 1, in relation to Article 75 § 2 of the Act of 29 August 1997 – Tax Ordinance, ZE PAK SA submitted applications for stating overpayment of the excise tax for 2006, 2007, 2008, as well as January and February 2009 for the total amount of PLN 626 million, with the justification that pursuant to the regulations of the EU law and the judicial decisions of the Provincial Administrative Courts, the activities executed by ZE PAK SA are not subject to the excise tax. Particular applications were recognised at the following levels: the Customs Office in Kalisz, the Customs Chamber in Poznań, and, currently, the Provincial Administrative Court in Poznań („PAC"), as well as the Supreme Administrative Court. Due to the position of judicature presented in the course of court proceedings, the amount of overpayment, the repayment of which the Company submits, has been reduced to the amount of damages caused by economic analyses, i.e. currently up to the amount of approximately PLN 108 million.

Moreover, in association with the rulings of the Administrative Courts regarding other power companies, in the subject of overpaid excise duty and the resolution I GPS 1/11 of the National Administrative Court ("NSA") of 22 June 2011 (where the NSA ruled that transferring the tax load in price, excludes the possibility to return the overpayment), notwithstanding the ongoing administrative proceedings, on 10 February 2012, the Company initiated a civil-law proceedings, filling an application to summon the State Treasury to a conciliation hearing regarding the amount of PLN 626 406 thousand, to the District Court Warszawa Śródmieście. A conciliatory settlement was not reached since during the hearing of 16 April 2012, the representatives of the Treasury did not agree to settle.

Simultaneously, the Company, waiting for the results of the tax proceedings regarding the previously submitted application for overpayment, submitted in writing, on 14 September 2012, in the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic analysis, the purpose of which was to demonstrate whether the Company suffered loss related to the payment of excise tax to which it was not obliged. The Company's opinion is that the submitted document also applies to other overpayment applications from the entire period embraced by the proceedings, i.e. between January 2006 and February 2009. Ultimately, all applications were included in the cause lists of the Provincial Administrative Court (WSA) and the Supreme Administrative Court (NSA). As of the date of development of this statement, the status of the proceeding is as follows:

- Twenty two cases for the period of January 2006 – November 2007 (excluding November 2006) were conducted again from the start by the Head of the Customs Office, after the cases returned from the Supreme Administrative Court. The Company submitted monthly economic analyses of suffering the prejudice. After the negative decisions of the Head of the Customs Office and then of the Head of Customs Chamber, complaints were submitted to the Provincial Administrative Court in Poznań, Hearings before the Provincial Administrative Court in Poznań took place on 4 and 18 November 2015. In all cases, negative judgements for the Company were issued. In February 2016, the Company submitted cassation appeals to the Supreme Administrative Court. Currently, the Company is expecting the determination of hearing dates before the Supreme Administrative Court, The Supreme Administrative Court dismissed the Company's cassation appeals in the abovementioned 22 cases at the hearings held on April 10 and 11, 2018.

- 14 proceedings for the period of December 2007 – February 2009 (excluding July 2008) on 26 January 2017, hearings took place before the Provincial Administrative Court in Poznań. In all the cases, the Company's appeals against the Customs Chamber in Poznań were dismissed. The Company submitted applications for a written justification of the judgement, which were obtained on 7 March 2017, to the Provincial Administrative Court. After analysing the justifications for the judgments on April 6, 2017, the Company submitted 14 cassation appeals to the Supreme Administrative Court. Currently, the Company is awaiting the appointment of court hearings before the Supreme Administrative Court.
- the proceeding for November 2006 was concluded with a negative judgement of the Supreme Administrative Court of 8 December 2011.
- the proceeding for July 2008 reached the recognition of our cassation appeal by the Supreme Administrative Court. On the hearing on 29 April 2015, the Supreme Administrative Court dismissed the Company's cassation appeal and pointed out that it fully agrees with the Provincial Administrative Court in Poznań in the judgement, against which the cassation appeal was submitted.

Notwithstanding the foregoing proceedings, ZE PAK SA lodged a complaint against the actions of the Polish authorities to the European Commission ("EC"), pursuant to art. 258 of the Treaty on the Functioning of the European Union. The opinion issued by the EC may oblige the Polish tax authorities to pass a ruling beneficial to ZE PAK SA. On 21 March 2017, ZE PAK SA received a "pre-closure letter" from the EC, which initially denied the relevance of ZE PAK SA's position, however, at the same time giving the right to a second comment on the subject, which ZE PAK SA exercised. On 9 June 2017, a letter summarising the reasoning of ZE PAK SA, in terms of the overpaid excise tax. Currently, ZE PAK SA is awaiting the EC to take the final position on the case in question.

In case of the Elektrownia Pątnów II sp. z o.o., the proceedings for all periods (one case) were included in the cause lists of the Provincial Administrative Court after a negative decision of the Head of Customs Chamber. The aforementioned company does not have access to comparative analyses of suffering the prejudice. On 4 November 2015, a hearing in the Provincial Administrative Court in Poznań took place. On November 18, 2015, a negative judgment was announced, from which the company on February 8, 2016 filed a cassation complaint to the Supreme Administrative Court. The Supreme Administrative Court dismissed the Company's cassation complaint at the hearing held on April 11, 2018.

