ZESPÓŁ ELEKTROWNI PĄTNÓW–ADAMÓW–KONIN SA CAPITAL GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2018

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

15 MAY 2018

(in thousand PLN)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For 3 months period ended 31 March 2018

	Note	*3 months period ended 31 March 2018 (unaudited)*	*3 months period ended 31 March 2017 (unaudited)*
Continuing operations			
Sales revenue	*11.1*	**465 786**	**599 647**
Cost of goods sold	*11.6*	(430 328)	(498 953)
Gross profit / (loss)		**35 458**	**100 694**
Other operating revenues	*11.2*	3 050	4 633
Selling and distribution expenses	*11.6*	(1 144)	(1 297)
Administrative expenses	*11.6*	(34 894)	(30 821)
Other operating expenses	*11.3*	(1 121)	(879)
Gross profit / (loss) from operations		**1 349**	**72 330**
Finance income	*11.4*	2 316	12 401
Finance costs	*11.5*	(11 203)	(13 367)
Profit / (loss) before tax		**(7 538)**	**71 364**
Income tax expense (taxation)	*13.1*	(8 098)	(15 357)
Net profit / (loss) for the period from continuing operations		**(15 636)**	**56 007**
Discontinued operations			
Profit/ (loss) for the period from discontinued operations		-	-
Net profit / (loss) for the period		**(15 636)**	**56 007**
Net profit/ (loss) attributable to equity holders of the parent		(15 083)	55 314
Net profit/ (loss) attributable to non-controlling interests		(553)	693

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 /*	*Aneta Desecka /Chief Accountant/*

		3 months period ended *31 March 2018*	*3 months period ended* *31 March 2017*
Profit / loss per share (in PLN):	*Note*		
Basic, for profit for the period attributable to equity holders of the parent	*14*	(0,30)	1,09
Basic, for profit for the period from continuing operations attributable to equity holders of the parent	*14*	(0,30)	1,09
Diluted, for profit for the period attributable to equity holders of the parent	*14*	(0,30)	1,09
Diluted, for profit for the period from continuing operations attributable to equity holders of the parent	*14*	(0,30)	1,09

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 /	Aneta Desecka /Chief Accountant/

(in thousand PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period of 3 months ended 31 March 2018

	Nota	*3 months period ended 31 March 2018 (unaudited)*	*3 months period ended 31 March 2017 (unaudited)*
Net profit / (loss) for the period		**(15 636)**	**56 007**
Other comprehensive income			
Items to be reclassified to the profit / (loss) in subsequent reporting periods:			
Cash flow hedges	*12*	867	1 863
Influence of MSSF 9 and MSSF 15 implementation	*12*	(637)	-
Income tax on other comprehensive income	*13.1, 12*	(44)	(354)
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods		186	1 509
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:			
Profits / (losses) on provisions for post-employment	*12*	(310)	(13)
Income tax on other comprehensive income	*13.1, 12*	59	3
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		(251)	(10)
Net other comprehensive income		**(65)**	**1 499**
Comprehensive income for the period		**(15 701)**	**57 506**
Comprehensive income attributable to equity holders of the parent		(15 148)	56 813
Comprehensive income attributable to non-controlling holders		(553)	693

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(in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Note	*31 March 2018 (unaudited)*	*31 December 2017*
ASSETS			
Fixed assets			
Property, plant and equipment	*15*	3 271 640	3 280 835
Investment property		2 365	2 365
Intangible assets	*17*	10 565	6 679
Assets of removing overburden and other mining assets (long-term)	*18*	70 151	72 536
Other long-term financial assets	*19.1*	34 035	10 311
Other long-term non-financial assets	*19.2*	1 381	2 122
Deferred tax assets	*13.2*	72 621	72 928
Total fixed assets		**3 462 758**	**3 447 776**
Current assets			
Short-term intangible assets	*17*	289 942	261 654
Inventories	*20*	107 253	97 758
Trade and other receivables	*21*	273 068	253 261
Income tax receivables		18 014	17 731
Short-term financial derivatives (assets)	*27.4*	243	-
Other short-term financial assets	*19.1*	10 702	35 788
Other short-term non-financial assets	*19.2*	17 867	11 425
Amounts due from customers under long-term construction contracts	*11.7*	7 452	7 080
Cash and cash equivalents	*22*	266 247	322 201
Total current assets		**990 788**	**1 006 898**
Assets classified as held for sale		1 031	1 038
TOTAL ASSETS		**4 454 577**	**4 455 712**

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	Note	*31 March 2018 (unaudited)*	*31 December 2017*
LIABILITIES AND EQUITY			
Equity			
Share capital		101 647	101 647
Reserve capital		1 094 494	1 094 493
Revaluation reserve from valuation of hedging instruments		(1 976)	(2 678)
Other reserve capital		3 472	3 472
Retained earnings / Accumulated losses		1 066 057	884 095
Net profit / (loss)		(15 083)	183 243
Equity attributable to equity holders of the parent		**2 248 611**	**2 264 272**
Equity attributable to non-controlling interests		-	-
Total equity		**2 248 611**	**2 264 272**
Long-term liabilities			
Interest-bearing loans and borrowings	*24*	233 852	302 465
Long-term employee benefits		48 138	48 166
Trade liabilities and other long-term financial liabilities	*27.2*	4 880	5 146
Long-term financial derivatives (liabilities)	*27.4*	448	870
Long-term subsidies	*27.5*	44 133	44 509
Other long-term provisions and accruals	*25*	356 143	357 902
Deferred tax liability	*13.2*	440 387	432 900
Total long-term liabilities		**1 127 981**	**1 191 958**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities	*27.1*	140 929	146 416
Current portion of interest-bearing loans and borrowings	*24*	375 109	349 573
Short-term financial derivatives (liabilities)	*27.4*	2 673	4 139
Other non-financial liabilities	*27.3*	83 188	107 387
Current income tax liability		154	1 092
Short-term employee benefits		5 822	5 457
Short-term subsidies	*27.6*	1 514	1 507
Amounts due to customers under long-term construction contracts	*11.7*	8 174	5 626
Other short-term provisions and accruals	*25*	460 422	378 285
Total short-term liabilities		**1 077 985**	**999 482**
Total liabilities		**2 205 966**	**2 191 440**
TOTAL LIABILITIES AND EQUITY		**4 454 577**	**4 455 712**

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 /*	*Aneta Desecka /Chief Accountant/*

(in thousand PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

For 3 months period ended 31 March 2018

	Note	*3 months period ended 31 March 2018 (unaudited)*	*3 months period ended 31 March 2017 (unaudited)*
Cash flow from operating activities			
Profit /(loss) before tax		(7 538)	71 364
Adjustments for:			
Depreciation and amortization		48 074	49 265
Interests and shares in profits		5 355	9 735
(Profit) / loss on foreign exchange differences		1 522	(10 629)
(Profit) / loss on investing activities		(2 454)	(90)
(Increase) / decrease in receivables		(27 619)	(35 577)
(Increase) / decrease in inventories		(9 494)	4 239
Increase / (decrease) in payables except for loans and borrowings		(22 988)	(127 913)
Change in provisions, prepayments, accruals and employee benefits		80 536	128 080
Income tax paid		(1 617)	6 235
Allowances for emission of CO_2		(32 191)	(106 892)
Other		373	342
Net cash flow from operating activities		**31 959**	**(11 841)**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		2 293	885
Purchase of property, plant and equipment and intangible assets		(39 394)	(20 911)
Proceeds and expenses relating to other financial assets		206	-
Purchase of other financial assets		-	(2 081)
Dividends paid		-	-
Interest paid		1	1
Other		-	23
Net cash flow from investing activities		**(36 894)**	**(22 083)**

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Cash flow from financing activities			
Payment of finance lease liabilities		(332)	(3 479)
Proceeds from loans and borrowings and debt securities		37 859	-
Repayment of loans and borrowings and debt securities		(83 232)	(96 101)
Interest paid		(6 178)	(9 906)
Other		(375)	(370)
Net cash flow from financing activities		**(52 258)**	**(109 856)**
Net increase / (decrease) in cash and cash equivalents		**(57 193)**	**(143 780)**
Cash and cash equivalents at the beginning of the period		**322 570**	**348 647**
Cash and cash equivalents at the end of the period	*22*	**265 377**	**204 867**

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(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For 3 months period ended 31 March 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 of January 2018	**101 647**	**1 094 493**	**(2 678)**	**3 472**	**1 067 338**	**2 264 272**	**-**	**2 264 272**
Net profit for the period	-	-	-	-	(15 083)	(15 083)	(553)	(15 636)
Total other comprehensive income	-	-	702	-	(767)	(65)	-	(65)
Total income for the period	**-**	**-**	**702**	**-**	**(15 850)**	**(15 148)**	**(553)**	**(15 701)**
Distribution of profits from previous years	-	1	-	-	-	1	-	1
The effect of the 'put' option settlement on the shares of non-controlling interests	-	-	-	-	(553)	(553)	553	-
Other changes	-	-	-	-	39	39	-	39
as of 31 March 2018	**101 647**	**1 094 494**	**(1 976)**	**3 472**	**1 050 974**	**2 248 611**	**-**	**2 248 611**

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

(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For 3 months period ended 31 March 2017 (unaudited)

	Issued capital	*Reserve capital*	*Revaluation reserve of financial instruments*	*Other reserve capital*	*Retained earnings / accumulated losses*	*Total*	*Non-controlling interest*	*Total equity*
as of January 2017	**101 647**	**1 028 647**	**(7 084)**	**3 472**	**1 016 976**	**2 143 658**	**-**	**2 143 658**
Net profit for the period	-	-	-	-	55 314	55 314	693	56 007
Total other comprehensive income	-	-	1 509	-	(10)	1 499	-	1 499
Total income for the period	**-**	**-**	**1 509**	**-**	**55 304**	**56 813**	**693**	**57 506**
Distribution of profits from previous years	-	-	-	-	-	-	-	-
The effect of the 'put' option settlement on the shares of non-controlling interests	-	-	-	-	693	693	(693)	-
Other changes	-	-	-	-	37	37	-	37
as of 31 March 2017	**101 647**	**1 028 647**	**(5 575)**	**3 472**	**1 073 010**	**2 201 201**	**-**	**2 201 201**

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RULES (POLICIES) OF ACCOUNTANCY AND 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"), with its head office in Konin at 45 Kazimierska str., and its subsidiaries (see Note 2).

The Group's consolidated financial statement covers the period of 3 months ended 31 March 2018 and includes comparative data for the period of 3 months ended 31 March 2017 and as at 31 December 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.

(in thousand PLN)

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 31 March 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%	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. Przemysłowa 158	Exploration and recognition of lignite	100,00%	100,00%
„Energoinwest Serwis" sp. z o.o. in liquidation	62-510 Konin ul. Przemysłowa 75	Repair-construction service	100,00%*	100,00%*
„PAK Kopalnia Węgla Brunatnego Konin" SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	97,58%*	97,58%
„PAK Kopalnia Węgla Brunatnego Adamów" SA	62-700 Turek Warenka 23	Lignite extraction	99,26%	99,26%
„Aquakon" sp. z o.o. in liquidation	62-610 Sompolno Police	Mechanical services, repairs, reclamation of land, production and trade of mineral water	96,20%*	96,20%*
„Eko-Surowce" sp. z o.o. in liquidation	62-540 Kleczew ul. 600-lecia 9	Vulcanization services, sales of lignite	100,00%*	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. in liquidation	62-510 Konin ul. Przemysłowa 158	Repair and maintenance of electric equipment, repair and maintenance of machines	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%

* *Entities in which ZE PAK SA has an indirect share in the capital*

As of 31 March 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

4. Basis for development of the interim 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.

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, wherein the activities concerning the allocations of certain types of activities between the Companies are carried out. The indicated activities will not affect the limitation of the scope of economic activity conducted by the Capital Group of ZE PAK SA. Relating to information provided in note 15.1, the Management Board of the Company maintains that there are no threats identified for continuation of activity of the Group's companies.

5. 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.

5.1. Implementation of MSSF 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.

6. 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.

The Group has not decided to apply earlier any other standard, interpretation or change that have been published but have not entered into force yet, in the lights of the EU rules.

7. 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.

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 31 March 2018 to the price amounting to 69.12 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 will make redemption of CO_2 emission for 2017.

As of 31 March 2018, the Group had a provision created for the allowances in relation to the actual emission size for the period from 1 January 2017 till 31 December 2017 and from 1 January 2018 till 31 March 2018.

Details concerning the provision for liabilities due to the redemption of greenhouse gases emission allowances are presented in note 25.3.1.

8. Change of estimates

Within the 3-month period concluded on 31 March 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.

9. 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.

10. 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 – Holdco 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.
    - Energoinwest Serwis sp. z o.o. in liquidation
    - EL PAK Serwis sp. z o.o. in liquidation
- 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 1Q 2018 it covers the activity of the following companies: Eko-Surowce sp. z o.o. - in liquidation, Aquakon sp. z o.o. - in liquidation, PAK Adamów sp. z o.o. and PAK Górnictwo sp. z o.o.

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, plus depreciation and amortization charges).

The table below presents the segments results for the period of 3 months ended 31 March 2018 and 31 March 2017:

(in thousand PLN)

3-month period ended 31 March 2018 (unaudited)

	Generation	**Mining**	**Renovation**	**Sale**	**Other**	**Consolidation adjustments**	**Total**
Sales revenue to external customers	328 190	1 614	21 491	113 062	1 429	-	465 786
Sales revenue between segments	72 010	125 861	16 765	1	58 134	(272 771)	-
Sales revenue	**400 200**	**127 475**	**38 256**	**113 063**	**59 563**	**(272 771)**	**465 786**
Cost of goods sold	(340 431)	(155 004)	(37 121)	(112 574)	(59 104)	273 906	(430 328)
Gross profit /(loss)	**59 769**	**(27 529)**	**1 135**	**489**	**459**	**1 135**	**35 458**
Other operating income	1 185	1 380	409	20	149	(93)	3 050
Selling and distribution expenses	(500)	-	-	(337)	(307)	-	(1 144)
Administrative expenses	(16 479)	(12 052)	(3 584)	(1 051)	(1 728)	-	(34 894)
Other operating expenses	(196)	(666)	(225)	-	(34)	-	(1 121)
Financial income	2 358	130	31	28	11	(242)	2 316
Financial costs	(7 312)	(3 946)	(121)	(12)	(54)	242	(11 203)
Profit / loss before tax	**38 825**	**(42 683)**	**(2 355)**	**(863)**	**(1 504)**	**1 042**	**(7 538)**
Income tax expense	(7 388)	(927)	355	142	(81)	(199)	(8 098)
Net profit / loss for the period from continuing operations	**31 437**	**(43 610)**	**(2 000)**	**(721)**	**(1 585)**	**843**	**(15 636)**
Profit / loss from operating activities, without financial operations and income tax	**43 779**	**(38 867)**	**(2 265)**	**(879)**	**(1 461)**	**1 042**	**1 349**
Depreciation / Amortization	30 182	16 798	1 593	18	736	(878)	48 449
Write-down	-	-	-	-	-	-	-
EBITDA	**73 961**	**(22 069)**	**(672)**	**(861)**	**(725)**	**164**	**49 798**

(in thousand PLN)

3-month period ended 31 March 2017 (unaudited)

	Generation	**Mining**	**Renovation**	**Sale**	**Other**	**Consolidation adjustments**	**Total**
Sales revenue to external customers	428 384	1 590	24 526	143 551	1 596	-	599 647
Sales revenue between segments	87 802	215 996	55 457	1	22 596	(381 852)	-
Sales revenue	**516 186**	**217 586**	**79 983**	**143 552**	**24 192**	**(381 852)**	**599 647**
Cost of goods sold	(452 422)	(186 732)	(77 143)	(141 583)	(24 479)	383 406	(498 953)
Gross profit /(loss)	**63 764**	**30 854**	**2 840**	**1 969**	**(287)**	**1 554**	**100 694**
Other operating income	782	3 694	146	22	56	(67)	4 633
Selling and distribution expenses	(816)	-	-	(160)	(321)	-	(1 297)
Administrative expenses	(10 036)	(12 996)	(5 508)	(1 014)	(1 267)	-	(30 821)
Other operating expenses	(378)	(604)	(122)	-	(9)	234	(879)
Financial income	12 992	141	19	30	5	(786)	12 401
Financial costs	(16 776)	(4 011)	(322)	(34)	(10)	7 786	(13 367)
Profit / loss before tax	**49 532**	**17 078**	**(2 947)**	**813**	**(1 833)**	**8 721**	**71 364**
Income tax expense	(10 699)	(4 612)	459	(236)	58	(327)	(15 357)
Net profit / loss for the period from continuing operations	**38 833**	**12 466**	**(2 488)**	**577**	**(1 775)**	**8 394**	**56 007**
Profit / loss from operating activities, without financial operations and income tax	**53 316**	**20 948**	**(2 644)**	**817**	**(1 828)**	**1 721**	**72 330**
Depreciation / Amortization	31 467	20 162	1 604	17	430	(1 290)	52 390
Write-down	-	-	-	-	-	-	-
EBITDA	**84 783**	**41 110**	**(1 040)**	**834**	**(1 398)**	**431**	**124 720**

(in thousand PLN)

11. Revenues and costs

11.1. Sales revenues

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
Revenues by type		
Electricity sale	266 424	391 548
Electricity sold from the market	127 965	110 841
Energy certificates of origin	1 584	353
Construction contracts	20 957	22 531
Compensation related to PPA termination	33 163	48 622
Heat	12 510	20 553
Other	5 077	6 199
Excise	(1 894)	(1 000)
Total	465 786	599 647

11.2. Other operating revenues

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
Compensation received	979	384
Reversal of write-down against receivables	13	62
Grants settlement	375	392
Profit from disposal of non-financial fixed assets	1 147	3 316
Other	536	479
Total other operating revenues	3 050	4 633

The largest component of the "Other" item in the first quarter of 2018 is the release of provisions for court cases in the amount of PLN 180 thousand.

(in thousand PLN)

11.3. Other operating costs

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
Loss on the sale of property, plant and equipment	188	26
Impairment write-down on receivables	32	-
Compensation paid	31	4
Electricity-related damage	30	70
Donations given	54	33
Costs of shortages and damage	-	30
Other	786	716
Total other operating costs	1 121	879

The main components of the item "Other" in the first quarter of 2018 are payments based on court verdict for the purchase of real estate in the amount of PLN 286 thousand and penalties related to the performance of contracts for renovation and assembly works in the amount of PLN 194 thousand.

11.4. Financial income

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
Interest income	995	769
Foreign exchange rates	100	11 300
Valuation of exchange rates hedging instruments (forward)	805	-
Other	416	332
Total financial income	2 316	12 401

11.5. Financial costs

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
Interest expenses	4 518	8 297
Valuation and realization of derivative financial instruments	1 688	2 000
Foreign exchange losses	1 564	-
Reserve discount for the liquidation of power units	137	109
Reserve discount for reclamation	2 863	2 464
Other	433	497
Total of financial costs	11 203	13 367

(in thousand PLN)

11.6. Costs by type

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
Depreciation / Amortisation	48 449	52 390
Impairment write-downs against inventories	-	1 470
Materials	62 440	63 015
External services	22 027	26 749
Taxes and charges, excluding excise duty	42 148	45 527
Costs of allowances for emission of CO_2	56 587	97 748
Employee benefits	111 178	121 773
Other costs by type	9 268	10 375
Cost of goods for resale and raw materials sold and resale of electricity from the market	117 235	110 737
Total cost by type	469 332	529 784
Items included in cost of goods sold	430 328	498 953
Items included in selling and distribution expenses	1 144	1 297
Items included in administrative expenses	34 894	30 821
Change in the stocks of finished goods	2 872	(1 457)
Cost of goods and services for internal needs	94	170

11.7. Construction agreement

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
Revenues from contracts for construction services recognised in the period	20 957	22 531
Revenues invoiced in the period	23 133	22 107
Balance sheet valuation	(2 176)	424
Costs applied in the period	18 056	20 661
Expected losses due to the contracts recognised in the period	10	118
Results due to performance of the contracts included in the period	2 891	1 752

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
Gross amount payable by contracting parties due to works resulting from the contract	7 452	7 812
Gross amount paid to contracting parties due to works resulting from the contract	8 174	3 210

(in thousand PLN)

12. Components of other comprehensive income

Components of other total comprehensive income present as follows:

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
Cash flow securities		
Profits (losses) for the period	939	1 456
Adjustment resulting from reclassification of profits (loses) included in the profit or the loss	(72)	407
Gross cash flow securities for the period	**867**	**1 863**
Income tax concerning cash flow securities	(165)	(354)
Net cash flow securities for the period	**702**	**1 509**
Actuarial gross profits (losses) concerning provisions for post-employment employee benefits	**(310)**	**(13)**
Income tax concerning actuarial profits (losses)	59	3
Actuarial net profits (losses) concerning provisions for post-employment employee benefits	**(251)**	**(10)**
Income due to implementation of MSSF 9 and MSSF 15 gross	**(637)**	**-**
Income tax concerning MSSF 9 and MSSF 15	121	-
Income due to implementation of MSSF 9 and MSSF 15 net	**(516)**	**-**
Other gross comprehensive income	**(80)**	**1 850**
Income tax concerning other comprehensive income	**15**	**(351)**
Other net comprehensive income	**(65)**	**1 499**

13. Income tax

13.1. Tax load

The main components of tax load for the period of 3 months ended 31 March 2018 and the period of 3 months ended 31 March 2017 are as follows:

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
Included in profit or loss		
Current income tax		
Current income tax load	291	2 536
Deferred income tax load		
Related to creation and reversal of temporary differences	7 806	13 608
Other changes	1	(787)
Tax load in the consolidated profit or loss	**8 098**	**15 357**

(in thousand PLN)

Included in the consolidated statement of the comprehensive income		
Net profit (loss) tax due to revaluation of cash flow securities	(165)	(354)
Actuarial allowance concerning actuarial profits/losses	59	3
Tax due to MSSF 9 and MSSF 15	121	-
Tax advantage/(tax load) included in comprehensive income	**15**	**(351)**

13.2. Deferred income tax

Deferred income tax results from the following items:

	31 March 2018 (unaudited)	*31 December 2017*
Deferred tax asset		
Balance sheet provisions	123 535	112 777
Overburden and other mining assets	7 953	7 946
Interest and exchange rate differences	4 914	4 832
Hedging instruments	593	781
Valuation of non-terminated agreements for building services	1 919	1 610
Tax loss from previous years	26 576	30 361
Impairment write-down on inventories	1 466	1 475
Impairment write-down on receivables	738	636
Impairment write-downs on fixed assets	1 210	1 777
Difference between the carrying amount and tax value of fixed assets	21	7
Settlements with employees	3 230	3 813
Other	28 791	25 179
Total	200 946	191 194
Provision under deferred income tax		
Difference between the balance sheet value and the tax value of fixed assets	492 070	487 308
Receivables under PPAs	17 379	11 078
Energy certificates	544	352
Interest and exchange rate differences	650	456
Valuation of non-terminated construction agreements	1 747	1 851
Purchased CO_2 allowances	56 317	50 145
Other	5	(24)
Total	568 712	551 166
After offsetting the balances at the level of the Group companies, the deferred tax is presented as:		
Asset	**72 621**	**72 928**
Provision	**440 387**	**432 900**

Other deferred tax asset for main items as at 31 March 2018 includes the valuation of loans in Elektrownia Pątnów II sp. z o.o. in the amount of PLN 8 007 thousand (as at December 31, 2017, PLN 8 076 thousand), PLN 15 958 thousand is a provision for the redemption of CO2 emission rights in Elektrownia Pątnów II sp. z o.o. (as at December 31, 2017 PLN 12 948 thousand).

The status of the tax settlements of the Group's companies for tax losses as at 31 March 2018, including deferred tax was presented below.

As at 31 March 2018 Elektrownia Pątnów II sp. z o.o. showed a tax profit of PLN 34 263 thousand. The accumulated value of tax losses as at 31 March 2018 amounted to PLN 53 285 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 31 December 2017 amounts to PLN 10,124 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. A description of court cases can be found in note 28.1.

As at 31 March 2018, PAK KWB Konin SA discloses a tax loss in the amount of PLN 16 734 thousand. Deferred income tax asset as at 31 March 2018 is PLN 53 880 thousand, it does not include tax losses.

As at March 31, 2018, PAK KWB Adamów SA reported a tax loss of PLN 26 207 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 31 March 2018, the Company showed a tax loss and additionally established an asset for the tax loss for 2018 in the amount of PLN 3 501 thousand.

14. 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.

(in thousand PLN)

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

	3 months period ended *31 March 2018 (unaudited)*	*3 months period ended* *31 March 2017 (unaudited)*
Net profit / (loss) on continued activities of the parent company's shareholders	(15 083)	55 314
Profit / (loss) on abandoned activities of the parent company's shareholders	-	-
Net profit / (loss) of ordinary shareholders used for calculation of diluted profit / (loss) per one share	(15 083)	55 314
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

The table below shows the profit per one share for the period of 3 months ended 31 March 2018 and 31 March 2017 presented in the profit and loss account.

	3 months period ended *31 March 2018 (unaudited)*	*3 months period ended* *31 March 2017 (unaudited)*
Basic and diluted from profit for the financial year attributable to the shareholders of the parent	(0,30)	1,09
Basic and diluted from profit from continuing operations attributable to the shareholders of the parent	(0,30)	1,09

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.