### *Proceedings on an environmental decision issued to PAK KWB Konin SA concerning lignite deposit in Tomisławice*

PAK KWB Konin SA is a party in the administrative proceedings related to the environmental decision regarding the lignite deposit in Tomisławice. On 7 August 2007, the Head of Wierzbinek Commune issued an environmental decision regarding the lignite open cast. On 5 December 2008, this decision was contested by nine physical persons supported by the Greenpeace organisation due to alleged major infringement of the regulations of the law. On 25 March 2009, the Self-government Appeal Court dismissed the application to reverse the environmental decision. The plaintiffs applied for the judicial review. On 4 May 2009, after the judicial review, the Self-government Appeal Court sustained its previous decision. The plaintiffs again appealed against the environmental decision. On 5 May 2010, the Provincial Administrative Court in Poznań ruled that the environmental decision, pursuant to which the license for the extraction of lignite at the Tomisławice deposit was granted, infringes the regulations of the law in a major manner. PAK KWBK SA and the Self-government Appeal Court submitted an appeal against this judgement. On 21 March 2012, the Supreme Administrative Court overturned the contested decision of the Provincial Administrative Court in Poznań and referred the matter for reconsideration. On 6 November 2012, the Provincial Administrative Court in Poznań announced the decision repealing the decision of the Self-government Appeal Court of 25 March 2009 refusing to declare the invalidity of the environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune, related to the extraction of lignite from the Tomisławice open pit by PAK KWBK SA On 7 January 2013, PAK KWBK Konin SA submitted a cassation appeal from the described decision.

After the review on the hearing on 7 October 2014, the Supreme Administrative Court dismissed the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA from the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 repealing the decision of the Self-government Appeal Court in Konin of 25 March 2009 refusing the annulment of the environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune related to the extraction of lignite from Tomisławice open pit.

Dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA means that the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 became legally binding and the case regarding the statement of invalidity of the environmental decision will be examined again by the Self-government Appeal Court. On 1 October 2015, the Self-government Appeal Court issued a decision to suspend the proceedings on the statement of invalidity of the environmental decision issued by the Head of Wierzbinek Commune in connection with the unfinished European Commission proceedings against the Polish government on breach of the provisions

concerning the environment protection in connection with the lignite deposit in Tomisławice. In the case of a ruling on suspending the proceedings, a separate proceeding is under way. On June 12, 2018, the Supreme Administrative Court in Warsaw ordered, in its judgment, the Local Government Appeal Court to resume the suspended proceedings.

The decision of the Supreme Administrative Court in Warsaw of 7 October 2014 does not invalidate the environmental decision issued by the Head of Wierzbinek Commune and does not halt the extraction and utilisation works at Tomisławice open pit. The environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune is still in legal transactions, and until the issue of a final judgement by the Self-government Appeal Court, it exerts legal effects.

***Proceedings on an environmental decision on lignite deposit in Ościsłowo***

On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") of 10 March 2017, refusing the establishment of the environmental conditions for the investment titled: "Extraction of lignite and associated minerals from the Ościsłowo Open Pit." The decision of RDOŚ in Poznań is not final. PAK KWB Konin SA appealed accordingly to the General Directorate for Environmental Protection in Warsaw. The appeal included a request to revoke the appealed ruling in its entirety and determine the environmental conditions for the execution of the above-mentioned project. On 30 November 2017, General Director of Environmental Protection in Warsaw has decided to repeal a decision in its entirety (contested by PAK KWB Konin SA - a subsidiary of the Company) of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") dated March 10, 2017, refusing to specify environmental conditions for the project entitled: " Extraction of lignite and associated minerals from Ościsłowo Open Pit" and forward the case for reconsideration by RDOŚ in Poznań.
PAK KWB Konin SA, by letter of December 18, 2017 filed an objection against the abovementioned decision of GDOŚ in Warsaw to the Provincial Administrative Court in Warsaw (WSA). In the opinion of PAK KWB Konin S.A. there were grounds for issuing a reformatory decision by GDOŚ in Warsaw, i.e. amending the contested decision of RDOŚ in Poznań and substantive decision in this matter, not referring the matter for reconsideration. The other party also opposed the WSA. Both objections were dismissed by the WSA. The verdict was passed on March 1, 2018. The Supreme Administrative Court in Warsaw, by a judgment of September 25, 2018, repealed the appealed judgment and forwarded the case to the Provincial Administrative Court in Warsaw for reconsideration. The Provincial Administrative Court by judgment of 18 October 2018 annulled the contested decision of 30 November 2017 issued by GDOŚ in Warsaw.
Another, postponed date of solving the case was designated by RDOŚ in Poznań, on December 10, 2018.

The proceedings for issuing the environmental decision were initiated on 16 September 2015.

# 5. INFORMATION REGARDING THE SHAREHOLDING STRUCTURE

Share capital of ZE PAK is represented by 50.823.547 shares. Shares are ordinary. Each share gives right to one vote at General Meeting of Shareholders.

## 5.1. Shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes

*Table 4: List of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting as of the date of submission of this report. The list made according to the information available to the Company on the basis of the submission of notifications on the acquisition / disposal of shares*

| *Shareholder* | *pcs*<br>*Number of shares and corresponding number of votes at the General Meeting* | *%*<br>*Share [%] in the total number of shares/votes* |
|---|---|---|
| **Zygmunt Solorz (indirectly) through:** | **26 200 867** | **51.55** |
| – *Elektrim SA* | *196 560* | *0.39* |
| – *Embud 2 sp. z o.o. S.K.A.* | *592 533* | *1.16* |
| – *Trigon XIX Fundusz Inwestycyjny Zamknięty* | *10 004 001* | *19.68* |
| – *Argumenol Investment Company Limited* | *15 407 773* | *30.32* |
| **Nationale – Nederlanden OFE** | **5 068 410** | **9.97** |
| **TFI PZU SA** | **3 081 567** | **6.06** |
| **OFE PZU „Złota Jesień"** | **2 664 378** | **5.24** |

The list of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the date of this quarterly report does not differ from the analogous list as of the date of publication of the latest periodic report.

## 5.2. List of the shareholding structure of the management and supervising personnel

According to the information in possession of the Company, based on the delivered notifications regarding the acquisition/sales of the shares, as of the day this report was submitted, as well as the day the previous periodic report was submitted, none of the managing and governing persons held ZE PAK SA shares.

# 6. OPINION ON THE MANAGEMENT BOARD ON THE POSSIBILITY OF EXECUTION OF FINANCIAL FORECASTS PUBLISHED EARLIER

Zespół Elektrowni Pątnów – Adamów – Konin SA has not published any financial forecasts.

# 7. INFORMATION REGARDING THE PAID OD DECLARED DIVIDENDS

On 22 June 2018 the Ordinary General Meeting of the Company adopted the resolution on distribution of the net profit for 2017 in the amount of PLN 90 636 796.27 in the following way:

a) amount of PLN 60 988 256.40 was allocated for a dividend for shareholders, which means that dividend per a share was PLN1.20,

a) b) remaining part of the profit in the amount of PLN 29 648 539.87 was allocated for the reserve capital.

The dividend date was fixed on 1 August 2018, and dividend payment dates were set for the following days:

a) 16 August 2018 - I tranche in the amount of PLN 30 494 128.20 (PLN 0.60 per one share),

b) 30 October 2018 - II tranche in the amount of PLN 30 494 128.20 (PLN 0.60 per one share).

The dividend was paid in accordance with the resolution.

# 8. INFORMATION ON THE CONCLUSION BY ZE PAK SA OR ENTITIES CONSOLIDATED UNDER THE GROUP OF SIGNIFICANT TRANSACTIONS WITH ENTITIES AFFILIATED PURSUANT TO CONDITIONS OTHER THAN MARKET CONDITIONS

Zespół Elektrowni Pątnów – Adamów – Konin SA and companies consolidated under the Group have not concluded transactions with entities affiliated pursuant to conditions other than market conditions in the third quarter of 2018.

# 9. INFORMATION ON GRANTING BY ZE PAK SA OR ENTITIES CONSOLIDATED UNDER THE GROUP OF SIGNIFICANT GUARANTEES, SURETIES, CREDITS OR LOANS

Zespół Elektrowni Pątnów – Adamów – Konin SA and companies consolidated under the Group have not granted guarantees, sureties, credits or loans in the third quarter of 2018, the standalone or total value of which would comprise 10% of ZE PAK SA's equity.

# 10. INFORMATION CONCERNING THE ISSUE, REDEMPTION, AND REPAYMENT OF NON-EQUITY AND CAPITAL SECURITIES

In the third quarter of 2018, PAK KWB Konin SA, a company subject to consolidation within the Group, redeemed bonds in the amount of PLN 17 500 thousand (all for entities within the Group).

# 11. FACTORS WHICH, IN THE MANAGEMENT BOARD'S OPINION, WILL AFFECT THE COMPANY'S RESULTS IN THE PERSPECTIVE OF AT LEAST ONE QUARTER

The process of forecasting future results of the ZE PAK Capital Group must include a wide range of factors existent in the branch and markets in which the Company conducts its operations. These include both internal factors as well as factors with their source in the environment. In the view of the Board, they can be divided into factors which constantly influence the Group's functioning as well as those which appear incidentally in the period which is embraced by a given periodical report.

The most important factors which constantly affect the Company's results include the following:

- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- fuel costs, coal extraction costs;
- $CO_2$ allowances costs;
- compensation for the stranded costs related to the termination of Elektrownia Pątnów II's LTC contract;
- seasonality and meteorological conditions;
- investment expenses, in particular those privileged to obtain $CO_2$ emission allowances free of charge;
- EUR/PLN exchange rate and interest rates level.

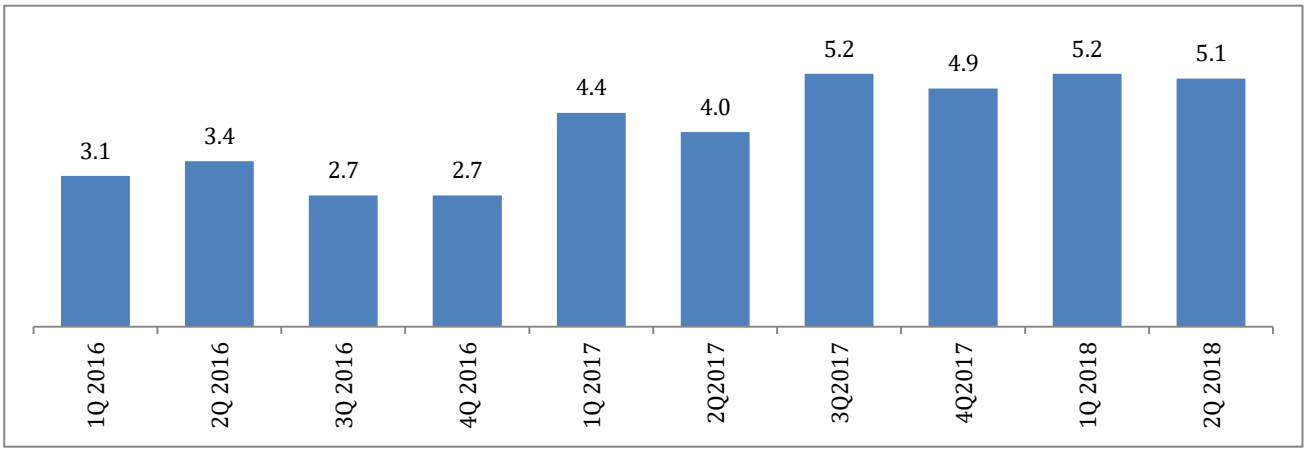
Furthermore, an important factor that could have a significant impact on the Company's financial results in the further quarters includes the value impairment test result. In accordance with IAS 36, the value impairment test of assets is carried out after the occurrence of certain conditions. The last such a test was carried out on 30 June 2018, and its result justified the write-down for asset components. It should be noted that the valuation model of the Company's assets shows sensitivity to a range of parameters, among others, the ones described in this section. Therefore, in the face of deterioration of the operational perspectives, both the market ones and those having its origin in the legal conditions, the assumptions for the valuation model of the Company's assets can change, and consequently the value impairment test result may cause the necessity of verifying the value of the write-downs against the asset components in the future. Another analysis of the reasons justifying the potential necessity to conduct the value impairment test of the Company's asset components will be executed at the end of the next reporting period.