(in thousand PLN)

15. Tangible fixed assets

3 months period ended 31 March 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 2017	264 070	2 016 046	4 941 958	69 440	29 741	222 654	7 543 909
Purchase	-	-	3 729	4 471	207	30 043	38 450
Repairs	-	-	-	-	-	1	1
Transfer from fixed assets under construction	20 635	-	17 330	-	(1)	(37 964)	-
Sale and liquidation	(1 527)	(19)	(594)	(610)	(604)	-	(3 354)
Gross value as at 31 March 2018	283 178	2 016 027	4 962 423	73 301	29 343	214 734	7 579 006
Depreciation and impairment write-downs as at 1 January 2017	11 065	1 169 349	2 892 319	44 041	21 404	124 896	4 263 074
Depreciation write-down for the period	866	10 319	32 683	1 646	419	-	45 933
Impairment write-downs	-	-	-	-	-	-	-
Sale and liquidation	(13)	(14)	(578)	(458)	(578)	-	(1 641)
Depreciation and impairment write-downs as at 31 March 2018	11 918	1 179 654	2 924 424	45 229	21 245	124 896	4 307 366
Net value as at 1 January 2017	253 005	846 697	2 049 639	25 399	8 337	97 758	3 280 835
Net value as at 31 March 2018	271 260	836 373	2 037 999	28 072	8 098	89 838	3 271 640

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

(in thousand PLN)

3 months period ended 31 March 2017 (unaudited)

	*Land and perpetual usufruct**	*Buildings and constructions*	*Plants and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2017	235 209	2 014 362	4 862 243	69 615	29 082	243 951	7 454 462
Purchase	-	-	1 562	1	84	11 795	13 442
Repairs	-	-	-	-	-	-	-
Transfer from fixed assets under construction	9 004	4 413	103 552	7	175	(117 151)	-
Sale and liquidation	(456)	(922)	(432)	(365)	(45)	-	(2 220)
Gross value as at 31 March 2018	243 757	2 017 853	4 966 925	69 258	29 296	138 595	7 465 684
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	723	11 657	35 299	1 892	479	-	50 050
Impairment write-downs	-	-	-	-	-	-	-
Sale and liquidation	-	(790)	(426)	(295)	(46)	-	(1 557)
Depreciation and impairment write-downs as at 31 March 2018	8 655	1 138 970	2 798 196	40 518	21 199	104 171	4 111 709
Net value as at 1 January 2017	227 277	886 259	2 098 920	30 694	8 316	139 780	3 391 246
Net value as at 31 March 2018	235 102	878 883	2 168 729	28 740	8 097	34 424	3 353 975

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

15.1. 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 prerequisite to analyse the value impairment of the components identified by the Management Board is the steady lower market value of the Group's net assets than their balance sheet value. Additional prerequisites, which the Management Board took into account when assessing the need for the test, were the prerequisites resulting from market conditions in the environment, in which the companies in the Group run activities, out of which the most important are:

- Regulations introduced by the Power Market Act of December 8, 2017, which entered into force on January 18, 2018;
- The price of certificates of origin of energy generated in renewable sources ("green certificates") maintained on a relatively low level due to oversupply of renewable energy property rights;
- Increasing fluctuations of the CO_2 emission allowances' prices (caused by the aggravating climate policy of the European Union)

The above-mentioned prerequisites were analysed in relation to all centres generating independent cash flows:

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:

- 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. For the nearest forecast period, prices resulting from concluded contracts were accepted,
- production assumptions result from the adopted investment and renovation program of ZE PAK SA,
- 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 8.00%.

The test was performed as at March 31, 2018.

Based on the conducted tests, it was not necessary to recognize impairment losses on property, plant and equipment.

In case of Elektrownia Pątnów II sp. z o.o. due to the participation of this unit in the Stranded Capital Completion Scheme (LTC) and the estimate of such receipts, no impairment of property, plant and equipment was found. Based on available and prospective coal resources, in particular Ościsłowo and Dęby Szlacheckie deposits, the planned operation time of the plant covers the period up to 2047.

Like in relation to the other CGUs operating within the segments of Repairs, Sales and Other, indications of a possible value impairment of assets were not identified as well.

The basis of tests for both brown coal mines is long-term financial projections including periods of operation of both mines and their particular open pits, which were agreed with assumptions accepted in the ZE PAK SA’s model. Adjusting the financial projections of mines to periods of operation of the generating units’ results from the assumption that the only recipients of the products are the companies of the Capital Group.

The financial projections for PAK KWB Konin SA and PAK KWB Adamów SA were built taking into account 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:
    - costs of reclamation of open pits

(in thousand PLN)

  - pension provisions
  - costs of compensations due to the group dismissals
  - revenues from sale of the asset after the end of open pit utilisation.

- weighted average cost of capital after taxation (WACC) in the projection period for PAK KWB Adamów SA at 8.72% and for PAK KWB Konin SA at the level of 8.94% 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.

Based on the conducted tests, it was found that there is no need to recognize revaluation allowances for property, plant and equipment for CGU PAK KWB Adamów SA and for CGU PAK KWB Konin SA.

Based on the results of the tests, it was also not necessary to include additional revaluation allowances for CGU ZE PAK SA assets. 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.

16. Leasing

16.1. 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 31 March 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 31 March 2018 (unaudited)		*As at 31 December 2017*	
	minimum payments	*present value of payments*	*minimum payments*	*present value of payments*
Up to 1 year	1 714	1 604	1 768	1 636
1 to 5 years	2 725	2 384	2 962	2 606
Over 5 years	-	-	-	-
Total minimum lease payments	4 439	3 988	4 730	4 242
Minus financial expenses	(451)	-	(488)	-
Present value of minimal lease payments, including:	3 988	3 988	4 242	4 242
Short-term	1 604	1 604	1 636	1 636
Long-term	2 384	2 384	2 606	2 606

(in thousand PLN)

17. Intangible assets

Long-term intangible assets – 9 months period ended 31 March 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
Decrease	-	-	-	(14)	(14)
Increase	4 196	5	(5)	-	4 196
Gross value as at 31 March 2018	6 462	21 891	1 976	414	30 743
Depreciation and impairment write-downs as at 1January 2018	-	17 561	1 958	363	19 882
Depreciation write-down for the period	-	291	14	5	310
Impairment write-down	-	-	-	-	-
Decrease	-	-	-	(14)	(14)
Depreciation and impairment write-downs as at 31 March 2018	-	17 852	1 972	354	20 178
Net value as at 1 January 2018	2 266	4 325	23	65	6 679
Net value as at 31 March 2018	6 462	4 039	4	60	10 565

(in thousand PLN)

Long-term intangible assets – 9 months period ended 31 March 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
Decrease	-	-	(43)	-	(43)
Increase	8 722	-	2	-	8 724
Gross value as at 31 March 2017	123 225	21 541	1 957	431	147 153
Depreciation and impairment write-downs as at 1January 2017	-	16 943	1 903	344	19 190
Depreciation write-down for the period	-	273	29	5	307
Impairment write-down	-	-	-	-	-
Decrease	-	-	(43)	-	(43)
Depreciation and impairment write-downs as at 31 March 2018	-	17 216	1 889	349	19 454
Net value as at 1 January 2017	114 503	4 597	95	87	119 282
Net value as at 31 March 2017	123 225	4 324	68	82	127 699

(in thousand PLN)

Short-term intangible assets

	31 March 2018 (unaudited)	*31 March 2017 (unaudited)*
	CO_2 emission units (EUA)	*CO_2 emission units (EUA)*
Gross value as at 1 January	261 654	273 036
Purchase of EUA	28 288	40 069
Redemption of EUA	-	-
Transfer EUA	-	-
Gross value as at 31 March	289 942	313 105
Depreciation and impairment as at 1 January	-	-
Impairment write-down	-	-
Depreciation and impairment as at 31 March	-	-
Net value as at 1 January	261 654	273 036
Net value as at 31 March	289 942	313 105

18. Assets for overburden removal and other mining assets

As at 31 March 2018, the item of assets concerning overburden stripping and other mining assets includes the assets related to overburden stripping and other mining assets mainly in PAK KWB Konin in the amount of PLN 70 145 thousand.

	31 March 2018 (unaudited)	*31 December 2017*
As at 1 January	72 536	80 524
Increases	6	824
Decreases	(185)	-
Depreciation for the period	(2 206)	(8 812)
as at the end of the period	70 151	72 536
long-term	70 151	72 536
short-term	-	-

(in thousand PLN)

19. Other assets

19.1. Other financial assets

	31 March 2018 (unaudited)	*31 December 2017*
Deposits for debt service security	35 554	35 616
Investments and deposits	-	14
Investments and FLZG* and FRZG* deposits	7 970	8 365
Shares	352	313
Other	861	1 791
Total other financial assets	44 737	46 099
short-term	10 702	35 788
long-term	34 035	10 311

* *FLZG – mining liquidation fund, FRZG – mining reclamation fund*

The main components of the "Other" item are guarantee deposits in the amount of PLN 584 thousand and loans granted to employees in the amount of PLN 277 thousand.

19.2. Other non-financial assets

	31 March 2018 (unaudited)	*31 December 2017*
VAT receivables	7 115	6 402
Insurance	1 286	1 527
Other receivables from the state budget	1 737	-
Other accruals	6 039	2 756
Delivery prepayments	131	115
Prepayments for assets under construction	790	2 451
Other	2 150	296
Total other non-financial assets	19 248	13 547
short-term	17 867	11 425
long-term	1 381	2 122

The largest components of the item "Other accruals" in the first quarter of 2018 are settlements related to the Social Fund in the amount of PLN 4 343 thousand and regarding license fees in the amount of PLN 696 thousand.

(in thousand PLN)

20. Inventories

	31 March 2018 (unaudited)	*31 December 2017*
Production fuel	9 187	7 564
Spare parts and other materials	84 226	79 001
Certificates of origin of energy	13 775	11 119
Goods	65	74
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	107 253	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.

According to the records, as at 31 March 2018, the Group held, in total 31 541.607 MWh of green certificates produced and not yet verified by URE. In the 1Q 2018 the Group received 4 014.442 MWh of certificates for production in June 2017.

During this period, no property rights resulting from certificates of origin of electricity from renewable energy sources were sold. During the current reporting period, the Group stopped production from renewable sources because of too low prices of market rights.

21. Trade and other receivables

	31 March 2018 (unaudited)	*31 December 2017*
Trade receivables	116 147	151 814
Receivables due to compensation related to the termination of the PPAs	91 466	58 303
Receivables due to security of purchase of electricity in the balancing market	11 695	7 695
Other receivables	53 760	35 449
Net receivables	273 068	253 261
Impairment write-down on receivables	42 065	41 522
Gross receivables	315 133	294 783

In the ‘other receivables’ item, as of 31 March 2018, the Group presents mainly receivables due to the security deposit in the amount of PLN 40 748 thousand.

Terms of transactions with affiliates are presented in the note 31.

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.

(in thousand PLN)

22. 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 31 March 2018 amounts to PLN 266 247 thousand (as of 31 March 2017: PLN 203 955 thousand).

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

Cash structure

	31 March 2018 (unaudited)	*31 March 2017 (unaudited)*
Cash in hand and at bank:	195 098	144 331
Short-term deposits	71 149	59 624
Total cash and cash equivalents in the balance sheet	266 247	203 955
Foreign exchange differences	(870)	912
Total cash and cash equivalents in cash flow statement	265 377	204 867

23. Dividends paid and proposed for payment

On May 8, 2018, the Management Board of ZE PAK SA adopted a resolution regarding the proposal to divide the net profit for the financial year ended December 31, 2017.

In the resolution adopted, the Management Board of ZE PAK SA decided to propose to divide the net profit achieved by the Company in 2017 in the amount of PLN 90 636 796,27, as follows:

a) the amount of PLN 60 988 256.40 will be allocated for payment of dividend for shareholders of the Company, which means PLN 1.20 PLN per one share in the Company,
b) the remaining amount of PLN 29 648 539.87 will be allocated for supplementary capital

The proposed amount of dividend is 67.29% of ZE PAK SA's net profit achieved in 2017.

On 9 May 2018, the Management Board's proposal regarding the distribution of ZE PAK SA's net profit for the financial year ended December 31, 2017 was positively evaluated by the Company's Supervisory Board. The final decision on the method of distribution of profit will be made by the Ordinary General Meeting of the Company.

24. Interest-bearing loans and borrowings

Short-term	*Maturity*	*31 March 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	138 619	136 840
Overdraft facility at BZ WBK in the amount of PLN 50 000 thousand; interest rate at WIBOR 1M + bank margin	30.06.2018	37 882	23
Overdraft facility at Alior Bank SA in the amount of PLN 67 000 thousand, interest rate at WIBOR 1M + bank margin	30.05.2018	46 187	59 025

(in thousand PLN)

Bank loan (syndicated) in the amount of PLN 577 000 thousand (Loan A), interest rate at WIBOR 3M+ bank margin	20.03.2020	140 493	141 662
Bank loan in the amount of PLN90 000 thousand (Loan B). interest rate at WIBOR 3M+bank margin	20.03.2020	11 928	12 023
TOTAL		**375 109**	**349 573**

Long-term	*Maturity*	*31 March 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	68 370	101 431
Syndicated investment loan in amount of PLN 577 000 thousand (Loan A); interest rate at WIBOR 3M + bank margin	20.03.2020	117 908	150 931
Syndicated overdraft facility in amount of PLN 90 000 thousand (Loan B); interest rate at WIBOR 3M + bank margin	20.03.2020	47 574	50 103
TOTAL		**233 852**	**302 465**

25. Provisions and accruals

25.1. Accruals

	31 March 2018 (unaudited)	*31 December 2017*
Bonus and holiday leave provision	34 847	28 770
Provision for employment termination costs	1 537	2 173
Audit of the financial statements	496	563
Other	6 019	1 328
Total	42 899	32 834
short-term	42 899	32 834
long-term	-	-

The main components of the item "Other" are the fees for economic use of the environment in the amount of PLN 4 742 thousand and 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 went to the Chief Inspector of Environmental Protection.

(in thousand PLN)

25.2. 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	289 942	16 593	756	370	8 522	362 416	24 754	703 353
increase	56 587	137	-	175	2 836	756	14 178	74 669
decrease	-	-	-	(165)	(804)	(3 377)	(10)	(4 356)
As of 31 March 2018 *(unaudited)*	346 529	16 730	756	380	10 554	359 795	38 922	773 666
long-term	-	16 730	540	-	-	334 377	4 496	356 143
short-term	346 529	-	216	380	10 554	25 418	34 426	417 523
As of 1 January 2017	313 105	16 848	1 005	13	7 838	307 837	37 552	684 198
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	289 942	16 593	756	370	8 522	362 416	24 754	703 353
long-term	-	16 593	540	-	-	336 292	4 477	357 902
short-term	289 942	-	216	370	8 522	26 124	20 277	345 451

25.3. Description of significant titles of provisions

25.3.1. 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. 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.