## 11.1. Macro-economic trends in the Polish economy and the demand for electricity

When conducting activities within the territory of Poland and obtaining most revenues from the sale of electricity, it is necessary to take into consideration the macro-economic trends in the Polish economy. A very significant factor is the increase in the real GDP and industrial production in Poland, the development of the service sector as well as the increase in individual consumption. All of the aforementioned factors significantly affect the demand for electricity and its consumption.

The dynamics of the growth of gross domestic product ("GDP") of Poland in the second quarter of 2018 calculated by the Central Statistical Office (GUS) amounted to 5.1% and was slightly lower than the growth rate in the first quarter, which amounted to 5.2%. High dynamics, close to 5%, has been maintained for the fourth quarter in a row. Data on the third quarter will be published on November 14 (the so-called quick estimate of gross domestic product for the third quarter of 2018).

*Chart 7: GDP dynamics (%) in relation to the analogous quarter of the previous year (yearly average fixed prices)*

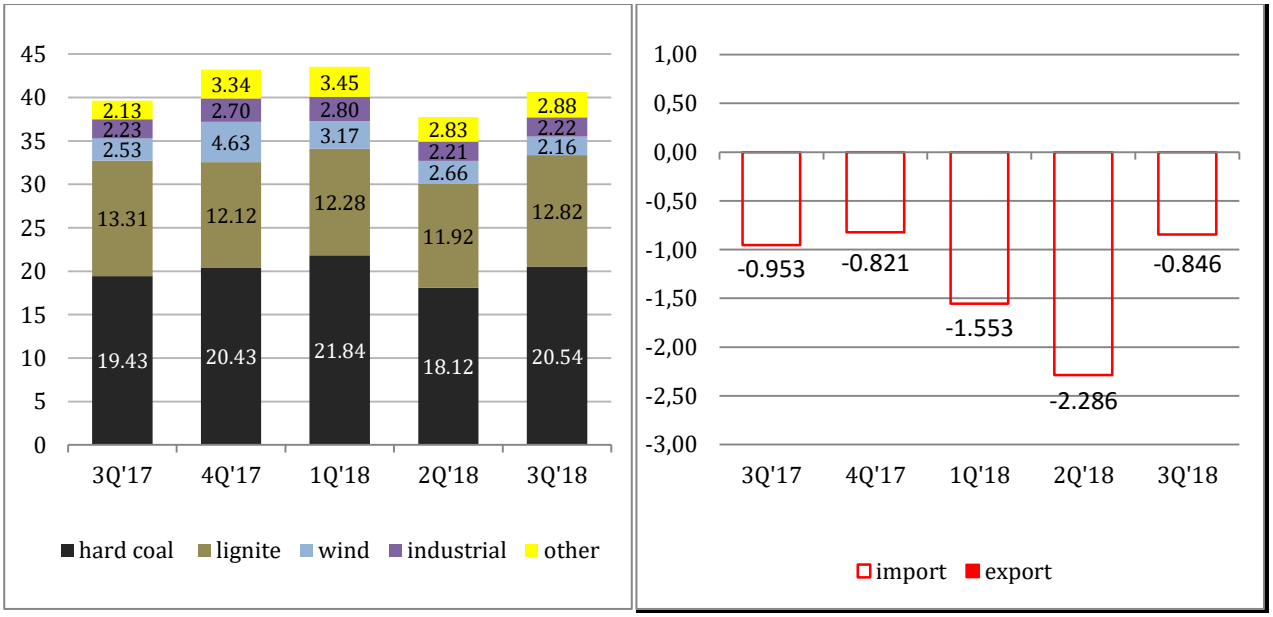



*Source: Own elaboration based on CSO Data*

The previous data on the third quarter of 2018, published by the Central Statistical Office, shows that the dynamics of GDP growth in the previous quarter could have slightly weakened. Industrial production in the months of July, August, September was adequate at the level of: 10.3%, 5% and 2.8%. The dynamics of construction production in the subsequent months of the third quarter was: 18.7%, 20% and 16.4%. On the other hand, the retail sales growth in real terms in the following months was 7.1%, 6.7% and 3.6%.

As can be seen in all the categories cited, the dynamics weakened in the subsequent months of the third quarter. A smaller number of working days in September contributed to the slowdown to a certain extent. In spite of the slowdown, for example, construction output remains quite strong, but in the following months, the growing operating costs may be visible. In the case of retail sales, the effect of a high base from past periods is slowly becoming noticeable when the category recorded rapid growth.

*Chart 8: Structure of electricity generation and the balance of the electricity exchange with foreign countries (gross amounts) – TWh*




*Source: Own elaboration based on PSE data*

Data regarding the functioning of the National Power System and Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, indicate that domestic gross electricity consumption in the period of 9 months of 2018

amounted to 126.61 TWh[1] and increased by 2.02% compared to the period of 9 months of the previous year. In the period of 9 months of 2018 gross electricity production amounted to 121.87 TWh, which means a decrease by 0.62% compared to the same period of the previous year. The largest share in the production structure had power plants producing on hard coal, hard coal production amounted to 60.49 TWh. Lignite produced 37.01 TWh. Wind farms produced 7.98 TWh. The foreign exchange balance in the nine-month period of 2018 amounted to 4.74 TWh on the import side.

## 11.2. Regulatory environment

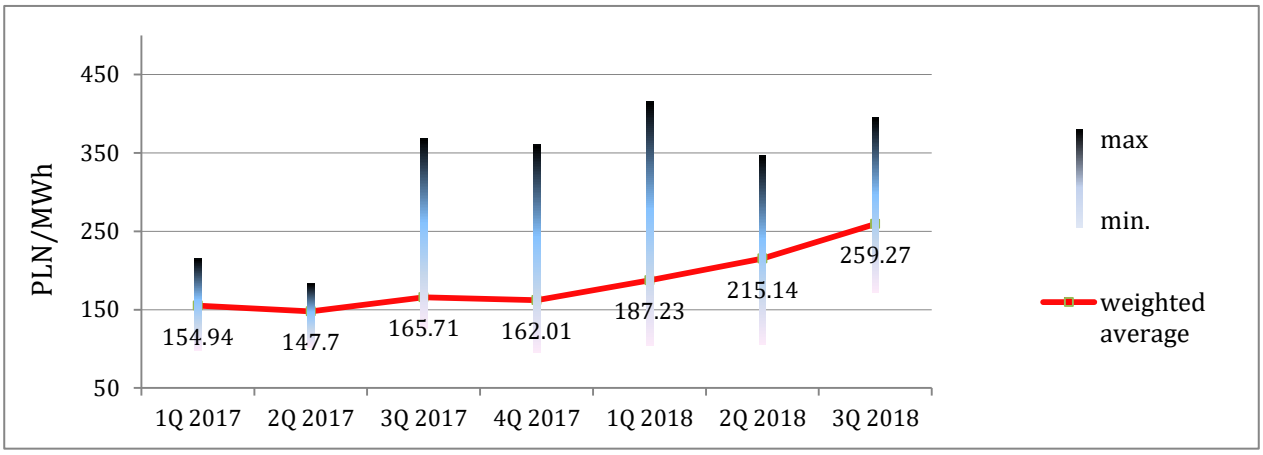
Entities operating on the electricity market are subject to strict regulations, such as the Energy Law, the Act on Renewable Energy Sources ("RES"), regulations on the public sale of part of the energy produced, as well as support for specific energy production technologies, and the regulations and directives European Commission and international conventions concerning, inter alia, environmental protection and climate change (including CO2 emissions). Account should also be taken of tax law provisions and interpretations and recommendations issued by the Energy Regulatory Office.

On August 24, 2018, the Ministry of Energy published a regulation fulfilling the statutory authorization contained in the Power Market Act. The regulation defines the parameters of the three close major auctions and additional auctions related to the capacity market. The main auctions concern delivery periods falling in the years 2021-2023. The parameters of the auction include: quantities determining the demand in the auction, i.e. the demand for power, the price of entering the new generation unit, the factor increasing this price, the parameter designating the power below the power demand, for which the price reaches the maximum value and the parameter determining the size above the power demand, for which the price reaches the minimum value. For delivery periods falling in 2021-2023, the demand for power in the main auction will be 2021 - 22 732 MW; for 2022 - 23 003 MW, for 2023 - 23 292 MW. Auctions for three consecutive years starting from 2021 will take place on November 15, December 5 and December 15, 2018.

## 11.3. Electricity prices

The Group generates most of its revenues from the production and sales of electricity, therefore the price for which it sells electricity is very important for the results of its activities. On the day-ahead market of Towarowa Giełda Energii SA, from the beginning of 2018, a dynamic upward trend can be observed. The same factors as in the first half of the year influenced the price growth in the third quarter alone. Among many reasons, the most important ones seem to be the rising prices of CO2 emission allowances, and growing prices of hard coal. The increase by 2.02% of the national electricity consumption in the first nine months of 2018 as compared to the same period of the previous year seems also significant. Another factor that supported higher prices and higher volatility was lower wind generation compared to the same period of the previous year (-13.49%). All these factors supported the increase in prices on the electricity market. The weighted average price (IRDN) in the third quarter of 2018 amounted to PLN 259.27 / MWh, i.e. up by 20.51% as compared to the second quarter of 2018 and by 56.46% as compared to the third quarter of 2017.