25.3.2. 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 specialised studies and technical and economical expert reports developed by domestic services or external experts. The value of the provision is estimated and verified on every balance sheet date on the basis of current cost estimates and a discount. As of 31 March 2018, the created provision amounted to PLN 756 thousand.

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 31 March 2018, the provision due to this amounted to PLN 16 730 thousand.

25.3.3. 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 March 31, 2018 amounted to PLN 359 795 thousand and decreased compared to the year ended March 31, 2017 by PLN 2 621 thousand. While calculating the provision, the Group adopted the following assumptions: discount rate at 3.3%, inflation level at 2.5%.

25.3.4. 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 31 March 2018, the provision due to this amounted to PLN 10 554 thousand.

25.3.5. Other provisions

The main items of the other provisions as at 31 March 2018 are in PAK KWB Konin SA: provisions for mining damage in the amount of PLN 3 576 thousand, provision for excluding land from agricultural and forestry production in the amount of PLN 7 969 thousand, provisions for pending court proceedings in PLN 530 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, provision for mining damages in the amount of PLN 3 383 thousand, provisions for litigation in the amount of PLN 175 thousand.

26. CO2 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 tonnes. 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.

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.

(in thousand PLN)

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 market together with the division into the part used for own needs and sold in the periods ended on March 31, 2018 and March 31, 2017.

CO2 emission allowance for the period of 3 months ended 31March 2018 (unaudited)

(in tons)		*Zespół Elektrowni Pątnów-Adamów-Konin SA*	*„Elektrownia Pątnów II" sp. z o.o.*
	Emission of CO_2	1 192 892	548 488
EUA	Balance at the beginning of the period	7 051 715	2 724 344
	Purchased	1 330 000	-
	Free of charge	69 066	-
	Redemption*	-	-
	Sale	-	-
	Exchange	-	-
	Balance at the end of the period	8 450 781	2 724 344

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

CO2 emission allowance for the period of 3 months ended 31March 2017 (unaudited)

(in tons)		*Zespół Elektrowni Pątnów-Adamów-Konin SA*	*„Elektrownia Pątnów II" sp. z o.o.*
	Emission of CO_2	2 100 392	722 084
EUA	Balance at the beginning of the period	12 900 660	920 181
	Purchased	-	1 345 000
	Free of charge	83 317	-
	Redemption*	-	-
	Sale	-	-
	Exchange	-	-
	Balance at the end of the period	12 983 977	2 265 181

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

(in thousand PLN)

27. Trade liabilities, other liabilities and accruals

27.1. Trade liabilities and other financial liabilities (short-term)

	31 March 2018 (unaudited)	*31 December 2017*
Trade liabilities	99 496	100 503
Other liabilities:		
Liabilities due to the put option	3 755	3 755
Investment liabilities	11 783	15 530
Liabilities to employees due to salaries	16 925	14 452
other	8 970	12 176
total	140 929	146 416

In the other liabilities line as of 31 March 2018, the Group presents mainly liabilities due to financial lease in the amount of PLN 1 604 thousand (PLN 1 636 thousand in 2017). The remaining amount in the other liabilities item as of 31 March 2018 concerns mostly settlements with employees and deductions from the pay roll amounting to PLN 1 299 thousand (PLN 7 104 in 2017) and settlements due to security amounting to PLN 2 122 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 31 March 2018, the remaining liability amount is PLN 3 755 thousand.

Principles and terms of payment of above financial liabilities:

Terms of transactions with affiliates are presented in the note 31 of additional information and explanations. 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.

27.2. Trade liabilities and other financial liabilities (long-term)

	31 March 2018 (unaudited)	*31 December 2017*
Liability due to financial lease	2 384	2 606
Short-term liabilities to other entities – over 12 months	411	415
Financial liabilities	2 000	2 000
Other	85	125
Total	4 880	5 146

(in thousand PLN)

27.3. Other non-financial liabilities

	31 March 2018 (unaudited)	*31 December 2017*
VAT tax liabilities	15 065	18 238
Liabilities due to environmental charges	38 903	39 115
Liabilities due to the excise tax	1 951	971
Liabilities due to social insurance	19 831	23 203
Personal income tax	5 338	6 273
Other budget liabilities	874	5 115
Advanced payments for deliveries	162	936
Service charge	-	11 060
Other	1 064	2 476
Total	83 188	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.

27.4. Derivative financial instruments

	31 March 2018 (unaudited)	*31 December 2017*
Instruments securing floating interest rates (SWAP)	3 121	4 112
Valuation of hedging instruments for the exchange rate (forward)	-	897
Total	3 121	5 009
short-term	2 673	4 139
long-term	448	870

In the balance sheet assets, derivative financial instruments show forward contracts that hedge the EUR exchange rate related to the syndicated loan in Elektrownia Pątnów II sp. Z o.o. The current net market value of contracts as at March 31st 2018 is PLN 243 thousand.

27.5. Grants and deferred income (long-term)

	31 March 2018 (unaudited)	*31 December 2017*
Long-term grants	41 129	41 504
Other	3 004	3 005
Total	44 133	44 509

The main component of the "Other" item is land obtained free of charge from the Poviat Starosty and the Commune, amounting to PLN 2 852 thousand.

(in thousand PLN)

27.6. Grants and deferred income (short-term)

	31 March 2018 (unaudited)	*31 December 2017*
Short-term grants	1 502	1 502
Other	12	5
Total	1 514	1 507

28. Contingent liabilities and description of significant judicial cases

Apart from liabilities described in notes 28.1, 29 and 30 below, as of 31 March 2018, the Group did not have any other contingent liabilities, guarantees and sureties granted.

28.1. Court proceedings

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

On 28 March 2018, the President of the Energy Regulatory Office ("the ERO President") initiated ex officio administrative proceedings in order to determine the amount of the annual adjustment of stranded costs for 2017 for Elektrownia Pątnów II sp. z o.o.

The proceeding is in progress.

Prosecution of individual interpretation of tax law in scope of returns to Zarządca Rozliczeń S.A. the negative corrections resulting from LTC Act

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.

The company's findings indicate that the proceedings will be suspended pending the court's decision.

The proceeding is in progress.

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. From this judgment, the ERO President is entitled to file a cassation appeal.

The proceeding is not 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.

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.

At present, the case is being reconsidered by RDOŚ in Poznań, which informed about June 5, 2018 as the new date of settling the matter.

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

28.2. 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.

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 31 March 2018 and 31 December 2017, appropriate provisions for the recognised and calculable tax risk were created.

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.

(in thousand PLN)

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.

29. 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 31 March 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*	*31 March 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 Registered pledge on bank accounts 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 and financial pledge on shares of ZE PAK in PAK Infrastruktura and PAK-HOLDCO Registered and financial pledge on shares of PAK-HOLDCO in Elektrownia Pątnów II Joint contractual mortgage established on the property of Pątnów II and PAK Infrastruktura Registered pledge on a collection of items Registered pledge on bank accounts	Up to 400 000 up to 339 750	EUR PLN	Up to 400 000 up to 339 750	EUR PLN
Multi-purpose line of November 20, 2013 for PLN 76.7 million for PAK KWB Konin	Registered pledge on fixed assets	Up to 153 400	PLN	Up to 153 400	PLN
Agreement of the guarantee line of June 8, 2007 for PAK Serwis	Registered pledge on fixed assets	Up to 5 674	PLN	Up to 5 674	PLN

(in thousand PLN)

Other securities of liabilities

Guarantees given

Kind of security	*31 March 2018 (unaudited)* *Security amount*	*currency*	*31 December 2017* *Security amount*	*currency*
Guarantees of good performance of the contract	17 638	PLN	14 500	PLN
Guarantees to remove defects and faults	4 374 419	PLN EUR	4 135 419	PLN EUR
Payment guarantees	195	PLN	145	PLN
Guarantee of advance payment	660	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.

In addition, intra-group guarantees are used in the Capital Group as collateral for repayment of liabilities.

The table below shows the sum of granted guarantees.

	31 March 2018 (unaudited)	*currency*	*31 December 2017*	*currency*
Intra-Group Guarantees	50 000	PLN	50 000	PLN

30. Obtained guarantees and sureties

Kind of security	*31 March 2018 (unaudited)* *Security amount*	*currency*	*31 December 2017* *Security amount*	*currency*
Guarantees of good performance of the contract Guarantees to remove defects and faults	11 746	PLN	19 752	PLN
Payment guarantees	11 058 18	PLN EUR	2 245 18	PLN EUR
Guarantee of advance payment Guarantees of good performance of the contract	22 750 -	PLN EUR	32 004 5 149	PLN EUR
Guarantees to remove defects and faults	492	PLN	2 399	PLN

The Group has sureties received, these are only intra-group guarantees.

The value of guarantees received is in line with the value of sureties granted described in Note 29.

31. Information about related entities

The following table shows the total amounts of transactions concluded with related entities for the three months ended March 31, 2018 and March 31, 2017, and receivables and liabilities as at March 31, 2018 and March 31, 2017.

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	-	30	-	-
	2017	-	30	-	-
Megadex Serwis Sp. z o.o.	2018	-	5 723	-	3 226

(in thousand PLN)

	2017	-	-	-	-
Polkomtel sp. z o.o.	2018	41 762	544	22 450	360
	2017	31 271	1 118	15 950	1 103
Laris Investments sp. z o.o.	2018	96	206	211	-
	2017	103	206	215	1
CPE sp. z o.o.	2018	-	1	-	-
	2017	-	-	-	-
Plus Flota sp. z o.o.	2018	-	64	-	21
	2017	-	-	-	-
Total	**2018**	**41 858**	**6 568**	**22 661**	**3 607**
	2017	**31 374**	**1 354**	**16 165**	**1 104**

31.1. Loan granted to a member of the Management Board

During the period of 3 months ended 31 March 2018 as well as during the period of 3 months ended 31 March 2017 the Parent Company did not grant any loans and similar benefits to members of the management and supervisory staff.

31.2. Other transactions involving members of the Management Board

During the period of 3 months ended 31 March 2018 as well as during the period of 3 months ended 31 March 2017 there were no transactions with members of management and supervisory Staff.

31.3. Remuneration of Chief executive Staff of the Group

31.3.1. Remuneration paid or payable to the Members of the Management Board and to the Members of the Supervisory Council of the Group

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
Management Board of the parent company		
Short-term employee benefits	1 260	1 231
Supervisory Board of the parent company		
Short-term employee benefits	290	249
Management Boards of subsidiaries		
Short-term employee benefits	1 102	1 419
Supervisory Board of subsidiaries		
Short-term employee benefits	-	111
Total	2 652	3 010

(in thousand PLN)

31.3.2. Remuneration paid or entitled to other members of the main management

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
Short-term employee benefits	3 553	4 206
Benefits for termination of the contract of employment	118	-
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	3 671	4 206

32. 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 concluded 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.

32.1. 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 concluded 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.

(in thousand PLN)

Classes of financial instruments	***31 March 2018 (unaudited)***		***Interest rate risk sensitivity study as of 31 March 2018***							
			WIBOR				***EURIBOR***			
			WIBOR + 10pb		***WIBOR - 10pb***		***EURIBOR + 10.05pb***		***EURIBOR - 10.05pb***	
	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	44 737	25 747	8	-	(8)	-	18	-	(18)	-
Trade and other receivables	273 068	-	-	-	-	-	-	-	-	-
Derivative financial instruments	243	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	266 247	266 247	241	-	(241)	-	25	-	(25)	-
Interest-bearing loans and borrowings	(608 961)	(608 961)	(402)	-	402	-	(208)	-	208	-
Trade payables and other financial liabilities	(145 809)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(3 121)	(3 121)	-	-	-	-	-	95	-	(95)
Total	**(173 596)**	**(320 088)**	**(153)**	**-**	**153**	**-**	**(165)**	**95**	**165**	**(95)**

pb – base points

(in thousand PLN)

Classes of financial instruments	*31 March 2017 (unaudited)*		*Interest rate risk sensitivity study as of 31 March 2017*							
			WIBOR				*EURIBOR*			
			WIBOR + 55 pb		*WIBOR - 55 pb*		*EURIBOR + 15.79 pb*		*EURIBOR – 15.79 pb*	
	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	85 573	83 896	64	-	(64)	-	114	-	(114)	-
Trade and other receivables	291 188	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	203 955	203 955	921	-	(921)	-	58	-	(58)	-
Interest-bearing loans and borrowings	(897 207)	(897 207)	(3 079)	-	3 079	-	(533)	-	533	-
Trade payables and other financial liabilities	(172 879)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(8 244)	(7 996)	-	-	-	-	-	389	-	(389)
Total	**(497 614)**	**(617 352)**	**(2 094)**	**-**	**2 094**	**-**	**(361)**	**389**	**361**	**(389)**

pb – base points

32.2. Currency risk

The Group is exposed to currency risk due to concluded transactions. Such a risk relates to liabilities due to loans and advances. In the period ended 31 March 2018, two companies 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 in March 2018. Pątnów II power plant secured the euro exchange rate for a part of the flows related to the repayment of the consortium loan instalment, also applying a forward transaction with the settlement date in April and July 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.