*Chart 9: Energy prices (IRDN - Instruments of the Day Ahead Market)*

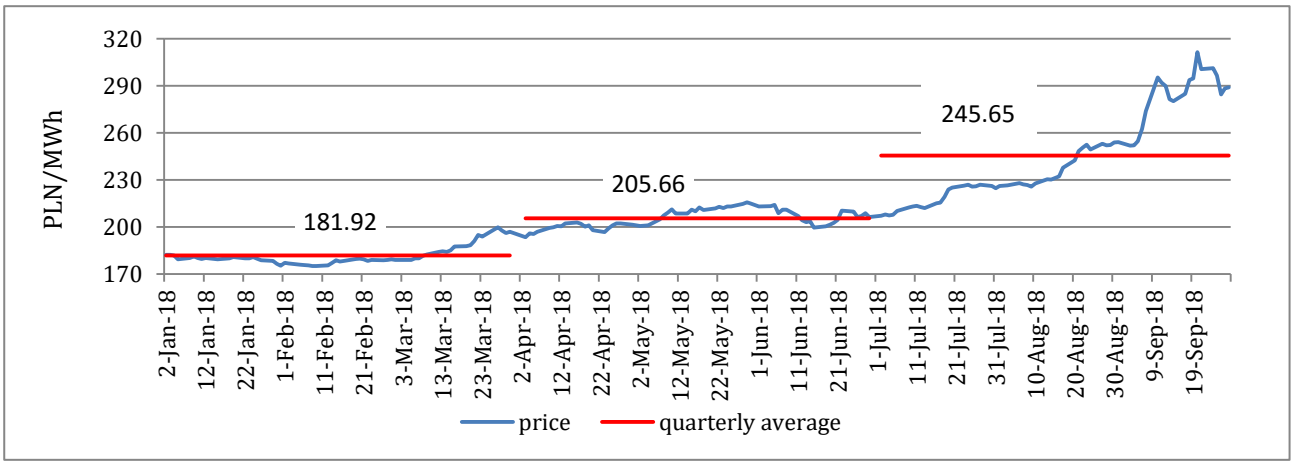



*Source: Own elaboration based on TGE data*

[1] Table 3. Structure of electricity production in domestic power plants, the volume of electricity exchange with foreign countries and national energy consumption - monthly values and from the beginning of the year - gross value.

On the forward electricity market of Towarowa Giełda Energii, the reference forward contract BASE_Y-19 in the third quarter of 2018 was characterized by a dynamic upward trend. The situation on the forward market was obviously related to price increases from the spot market. Also among the reasons determining the growth, the same factors should be mentioned. In the second half of September the highest daily price of the settlement price was recorded at 311.56 PLN / MWh. The arithmetic average of the daily settlement rates for the BASE_Y-19 contract in the third quarter of 2018 amounted to PLN 245.65 / MWh.

*Chart 10: The price of the futures contract for the supply of electricity (band) for 2019*

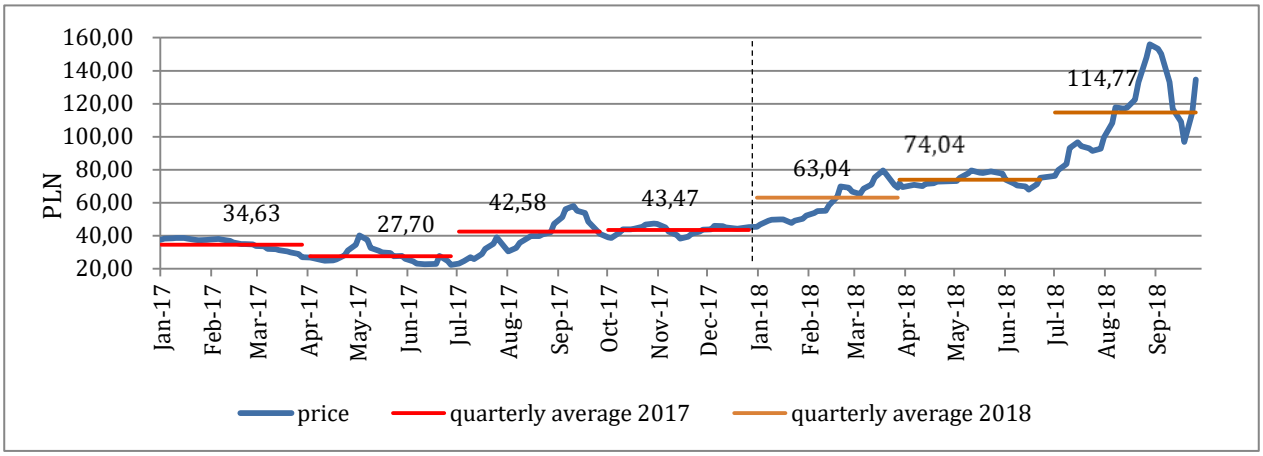



*Source: Own elaboration based on TGE data*

## 11.4. Prices supply of certificates of origin

Due to the fact that one of the power units at ZE PAK SA is dedicated to combusting biomass (forest and agricultural), and in addition, the Group utilizes high-efficiency co-generation in order to generate heat, a producer is entitled to green and red certificates, provided certain regulatory requirements are met. The number of obtained certificates of origin depends on the level of generation from a given sources and is usually higher than the number, which the Company is obliged to present for redemption, which in the case of a surplus allows to sell specific volumes to other market participants. However, biomass unit generation largely depends on the green certificates market price levels. During periods, when the total generated biomass energy and green certificate prices do not ensure reaching the assumed financial effect, the generation may be decreased or halted, which also automatically decreases the amount of generated green certificates. In the case of a shortage, the certificates must be purchased on the market. From the beginning of 2018 on the market of property rights resulting from certificates of origin from renewable energy, there was quite a significant increase in prices. The dynamics of this growth accelerated significantly in the third quarter of 2018. Explaining such dynamic increases is not easy because it is still estimated that there is still a significant oversupply of renewable energy rights on the market. On the other hand, market participants on the fundamental side did not learn any new factors in the third quarter that fuelled the upward trend. Among those already known, you can name a few of the most important ones. First of all, the provisions of the Act on Renewable Energy Sources have caused entities obliged to fulfil the redemption obligation this year to not be able to use it through a substitute fee, and must use only green certificates for this purpose. Secondly, in 2018 the coefficient of redundancy increased - 17.5% for energy from all renewable sources except for agricultural biogas, and 0.5% for energy from agricultural biogas. The third factor that may affect the level of supply of green certificates in the future are the announcements of migration auctions for sources participating today in the green certificates system, the first migration auctions have already taken place and have been used mainly by biogas plants and hydropower plants. In 2018, the wind generation was also lower, i.e. the main source of green certificates supply. The weighted average price of green certificates in the third quarter of 2018 was at the level of PLN 114.77 / MWh, which means an increase by 55% compared to the weighted average price from the second quarter of 2018 and by 169.5% compared to the third quarter of 2017 .