(in thousand PLN)

Classes of financial instruments	***31 March 2018 (unaudited)***		***Analysis of sensitivity to interest rate risk as of 31 March 2018***			
			EUR/PLN			
			EUR/PLN + 5.952%		**EUR/PLN - 5.952%**	
			4.4590		**3.9580**	
	Carrying amount	***Value at risk***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	44 737	17 777	1 058	-	(1 058)	-
Trade and other receivables	273 068	4 166	248	-	(248)	-
Derivative financial instruments	243	-	-	-	-	-
Cash and cash equivalents	266 247	24 945	1 485	-	(1 485)	-
Interest-bearing loans and borrowings	(608 961)	(206 989)	(12 320)	-	12 320	-
Trade payables and other financial liabilities	(145 809)	(2 879)	(171)	-	171	-
Derivative financial instruments	(3 121)	-	-	-	-	-
Total	**(173 596)**	**(162 980)**	**(9 700)**	**-**	**9 700**	**-**

(in thousand PLN)

	31 March 2017 (unaudited)		**Analysis of sensitivity to interest rate risk as of 31 March 2017**			
			EUR/PLN			
Classes of financial instruments			**EUR/PLN + 7.25%**		**EUR/PLN – 7.25%**	
			4.5257		**3.9139**	
	Carrying amount	***Value at risk***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	85 573	72 316	5 243	-	(5 243)	-
Trade and other receivables	291 188	159	12	-	(12)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	203 955	36 563	2 651	-	(2 651)	-
Interest-bearing loans and borrowings	(897 207)	(337 370)	(24 459)	-	24 459	-
Trade payables and other financial liabilities	(172 879)	(265)	(19)	-	19	-
Derivative financial instruments	(8 244)	(248)	-	-	-	-
Total	**(497 614)**	**(228 845)**	**(16 572)**	**-**	**16 572**	**-**

32.3. 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.

32.4. 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, bank credits, debentures, preferred shares, financial lease agreements, and lease agreements with purchase option.

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

(in thousand PLN)

31 March 2018 (unaudited)	*Less than 3 months*	*3 - 12 months*	*1 - 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	158 607	223 655	247 767	-	630 029
Trade payables and other financial liabilities	123 588	17 341	4 880	-	145 809
Derivative financial instruments	35 925	12 921	412	-	49 258
	318 120	**253 917**	**253 059**	**-**	**825 096**

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
Trade payables 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:

(in thousand PLN)

31 March 2018 (unaudited)	*On demand*	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Inflows	-	(83)	(179)	(34)	-	(296)
Outflows	-	773	1 635	412	-	2 820
Net amounts	-	(856)	(1 814)	(446)	-	(3 116)
Discounted using appropriate interbank rates	**-**	**(856)**	**(1 817)**	**(448)**	**-**	**(3 121)**

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)**

(in thousand PLN)

33. Financial instruments

33.1. 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 39.

		Balance sheet value	
Financial assets	Category according to IAS 39	*31 March 2018 (unaudited)*	*31 December 2017*
Other financial assets	PiN	44 737	46 099
Trade receivables and other receivables	PiN	273 068	253 261
Derivative financial instruments	WwWGpWF	243	-
Cash and cash equivalents	UdtW	266 247	322 201
Financial liabilities			
Interest-bearing bank credits and loans, including:		608 961	652 038
long term	PZFwgZK	233 852	302 465
short term	PZFwgZK	375 109	349 573
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	145 809	151 562
Derivative financial instruments	WwWGpWF	3 121	5 009

Used abbreviations:

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

(in thousand PLN)

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

	31 March 2018 (unaudited)	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	243	-
Derivatives hedging liabilities	-	-	3 121	-

	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 March 31, 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 March31, 2018, Interest Rate Swap derivatives and forward transactions for currency purchase were valued at fair value. The Interest Rate Swap valuation methodology is presented in note 33.2. 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 31 March 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

(in thousand PLN)

33.2. 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 31 March2018 (unaudited)*	*Carrying amount as of 31 December 2017*
Financial assets at interest rate risk – PLN	Fixed	-	-
	Variable	249 273	292 331
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	43 107	73 866
Financial liabilities at interest rate risk - PLN	Fixed	-	-
	Variable	401 972	413 767
Financial liabilities at interest rate risk – Other currencies	Fixed	103 310	118 839
	Variable	103 679	119 432
Net exposure -PLN	Fixed	-	-
	Variable	(152 699)	(121 436)
Net exposure - other currencies	Fixed	(103 310)	(118 839)
	Variable	(60 572)	(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.

33.2.1. 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 31 March 2018 and 31 December 2017 are presented.

Instrument type	*Nominal value in the transaction currency [euro]* 31 March 2018 (unaudited)*	*Fair value in zloty 31 March 2018 (unaudited)*	*Expected duration of hedged item's realisation 31 March 2018 (unaudited)*
IRS transaction	24 548	(3 121)	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]* 31 December 2017*	*Fair value in zloty 31 December 2017*	*Expected duration of hedged item's realisation 31 December 2017*
IRS transaction	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:

	3 months period ended 31 March 2018 (unaudited)	*Year ended 31 December 2017*
Opening balance	(3 306)	(6 883)
Effective part of profits / losses on a security instrument	(29)	6 352
Amounts charged to the income statement, including:	(896)	2 776
– adjustment of costs of interest	(896)	2 776
– adjustment under ineffective hedging	-	-
Closing balance	(2 439)	(3 307)
Deferred tax assets – recognized in the revaluation reserve	464	628
Closing balance including deferred tax	(1 975)	(2 679)

In the period ended 31 March 2018, two companies 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 5 March 2018. Elektrownia Pątnów II sp. z o.o. hedged the euro exchange rate for a part of the flows related to the repayment of the syndicated loan instalment, also applying a forward transaction with the settlement date in April and July 2018.

Type of concluded transactions	*Currency cross*	*Transaction amount (nominal value in euro thousand) 31 March 2018 (unaudited)*	*Net market value (fair value in zloty thousand) 31 March 2018 (unaudited)*	*Maturity*
Purchase of EUR transaction (forward)	(EUR/PLN)	8 926	-	5 March 2018
Purchase of EUR transaction (forward)	(EUR/PLN)	8 357	93	April 2018
Purchase of EUR transaction (forward)	(EUR/PLN)	2 700	150	July 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 tables below present a summary of forward transactions active as at March 31, 2018 and March 31, 2017.

31 March 2018

Type of concluded transactions	*Number of purchased allowances (unaudited)*	*Total value of transactions in EUR thousand (unaudited)*	*Currency of transactions*	*Maturity*
Forward transactions	1 592 000	11 749	EUR	Up to 1 year

31 March 2017

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions in EUR thousand*	*Currency of transactions*	*Maturity*
Forward transactions	2 879 000	16 945	EUR	Up to 1 year

34. 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 year, ended 31 March 2018 and 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.

	31 March 2018 (unaudited)	*31 December 2017*
Interest-bearing credits and loans	608 961	652 038
Derivative financial instruments (liabilities)	3 121	5 009
Trade liabilities and other financial liabilities	145 809	151 562
Minus cash and its equivalents	266 247	322 201
Net debt	491 644	486 408
Equity	2 248 611	2 264 272
Capitals from revaluation of security instruments	(1 976)	(2 678)
Total capital	2 250 587	2 266 950
Net capital and debt	**2 742 231**	**2 753 358**
Leverage ratio	17,93%	17,67%

35. 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 3 months ended 31 March 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 /*	*Aneta Desecka /Chief Accountant/*

ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA

STANDALONE FINANCIAL STATEMENT
FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2018

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

15 MAY 2018

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(in thousand PLN)

BALANCE SHEET

Assets

	31 March 2018 (unaudited)	*31 December 2017*	*31March 2017 (unaudited)*
A. Fixed assets	**2 052 242**	**2 021 250**	**2 211 056**
I. Intangible assets	**229 120**	**196 877**	**367 915**
1. Development expenses	-	-	-
2. Goodwill	-	-	-
3. Other intangible assets	229 120	196 877	367 915
4. Prepayments for intangible assets	-	-	-
II. Tangible fixed assets	**646 276**	**647 725**	**654 595**
1. Tangible assets	589 564	582 725	608 549
a) land (including perpetual usufruct)	1 285	1 286	1 289
b) buildings, premises and constructions	175 170	177 803	184 761
c) plant and machinery	411 156	401 664	420 516
d) motor vehicles	783	715	712
e) other	1 170	1 257	1 271
2. Construction in progress	56 712	64 302	42 137
3. Prepayments for construction in progress	-	698	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	**1 176 354**	**1 176 097**	**1 187 851**
1. Property	-	-	-
2. Intangible fixed assets	-	-	-
3. Long-term financial assets	1 176 354	1 176 097	1 187 851
a) in affiliates	1 176 203	1 175 946	1 187 700
– shares	1 142 196	1 142 196	1 141 825
– other securities	-	-	-
– loans granted	30 507	30 250	45 875
– other long-term financial assets	3 500	3 500	-
b) in other entities of which entity has capital engagement	-	-	-
– shares	-	-	-
– other securities	-	-	-
– loans granted	-	-	-
– other long-term financial assets	-	-	-
c) in other entities	151	151	151
– shares	151	151	151
– other securities	-	-	-
– loans granted	-	-	-
– other long-term financial assets	-	-	-
4. Other long-term investments	-	-	-
V. Long-term prepayments and deferred costs	**492**	**551**	**695**
1. Deferred tax assets	-	-	-
2. Other prepayments and deferred costs	492	551	695
B. Current assets	**295 427**	**346 620**	**282 508**
I. Inventories	**47 832**	**41 617**	**47 044**
1. Raw materials	43 484	39 601	42 805
2. Semi-finished goods and work-in-progress	-	-	-
3. Finished products	-	-	-
4. Property rights	4 348	1 985	4 239
5. Inventory prepayments	-	31	-
II. Short-term receivables	**108 853**	**138 406**	**139 256**

(in thousand PLN)

1. Receivables from affiliates	45 508	38 983	63 376
a) trade receivables, due in:	45 508	36 626	59 718
– up to 12 months	45 508	36 626	59 718
– over 12 months	-	-	-
b) other	-	2 357	3 658
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	63 345	99 423	75 880
a) trade receivables, due in:	25 675	60 899	55 822
– up to 12 months	25 675	60 899	55 822
– over 12 months	-	-	-
b) taxation, subsidy, customs duty, social security, health insurance and other debtors	15 706	19 371	7 038
c) other	21 964	19 153	13 020
d) submitted to court	-	-	-
III. Short-term investments	**136 907**	**166 063**	**93 332**
1. Short-term financial assets	136 907	166 063	93 332
a) in affiliates	18 948	18 714	15 578
– shares	-	-	-
– other securities	-	-	-
– loans granted	15 448	15 214	15 578
– other short-term financial assets	3 500	3 500	-
b) in other entities	-	-	-
– shares	-	-	-
– other securities	-	-	-
– loans granted	-	-	-
– other short-term financial assets	-	-	-
c) cash and other monetary assets	117 959	147 349	77 754
– cash on hand and cash at bank	117 959	147 349	77 754
– other cash and cash equivalents	-	-	-
– other monetary assets	-	-	-
2. Other short-term investments	-	-	-
IV. Short-term prepayments and deferred costs	**1 835**	**534**	**2 876**
C. Unpaid share capital (basic)	**-**	**-**	**-**
D. Own shares	**-**	**-**	**-**
Total assets	**2 347 669**	**2 367 870**	**2 493 564**

Konin, 15 May 2018

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

(in thousand PLN)

Liabilities and equity

		31 March 2018 (unaudited)	*31 December 2017*	*31March 2017 (unaudited)*
A. Equity		**1 519 243**	**1 516 912**	**1 491 459**
I.	**Equity capital**	**101 647**	**101 647**	**101 647**
II.	**Reserve capital, including:**	**1 094 494**	**1 094 493**	**1 028 647**
	– surplus of sales value (issue value) over nominal value of shares	380 030	380 030	380 030
III.	**Revaluation reserve, including:**	**227 496**	**227 497**	**227 498**
	– for fair value revaluation			227 498
IV.	**Other reserves, including:**	**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**	**89 803**	**(834)**	**130 573**
VI.	**Net profit (loss) for the period**	**2 331**	**90 637**	**(378)**
VII.	**Deductions from net profit during the period (negative value)**	**-**	**-**	**-**
B. Liabilities and provisions for liabilities		**828 426**	**850 958**	**1002 105**
I.	**Provisions for liabilities**	**371 352**	**329 940**	**420 804**
	1. Deferred tax liability	79 853	79 212	70 436
	2. Provision for retirement benefits and similar obligations	10 289	10 398	9 861
	– long-term	9 285	9 210	8 920
	– short-term	1 004	1 188	941
	3. Other provisions	281 210	240 330	340 507
	– long-term	17 269	17 132	17 948
	– short-term	263 941	223 198	322 559
II.	**Long-term liabilities**	**168 034**	**203 524**	**308 097**
	1. To affiliates	-	-	-
	2. To other entities of which entity has capital engagement	-	-	-
	3. To other entities	168 034	203 524	308 097
	a) loans and credits	165 483	201 035	307 675
	b) debt securities issued	-	-	-
	c) other financial liabilities	551	489	422
	d) bills of exchange	-	-	-
	e) other	2 000	2 000	-
III.	**Short-term liabilities**	**258 773**	**289 597**	**237 215**
	1. To affiliates	15 593	29 736	22 746
	a) trade liabilities:	14 508	26 687	21 707
	– up to 12 months	14 508	26 687	21 707
	– over 12 months	-	-	-
	b) other	1 085	3 049	1 039
	2. To other entities of which entity has capital engagement	-	-	-
	a) trade liabilities:	-	-	-
	– up to 12 months	-	-	-
	– over 12 months	-	-	-
	b) other	-	-	-
	3. To other entities	237 575	255 659	208 242
	a) loans and credits	152 421	153 684	157 397
	b) debt securities issued	-	-	-
	c) other financial liabilities	160	961	385