*Chart 11: Price of RES Energy certificate of origin*




*Source: Own elaboration based on TGE data*

## 11.5. Extraction and supply costs of coal and other fuels

Fuel costs are the most important part of the costs related to the electricity and heat generation in companies of the ZE PAK SA Group. The prices of fuel largely determine the competitiveness of particular electricity production processes. The ZE PAK SA Group's power plants produce most of their electricity from lignite, but they also use forest and agricultural biomass. Furthermore, heavy and light heating oil is used in minimum quantities for heating purposes in the process of electricity production.

Two lignite mines, PAK KWB Konin SA and PAK KWB Adamów SA, which are the suppliers of lignite to the ZE PAK SA Group's power plants cause the Group independent on external suppliers and eliminates the exposure to potential fluctuations of lignite prices. Nevertheless, the Group is exposed to the fluctuations in prices of other fuels used (mainly biomass) and part of the costs related to the extraction of lignite depends on the factors which remain outside the direct control of the Group.

The deposits exploited by the Group's mines have specified richness. The opportunity to achieve the expected level of electricity production in the long term is partially dependent on the ability of extracting from the currently exploited deposits and launching the exploitation of new lignite deposits, which would be economically viable. As part of activities to ensure the raw material for the Group's generation assets, PAK KWB Konin SA executed designing works at the perspective lignite deposits. In order to develop the perspective deposits, it is necessary to obtain all necessary formal approvals and permits, culminated with obtaining a licence to extraction. The process of obtaining approvals and permits is a multi-step and stretched in time. In view of the above, there is a risk of delays and postponements in the schedule of developing subsequent deposits which, in turn, may entail risks of interruptions of coal supplies for the Group's generating assets. The opportunity to start the extraction from the prospective coal deposits in the future may be limited by many factors beyond the control of the Group. The main risk factors include: failure to obtain the necessary licenses, adverse settlements of the local government authorities in terms of shaping the special policy, lack of opportunity to obtain adequate financing.

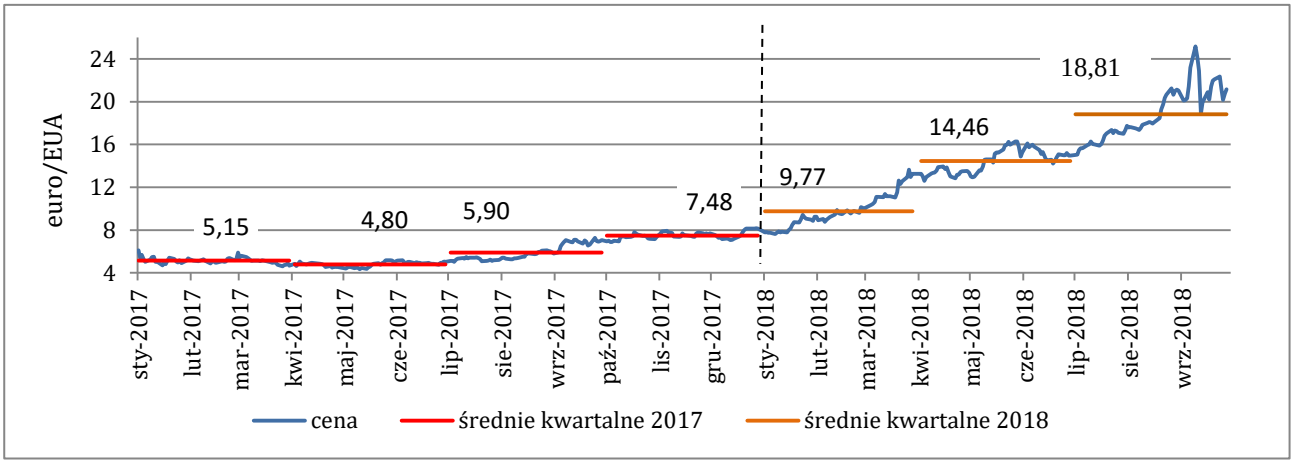
## 11.6. $CO_2$ emission allowances costs

The activities in the scope of generating electricity and heat from conventional sources are associated with the need to incur the CO2 emission costs. In view of the fact that these costs represent an important item in the structure of the costs incurred by the producers of energy from lignite, the impact of emitted quantities of CO2 and the price of CO2 emission allowances (EUA) is of great importance to the activities' results. In 2018, the Group received a small amount of free CO2 emission allowances, i.e., 69 066 EUA, resulting from the allocation for heat generation. Therefore, practically the entire volume of emission allowances needed for the ZE PAK SA Group will have to be purchased on the primary (auctions) and secondary (ICE, EEX and bilateral contracts) markets.

On the market for CO2 emission rights, a clear upward trend has been maintained since April 2017. At the same time its dynamics increased with the passage of time. In the third quarter of 2018, it was possible to observe an increase exceeding 60%, which is not often the case not only on the market of emission permits but also on other commodity markets. The dynamic increase in volatility in the market often heralds the advanced phase of the trend and this was also the case on the EUA market. The declines that occurred after exceeding the level of 25 euros for the EUA were

very dynamic and their scale was the largest since the beginning of the current trend. In the absence of any fundamental reasons for such large price fluctuations, one can only assume that financial investors focused on the use of high volatility that has been accompanying this market for a while began to play an important role on the market. In the near future, a test for the market will be the suspension of EUA on the primary market in the fourth quarter for technical reasons and in the first quarter of 2019 higher supply on the primary market (postponed German auctions) and preparation for settlement of 2018. The arithmetic average of EUA quotations in the third quarter of 2018 amounted to 18.81 euros, which means an increase of 30.1% compared to the second quarter of 2018 and 218.8% compared to the third quarter of 2017.