(in thousand PLN)

	d) trade liabilities:	25 517	21 586	15 027
	– up to 12 months	25 517	21 586	15 027
	– over 12 months	-	-	-
	e) advance payments received	-	-	128
	f) bills of exchange	-	-	-
	g) taxation, customs duty and social security creditors	51 800	60 402	27 911
	h) payroll	3 535	5 644	4 187
	i) other	4 142	13 382	3 207
	4. Special funds	5 605	4 202	6 227
IV.	**Accruals and deferred income**	**30 267**	**27 897**	**35 989**
	1. Negative goodwill	-	-	-
	2. Other accruals and deferred income	30 267	27 897	35 989
	– long-term	14 039	14 051	14 085
	– short-term	16 228	13 846	21 904
Total Liabilities and equity		**2 347 669**	**2 367 870**	**2 493 564**

Konin, 15 May 2018

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

(in thousand PLN)

PROFIT & LOSS ACCOUNT (calculation type)

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
A. Net sales of finished goods, goods for resale and raw materials, of which:	246 159	355 960
– from affiliates	93 634	109 799
I. Net sales of finished products	212 490	326 466
II. Net sales of goods for resale and raw materials	33 669	29 494
B. Cost of finished products, goods for resale and raw materials sold, of which:	225 970	329 895
– to affiliates		104 074
I. Cost of finished products sold	198 189	305 632
II. Cost of goods for resale and raw materials sold	27 781	24 263
C. Gross profit (loss) on sales (A–B)	20 189	26 065
D. Selling expenses	544	956
E. Administrative expenses	14 787	8 391
F. Profit (loss) on sales (C–D–E)	4 858	16 718
G. Other operating income	795	419
I. Gains on the sale of non-financial fixed assets	4	10
II. Grants	11	12
III. Revaluation of non-financial assets	-	-
IV. Other operating income	780	397
H. Other operating expenses	384	1 832
I. Loss on the sale of non-financial fixed assets	-	-
II. Impairment of non-financial assets	-	1 223
III. Other	384	609
I. Operating profit (loss) (F+G–H)	5 269	15 305
J. Financial income	2 034	970
I. Dividends and shares in profits, including:	-	-
a) from affiliates, including:	-	-
– of which the entity has capital engagement	-	-
b) from others, including:	-	-
– of which the entity has capital engagement	-	-
II. Interest, including:	664	594
– from affiliates	105	156
III. Profit on the disposal of financial assets, including:	-	-
– affiliates	-	-
IV Revaluation of investments	1 191	-
V. Other	179	376
K Financial costs	4 332	15 148
I. Interest, including:	3 361	4 617
– to affiliates	-	-
II. Loss on the disposal of financial assets, including:	-	-
– in affiliates	-	-
III. Impairment of investments	-	3 336
IV. Other	971	7 195
L. Gross profit (loss) (I+J–K)	2 971	1 127
M. Corporate profits tax	640	1 505
N. Other tax charges	-	-
O. Net profit (loss) (L–M–N)	**2 331**	**(378)**

Konin, 15 May 2018

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

(in thousand PLN)

STATEMENT OF CASH FLOW (indirect method)

	3 months period ended 31 March 2018 (unaudited)	*3 months period ended 31 March 2017 (unaudited)*
A. Cash flow from operating activities		
I. Net profit (loss)	2 331	(378)
II. Adjustments, total	27 187	(38 423)
1. Depreciation	9 513	9 505
2. Foreign exchange gains (losses)	(398)	2 878
3. Interest and shares in profits (dividends)	3 238	4 452
4. Profit (loss) on investing activities	(809)	7 533
5. Change in provisions	41 411	73 407
6. Change in inventories	(6 215)	6 871
7. Change in receivables	29 552	(1 827)
8. Change in short-term liabilities, except for loans and borrowings	(17 737)	(88 009)
9. Change in prepayments, accruals and deferred income	1 129	6 718
10. Other adjustments	(32 497)	(59 951)
III. Net cash flow from operating activities (I±II)	29 518	(38 801)
B. Cash flow from investing activities		
I. Inflows	4	-
1. Sale of intangible assets and tangible fixed assets	4	-
2. Sale of investments in property and intangible assets	-	-
3. From financial assets, including:	-	-
a) in affiliates	-	-
b) in others	-	-
– disposal of financial assets	-	-
– dividends and share in profits	-	-
– repayment of long-term loans granted	-	-
– interests	-	-
– other inflows from financial assets	-	-
4. Other investing inflows	-	-
II. Outflows	18 715	11 453
1. Purchase of intangible assets and tangible fixed assets	18 715	2 375
2. Investments in property and intangible assets	-	-
3. For financial assets, including:	-	9 078
a) in affiliates	-	9 078
b) in others	-	-
– purchase of financial assets	-	-
– long-term loans granted	-	-
4. Other investing outflows	-	-
III. Net cash flow from investing activities (I-II)	(18 711)	(11 453)
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	-	-
2. Loans and credits	-	-
3. Issue of debt securities	-	-
4. Other financial inflows	-	-
II. Outflows	40 209	41 508
1. Reacquisition of own shares	-	-
2. Dividends and other payments to shareholders	-	-
3. Outflows due to appropriation of profit other than payments to shareholders	-	-
4. Repayment of loans and credits	37 136	37 136
5. Redemption of debt securities	-	-
6. Relating to other financial liabilities	-	-
7. Finance lease payments	42	33
8. Interest paid	3 031	4 339
9. Other financial outflows	-	-

(in thousand PLN)

III. Net cash flow from financial activities (I-II)	(40 209)	(41 508)
D. Total net cash flow (A.III±B.III±C.III)	(29 402)	(91 762)
E. Balance sheet change in cash and cash equivalents,, including:	(29 390)	(91 847)
– change in cash and cash equivalents due to foreign exchange gains/losses	12	(85)
F. Cash and cash equivalents at the beginning of the period	147 349	169 516
G. Cash and cash equivalents at the end of the period (F±D), including	117 947	77 754
– of restricted use	2 674	2 922

Konin, 15 May 2018

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

(in thousand PLN)

STATEMENT OF CHANGES IN EQUITY

	3 months period ended 31 March 2018 (unaudited)	*12 months period ended 31 December 2017*	*3 months period ended 31 March 2017 (unaudited)*
I. Equity at the beginning of the period (OB)	**1 516 912**	**1 491 837**	**1 491 837**
– changes in accounting policy	-	-	-
– correction of prior period error	-	-	-
I.a. Equity at the beginning of the period (OB), after adjustments	**1 491 837**	**1 491 837**	**1 491 837**
1. Share capital at the beginning of the period	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**
2. Reserve capital at the beginning of the period	1 094 493	1 028 647	1 028 647
2.1. Changes in reserve capital	1	-	-
a) increases	1	65 846	-
– issue of shares	-	-	-
– profit distribution	-	65 845	-
– disposal of fixed assets	1	1	-
b) decreases	-	-	-
– redemption of shares	-	-	-
– cover of loss	-	-	-
2.2. Reserve capital at the end of the period	**1 094 494**	**1 094 493**	**1 028 647**
3. Capital from revaluation at the beginning of the period – changes of accountancy policies	227 497	227 498	227 498
3.1. Changes of capital from revaluation	(1)	-	-
a) increases	-	-	-
b) decreases	1	1	-
– disposal of fixed assets	1	1	-
3.2. Capital from revaluation at the end of the period	**227 496**	**227 497**	**227 498**
4. Other reserves at the beginning of the period	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**
5. Profit (loss) from previous years at the beginning of the period	131 407	131 407	130 573
5.1. Profit from previous years at the beginning of the period	90 637	131 407	131 407
– changes of accountancy rules	-	-	-
– error adjustments	-	-	-
5.2. Profit from previous years at the beginning of the period, after adjustments	90 637	131 407	131 407
a) increases	-	-	-
– distribution of profits from previous years	-	-	-
b) decreases	-	131 407	-
– distribution of profit for reserve capital	-	65 845	-
– dividend payment	-	65 562	-
5.3. Profit from previous years at the end of the period	90 637	-	131 407
5.4. Loss from previous years at the beginning of the period	(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)
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)

(in thousand PLN)

5.7. Profit (loss) from previous years at the end of the period	**89 803**	**(834)**	**130 573**
6. Net result	**2 331**	**90 637**	**(378)**
a) net profit	2 331	90 637	-
b) net loss	-	-	378
c) result impairments	-	-	-
II. Equity at the end of the period (CB)	**1 519 243**	**1 516 912**	**1 491 459**
III. Equity after proposed result distribution (cover of loss)	**1 519 243**	**1 516 912**	**1 491 459**

Konin, 15 May 2018

Adam Kłapszta	*Aneta Lato-Żuchowska*	*Zygmunt Artwik*	*Elżbieta Niebisz*	*Aneta Desecka*
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 SUMMARY FINANCIAL STATEMENT FOR 3 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 financial statement from 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. 2018.395) 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

(in thousand PLN)

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 31 March 2018 (unaudited data):

	Balance sheet value Acc. to AoA	*Balance sheet value Acc. to IFRS*	*Value adjustment*
Tangible fixed assets	646 276	651 037	4 761
Equity	1 519 243	1 462 669	(56 574)
Deferred tax provision	79 853	141 150	61 297

(in thousand PLN)

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

	31March 2018 (unaudited)
AoA net profit	2 331
Adjustment of the tangible fixed assets	(111)
IAS 19 adjustment – Actuarial profits/losses	164

	31 March 2018 (unaudited)
AoA capital	1 519 243
Adjustment of the tangible fixed assets	(56 574)
IAS 19 adjustment – Actuarial profits/losses	(164)

3. Assumption of continuation of economic activity

The financial statement was developed with the assumption of continuing business activity by the Company in the near future, at least 12 months after the balance sheet date, i.e. after 31 March 2018.

As of signature of this financial statement, The Company's Board states that there are no facts and premises, which would affect the opportunity to continue activities by the Company.

4. Merger of commercial companies

In the reporting period, for which the financial statements were developed, there was no merger with entity and no acquisition of organized part of the other company.

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 April, item 2342, 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.

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 year with the statement for the current financial year.

7. Error adjustment

In the current financial year no adjustments were made to errors that could affect the comparability of financial data for the previous year with the data of the financial statements for the current financial year.

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:

(in thousand PLN)

Impairment write-downs	*31 December 2017*	*changes*			*31 March 2018 (unaudited)*
		creation	*use*	*liquidation*	
Inventories	2 521	-	-	-	2 521

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 31 March 2018, the Company held, in accordance with the register, 31 541.607 MWh, property rights resulting from green certificates. On January 12, 2018, the Company received outstanding certificates for production in June 2017 in the amount of 4 014.442 MWh. In January 2018 5 295.047 MWh were discontinued. In the first quarter of 2018, the Company still did not sell its certificates and stopped production from renewable sources due to low prices on the market. Sales began on April 12, 2018.

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*			*31 March 2018 (unaudited)*
		creation	*use*	*liquidation*	
Intangible assets	1 279	-	-	-	1 279
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*	*changes*			*31 March 2018 (unaudited)*
		creation	*use*	*liquidation*	
Provisions for pension and post-mortem benefits	10 398	580	-	689	10 289
Provisions for CO2 emission allowances	221 792	40 743	-	-	262 535
Provisions for reclamation	755	-	-	-	755
Provisions for liquidation	16 593	137	-	-	16 730
Provision for payments	1 190	-	-	-	1 190
Cost prepayments for:	13 792	4 123	1 742	-	16 173
− annual bonus provision	10 436	-	871	-	9 565
− unused holidays provision	2 373	374	-	-	2 747
− fees for commercial utilization of the environment	-	3 622	-	-	3 622
− duty to redeem property rights	804	127	804	-	127
− provision for current year costs	179	-	67	-	112
Prepayment income settlement	14 105	92	103	-	14 094
Total	**278 625**	**45 675**	**1 845**	**689**	**321 766**

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

In the 3-month period ended on 31 March 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, decreasing tax burden in the amount of PLN 11 580 thousand,
- a change in the state of the provisions, increasing tax burden in the amount of PLN 12 220 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 3-month period ended on 31 March 2018, the Company:
- Purchased or accepted from investments, tangible fixed assets in the amount of PLN 16 248 thousand,
- sold or liquidated fixed tangible asset component in the net amount of PLN 138 thousand.

As of 31 March 2018, the liabilities of the Company for the purchase of tangible fixed assets amount to PLN 4 054 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 31 March 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 3 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 year not specified in the balance sheet and the income statement

During the reporting period until the development date of this financial statement, i.e., 15 May 2018, there were no events that were not, and should be included in the accounting books and financial statements for the period ended March 31, 2018.

(in thousand PLN)

20. Events of previous years recognised in the financial statement

As of the date of preparation of the financial statements for the period ended March 31, 2018, i.e. until May 15, 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.

At present, the case is being reconsidered by RDOŚ in Poznań, which informed about June 5, 2018 as the new date of settling the matter. 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 (Dz.U. 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 9 of iccfr),
- information on significant settlements due to lawsuits (28.1 iccfr),
- information on changes of contingent liabilities or contingent assets, which had occurred from the end of the last financial year (items 29 and 30 of iccfr),
- information regarding the paid (or declared) dividends (item 23 of iccfr).

Konin, 15 May 2018

Adam Kłapszta	Aneta Lato-Żuchowska	Zygmunt Artwik	Elżbieta Niebisz	Aneta Desecka
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 I 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.)

15 May 2018

SPIS TREŚCI

1. SELECTED FINANCIAL DATA

Selected consolidated financial data	*PLN thousand* *3 months 2018 period from 01.01.2018 to 31.03.2018*	*PLN thousand* *3 months 2017 period from 01.01.2017 to 31.03.2017*	*EURO thousand* *3 months 2018 period from 01.01.2018 to 31.03.2018*	*EURO thousand* *3 months 2017 period from 01.01.2017 to 31.03.2017*
Sales revenue	465 786	599 647	111 475	139 807
Operating profit/loss	1 349	72 330	323	16 864
Profit/loss before tax	(7 538)	71 364	(1 804)	16 638
Net profit/loss for the period	(15 636)	56 007	(3 742)	13 058
Net profit attributable to equity holders of the parent	(15 083)	55 314	(3 610)	12 896
Total comprehensive income	(15 701)	57 506	(3 758)	13 407
Net cash flow from operating activities	31 959	(11 841)	7 649	(2 761)
Net cash flow from investing activities	(36 894)	(22 083)	(8 830)	(5 149)
Net cash flow from financing activities	(52 258)	(109 856)	(12 507)	(25 613)
Net increase / (decrease) in cash and cash equivalents	(57 193)	(143 780)	(13 688)	(33 522)
Net profit/loss per share (in PLN/EUR per share)	(0.30)	1.09	(0.07)	0.25
Weighted average numbers of shares (in pcs)	50 823 547	50 823 547	50 823 547	50 823 547
	As at 31.03.2018	*As at 31.12.2017*	*As at 31.03.2018*	*As at 31.12.2017*
Total assets	4 454 577	4 455 712	1 058 471	1 068 286
Fixed assets	3 462 758	3 447 776	822 801	826 626
Current assets	990 788	1 006 898	235 425	241 410
Total equity	2 248 611	2 264 272	534 302	542 874
Share capital	101 647	101 647	24 153	24 371
Share capital attributable to equity holders of the parent	2 248 611	2 264 272	534 302	542 874
Total liabilities	2 205 966	2 191 440	524 169	525 412
Long-term liabilities	1 127 981	1 191 958	268 024	285 780
Short-term liabilities	1 077 985	999 482	256 145	239 632
Book value per share (in PLN/EUR per share)	44.24	44.55	10.51	10.68
Weighted average number of shares (in pcs)	50 823 547	50 823 547	50 823 547	50 823 547

Selected financial data of ZE PAK SA	*PLN thousand* 3 months 2018 period from 01.01.2018 to 31.03.2018	*PLN thousand* 3 months 2017 period from 01.01.2017 to 31.03.2017	*EURO thousand* 3 months 2018 period from 01.01.2018 to 31.03.2018	*EURO thousand* 3 months 2017 period from 01.01.2017 to 31.03.2017
Sales revenue	246 159	355 960	58 912	82 992
Operating profit/loss	5 269	15 305	1 261	3 568
Profit/Loss before tax	2 971	1 127	711	263
Net profit/loss for the period	2 331	(378)	558	(88)
Net cash flow from operating activities	29 518	(38 801)	7 064	(9 046)
Net cash flow from investing activities	(18 711)	(11 453)	(4 478)	(2 670)
Net cash flow from financing activities	(40 209)	(41 508)	(9 623)	(9 678)
Total net cash flow	(29 402)	(91 762)	(7 037)	(21 394)
Net profit/loss per share (in PLN/EUR per share)	0.05	(0.01)	0.01	(0.00)
Weighted average number of shares (in pcs)	50 823 547	50 823 547	50 823 547	50 823 547
	As at 31.03.2018	*As at 31.12.2017*	*As at 31.03.2018*	*As at 31.12.2017*
Total assets	2 347 669	2 367 870	557 840	567 712
Fixed assets	2 052 242	2 021 250	487 642	484 608
Current assets	295 427	346 620	70 198	83 104
Total equity	1 519 243	1 516 912	360 994	363 689
Share capital	101 647	101 647	24 153	24 371
Liabilities and provisions for liabilities	828 426	850 958	196 846	204 023
Long-term liabilities	168 034	203 524	39 927	48 796
Short-term liabilities	258 773	289 597	61 488	69 433
Book value per share (in PLN/EUR per share)	29.89	29.85	7.10	7.16
Weighted average number of shares (in pcs)	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 31 March 2018, which is EUR/PLN 4.1784 and from 1 January 2017 to 31 March 2017, which is EUR/PLN 4.2891;*
- *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 30 March 2018 which is EUR/PLN 4.2085 and as of 29 December 2017 which is EUR/PLN 4.1709.*

2. DESCRIPTION OF THE GROUP

2.1. BASIC INFORMATION

As of 31 March 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 thirteen 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 – HOLDCO sp. z o.o., PAK Infrastruktura sp. z o.o., PAK Adamów sp. z o.o., EL PAK Serwis sp. z o.o. in liquidation, Aquakon sp. z o.o. in liquidation, Eko-Surowce sp. z o.o. in liquidation, Energoinwest SERWIS 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, 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 March, 31 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 31 March 2018

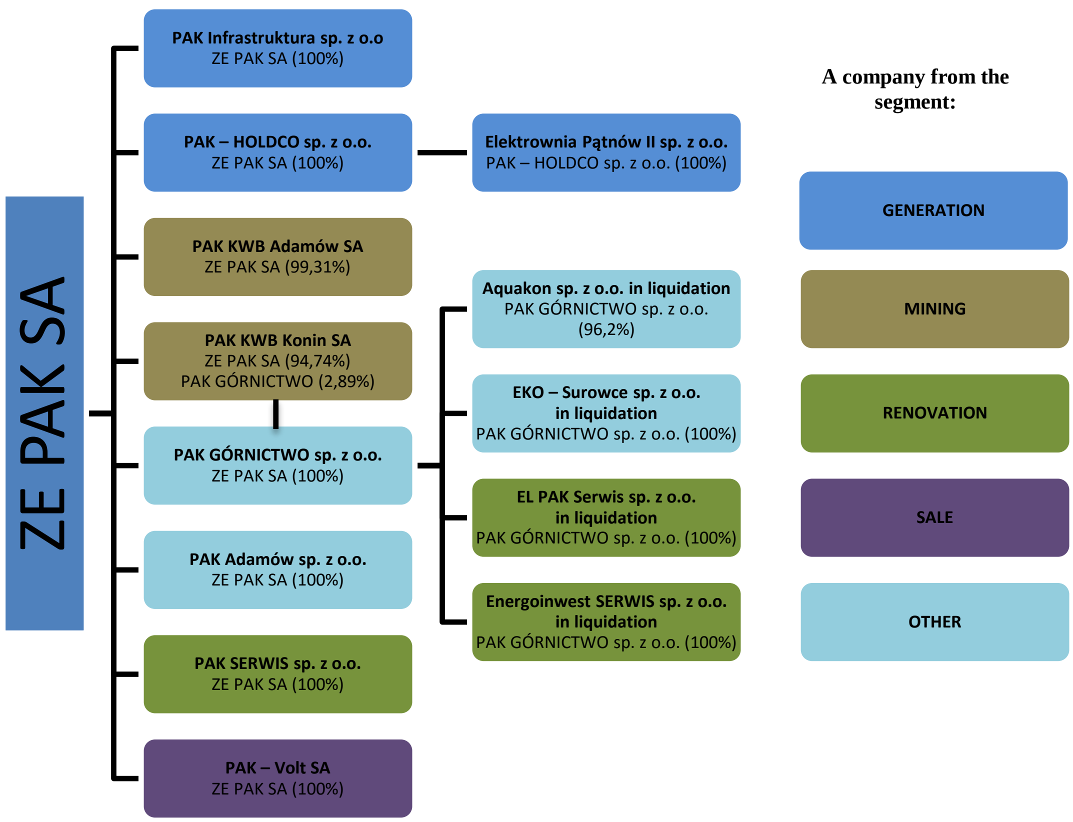


Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	*Registered office*	*Scope of operations*	*Group's share in the capital in %* 31.03.2018	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	97.63%*	97.58%*
PAK Kopalnia Węgla Brunatnego Adamów SA	62-700 Turek Warenka 23	Lignite extraction	99.31%	99.26%
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	Exploration and recognition of lignite	100.00%	100.00%
PAK – Volt SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100.00%	100.00%
„PAK – HOLDCO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activity	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	Mechanical services, repairs, reclamation of land, production and trade of mineral water	96.2%*	96.2%*
Eko-Surowce sp. z o.o. in	62-540 Kleczew	Vulcanization services, sales of lignite	100.00%*	100.00%*

liquidation	ul. 600-lecia 9			
Energoinwest SERWIS sp. z o.o. in liquidation	62-510 Konin ul. Spółdzielców 3	Repair-construction service	100.00%*	100.00%*
EL PAK Serwis sp. z o.o. in liquidation	62-510 Konin ul. Przemysłowa 158	Repair and maintenance of electric equipment, repair and maintenance of machines	100.00%*	100.00%*

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

2.3. 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.

The current composition of the Management Board has not changed since the previously submitted financial report.

2.4. Description of the changes in the Group's structure

In the first quarter of 2018, there were no significant changes in the Group's structure.

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 first quarter of 2018 total revenues from sales amounted to PLN 465 786 thousand and in comparison to the first quarter of 2017 decreased by PLN 133 861 thousand, i.e. by 22.32%.

In the analysed quarter, compared to the same quarter last year, the Group decreased electricity sales from 2.84 TWh to 2.09 TWh, i.e. by 26.41%. At the same time, the average electricity sales price increased up to PLN 189.60 / MWh, i.e. by 7.49%. The cumulated impact of both factors mentioned above, caused that revenues from the sale of electricity decreased by PLN 108 895 thousand, i.e. by 21.72%. The lower volume of electricity sales resulted from lower sales of energy from own production. The main reason was the end of production of electricity in the coal units of Adamów power plant at the beginning of January, the lack of production at Adamów power plant was responsible for more than half of the overall production decline. The level of production to a large extent (especially in January and February) was also determined by the relationship between the market price of energy and the price of CO2 emission allowances. The volume of electricity sales from own production decreased from 2.20 TWh to 1.39 TWh, and the volume of electricity sales from resale increased from 0.64 TWh to 0.70 TWh (the net production volumes of individual power plants of the Group are presented in Diagram 3).

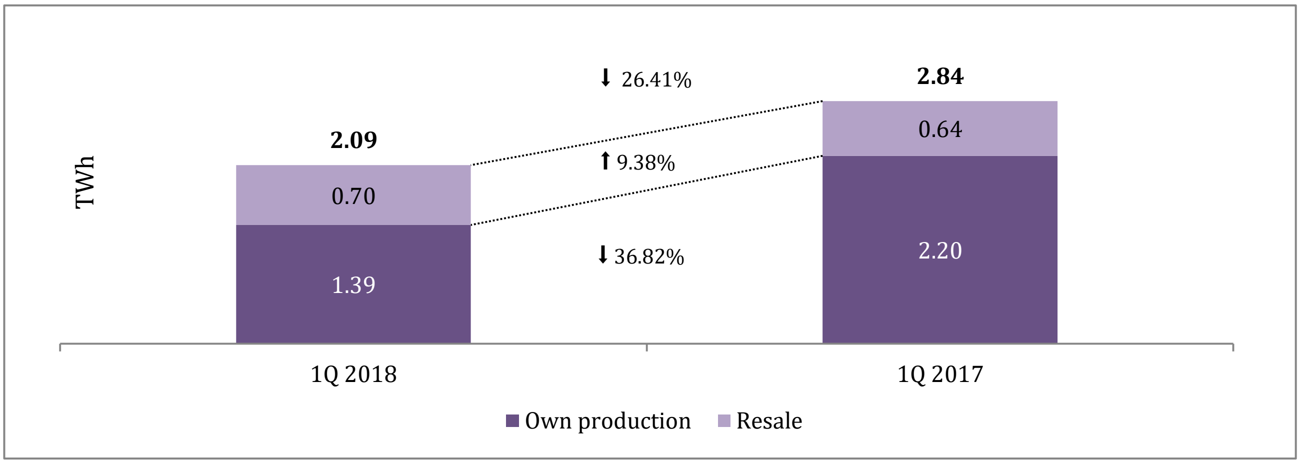
n the first quarter of 2018, compared to the first quarter of 2017, revenues from the sale of property rights from certificates of energy origin increased by PLN 1 231 thousand, i.e. by 348.73%. Such a high growth rate is the effect of a low base from the first quarter of 2017 when the Company did not produce energy from the biomass block and only sold a stock of green certificates slightly below the valuation at the end of the year, which generated losses on this account. In the first quarter of 2018, the biomass block produced electricity and the Company generated revenues from green and red certificates.

Revenue from the LTC solution (long-term sale of power and electricity) in the first quarter of 2018 amounted to PLN 33 163 thousand (including an advance of PLN 23 721 and an adjustment of PLN 9 442 thousand), while in the first quarter of 2017 it amounted to PLN 48 622 thousand (including an advance of 30 757 and an adjustment of PLN 17 865 thousand). The advance payment as well as the adjustment in the first quarter of 2018 was lower than in the corresponding period of the previous year, and both of these parameters contributed to the drop in revenues from the LTC termination. A smaller advance payment in the first quarter of 2018 results from the fact that pursuant to the LTC Act from 2018, Pątnów II Power Plant will be entitled to less advance payments (this is due to the adopted assumptions at the stage of the draft Act). On the other hand, the lower correction for the first quarter of 2018 is a result of higher energy sales prices and a lower settlement price for the purchase of CO2 emission allowances.