*Chart 12: Price of the futures contract for the supply of EUA*




*Source: Own elaboration based on ICE data*

## 11.7. Compensation for the stranded costs related to the termination of the "Long-term Contract" ("LTC") of Elektrownia Pątnów II sp. z o.o.

The long-term contract for the sale of power and electricity (PPA) was concluded between Elektrownia Pątnów II sp. z o.o. and Polskie Sieci Elektroenergetyczne SA. The contract was a long-term agreement in the scope of supply of electricity according to the established price formula.

Due to the early termination (on 1 April 2008) of LTC pursuant to the Act on LTC, Elektrownia Pątnów II sp. z o.o. is entitled to receive sufficient compensation. The amount of compensation is estimated according to an applicable formula specified in the Act. Elektrownia Pątnów II sp. z o.o. is covered by the said act by the end of 2025.

## 11.8. Seasonality and meteorological conditions

The demand for electricity and heat, especially among consumers, is subject to season fluctuation. So far, the practice showed that the consumption of electricity was higher in the winter (mainly due to low temperatures and shorter days) and lowered in the summer (due to the summer period, higher ambient temperatures, and a longer day). In the last couple of years, there is an increase in the demand for electricity in the summer, which is caused mostly by the rising number of used cooling devices and air conditioning.

Regardless of the factors described above, meteorological conditions become more and more important for the level of the Group's production. Sometime, the Group has not been significantly subject to seasonality of demand. Due to the low cost of the units' operation was executed continuously (at base) for almost entire year. Currently, given the increasing share of RES in the segment of energy producers, primarily wind sources, at estimating the volume of the Group's generation, weather conditions become more and more important, with a particular focus on wind conditions. Statistically, the first and fourth quarters are periods with the best wind conditions. It should be taken into account that on periods when wind conditions are very good and the wind turbines' generation is high, the demand for Group's production may be subject to periodic deductions - similarly in periods of lower wind production can increase.

## 11.9. Investment expenses

The activities in the coal extraction and energy production sector require substantial investment expenses. The Group's generation assets require periodical renovations and on-going modernisation, both due to the increasing strictness of requirements in the scope of environmental protection as well as the need for improvement of electricity production effectiveness. The level of investment expenses had major impact, and according to expectations will still have major impact, on the results of the operating activities, level of debt and cash flows. Delays in execution, changes of the investment programme, and excess in the budget can have severe impact on the investment expenses incurred in the future, as well as on the results, financial position, and perspectives of development. Moreover, the part of the Group's planned investment projects reported to the National Investment Plan involves the allocation of free units allowing for CO2 emission. However, in the case of failure to implement these investments, the ability to use the free allocation is prevented as well. Also in the case of certain expenditures, which the expenditure authorized for the allocation of free emission rights, when the investment project submitted to KPI was not completed on time, the possibility of returning the received permits should be reckoned in the part in which they were previously granted.

## 11.10. EUR/PLN exchange rate, the level of interest rates

Despite the fact that the Group conducts its activities in Poland, where it incurs costs and gains revenues in zloty, there is a couple of significant factors which make the financial results dependent on the exchange rate of EUR/PLN and the level of WIBOR and EURIBOR interest rates. The most important factors include:

- a significant part of the debt (that is the corporate credit taken by Elektrownia Pątnów II sp. z o.o.) is denominated in EUR, which means that the depreciation of the value of zloty in relation to EUR has negative impact on financial results, because it increases the financing costs in zloty related to the foreign currency debt, whereas the depreciation of the value of EUR in relation to zloty has positive impact on financial results, because it decreases the financial costs in zloty related to the debt in foreign currency;
- transactions related to the purchase of EUAs settled in euro;
- ZE PAK SA and Elektrownia Pątnów II sp. z o.o. use debt financing based on a variable interest rate.

As at 30 September 2018, one of Group's companies used instruments to limit the risk resulting from changes in foreign exchange rates. ZE PAK SA hedged the euro exchange rate for some of the flows related to the purchase of $CO_2$ emission allowances. To hedge the exchange, forward transactions were made with the settlement date in December 2018. Management Boards monitor the financial situation and market situation on an ongoing basis, and may, if necessary, decide on the necessity of using financial instruments to hedge against exchange rate risk. In accordance with the principles applied in the ZE PAK SA Group, any transactions will be hedging and will be matched to the hedged item in terms of volume and maturity date. The decision on the choice of the hedging instrument will also include: price, market liquidity, and product simplicity, ease of valuation and accounting, and flexibility. The Group's exposure to the risk caused by changes in interest rates relates primarily to long-term financial liabilities related to the financing of investments in ZE PAK SA and Elektrownia Pątnów II sp. z o.o. The Group has financial liabilities, mainly loans and loans with variable interest. In order to minimize the interest rate risk, the Group has concluded interest rate swaps (interest rate swaps), under which it agrees to exchange, at specified intervals, the difference between the amount of interest accrued at a fixed and variable interest rate on the agreed principal amount. These transactions are aimed at securing the incurred financial liabilities and relate to the syndicated loan of Elektrownia Pątnów II sp. o.o. based on the variable EURIBOR rate. IRS instruments were used for hedging.

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| *Adam Kłapszta /President of the Board/* | *Aneta Lato-Żuchowska /Vice President of the Board/* | *Zygmunt Artwik / Vice President of the Board /* | *Elżbieta Niebisz / Vice President of the Board /* | *Marcin Ginel / Vice President of the Board /* |