Revenues from construction services contracts in the first quarter of 2018 in relation to revenues earned in the corresponding quarter of the previous year decreased by PLN 1 574 thousand, i.e. by 6.99%. The comparable level of revenues is the effect of maintaining the scale of the company's operations in the repair segment (PAK Serwis sp. z o.o.) for external recipients.

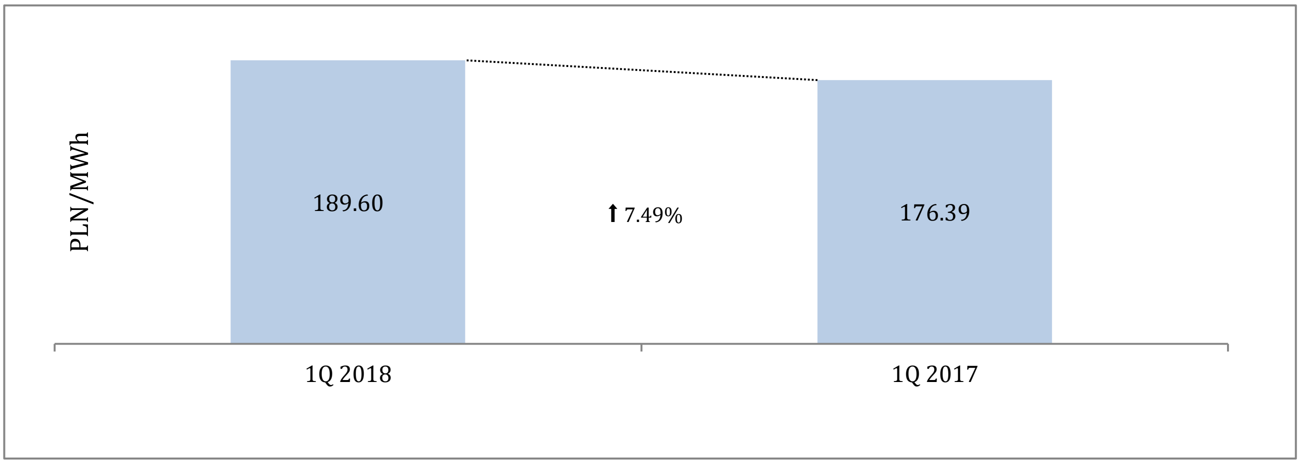
Heat sales in the first quarter of 2018 were lower than those obtained in the first quarter of 2018 by PLN 8 043 thousand, i.e. 39.13%. The main reason for the decrease in revenues was the decrease in the amount of heat sold due to the end of Adamów power plant's operation at the beginning of the year, which provided heat to the city of Turek.

Chart 1: Electricity sale



Source: Internal data

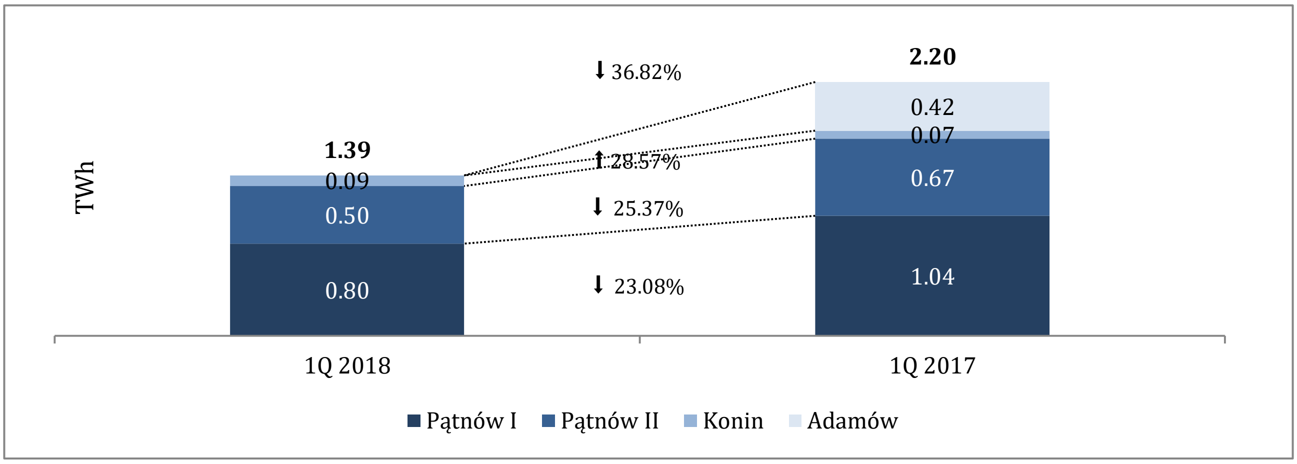
*Chart 2: Average electricity prices**



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

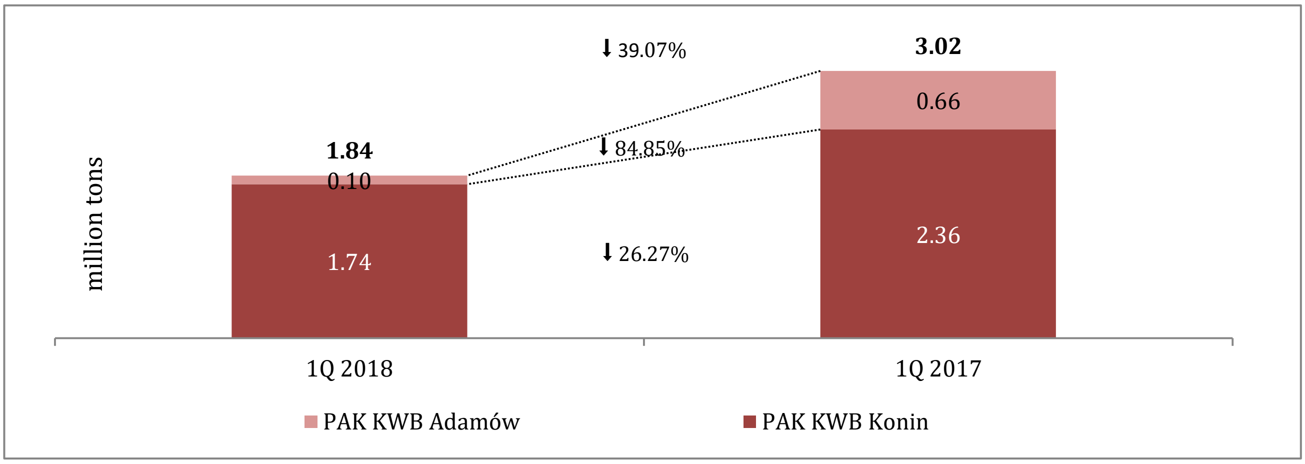
Source: Internal data

Chart 3: Net electricity production



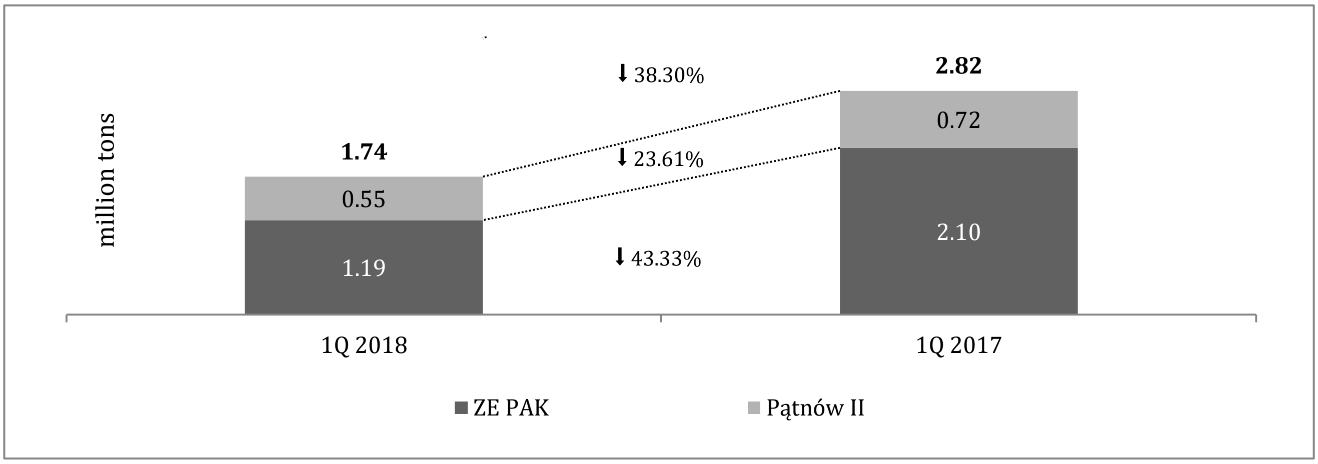
Source: Internal data

Chart 4: Lignite consumption



Source: Internal data

Chart 5: CO_2 emission



Source: Internal data

Table 2: A list of consolidated sales revenues

	PLN thousand	*PLN thousand*	*PLN thousand*	*%*
	3 months period ended 31 March 2018	*3 months period ended 31March 2017*	*change*	*dynamics*
Revenues from the sales of electricity (reduced by excise duty)	264 530	390 548	(126 018)	(32.27)
Revenues from sales of traded electricity	127 965	110 841	17 124	15.45
Property rights on energy certificates of origin	1 584	353	1 231	348.73
Revenues from contracts for construction services	20 957	22 531	(1 574)	(6.99)
Compensation for termination of long-term contracts	33 163	48 622	(15 459)	(31.79)
Revenues from sales of heat	12 510	20 553	(8 043)	(39.13)
Other sales revenues	5 077	6 199	(1 122)	(18.10)
Total sales revenues	**465 786**	**599 647**	**(133 861)**	**(22.32)**

Table 3: Selected items of the consolidated income statement

	PLN thousand	*PLN thousand*	*PLN thousand*	*%*
	3 months period ended 31 March 2018	*3 months period ended 31March 2017*	*change*	*dynamics*
Sales revenues	**465 786**	**599 647**	**(133 861)**	**(22.32)**
Prime cost	(430 328)	(498 953)	(68 625)	(13.75)
Gross sales profit (loss)	35 458	100 694	(65 236)	(64.79)
Other operating revenues	3 050	4 633	(1 583)	(34.17)
Cost of sales	(1 144)	(1 297)	(153)	(11.80)
General management costs	(34 894)	(30 821)	4 073	13.22
Other operating costs	(1 121)	(879)	242	27.53
Profit (loss) from operating activities	**1 349**	**72 330**	**(70 981)**	**(98.13)**
Financial revenues	2 316	12 401	(10 085)	(81.32)
Financial costs	(11 203)	(13 367)	(2 164)	(16.19)
Gross profit (loss)	**(7 538)**	**71 364**	**(78 902)**	**-**
Income tax (tax load)	(8 098)	(15 357)	(7 259)	(47.27)
Net profit (loss)	**(15 636)**	**56 007**	**(71 643)**	**-**
Net other comprehensive income	(65)	1 499	(1 564)	-
Comprehensive income	(15 701)	57 506	(73 207)	-
EBITDA*	**49 798**	**124 720**	**(74 922)**	**(60.07)**

* *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 costs in the first quarter of 2018 amounted to PLN 430 328 thousand and in relation to the one incurred in the first quarter of 2017 it decreased by PLN 68 625 thousand, i.e. by 13.75%. Reduction of own cost was mainly caused by the lower cost of CO^2 emission. The decrease in the cost of emission resulted from a lower production volume (and, consequently, lower CO2 emissions), as well as a slightly lower average settlement price for allowances purchased to cover emissions in the first quarter of 2018 compared to the price in the first quarter of 2017. Lower employee benefits costs are associated with a decrease in average employment in the first quarter of 2018 compared to the first quarter of 2017. Lower costs of external services relate to repair services to the greatest extent in mining and generation segments. The decrease in costs related to taxes and fees relates mainly to the mining segment, whereas the volume of extracted coal decreases, the operating charge and the cost of remuneration for mining use decrease. Other costs by type decreased due to lower costs of mining damage. On the other hand, the value of electricity purchased for sale increased.

Table 4: Consolidated costs by type

	PLN thousand	*PLN thousand*	*PLN thousand*	*%*
	3 months period ended 31 March 2018	*3 months period ended 31March 2017*	*change*	*dynamics*
Depreciation	48 449	52 390	(3 941)	(7.52)
Impairment write-downs against inventory	-	1 470	(1 470)	-
Consumption of materials	62 440	63 015	(575)	(0.91)
Outsourcing	22 027	26 749	(4 722)	(17.65)
Taxes and fees excluding excise tax	42 148	45 527	(3 379)	(7.42)
Costs of CO_2 emissions	56 587	97 748	(41 161)	(42.11)
Costs of employee benefits	111 178	121 773	(10 595)	(8.70)
Other costs by type	9 268	10 375	(1 107)	(10.67)
Value of sold goods and materials and sold traded electricity	117 235	110 737	6 498	5.87
Total costs by type	**469 332**	**529 784**	**(60 452)**	**(11.41)**

Other operating revenues in the first quarter of 2018 amounted to PLN 3 050 thousand and were lower by PLN 1,583 thousand than in the corresponding period of the previous year. In the first quarter of 2017, one of the companies still settled a reverse-lease transaction, therefore the revenues resulting from the excess of the contract value over the net value of the leased asset increased other operating revenues. Additionally, in the first quarter of 2017, real estate sales took place.

Costs of sale in the first quarter 2018 amounted to PLN 1 144 thousand and they were lower than those achieved in the corresponding period of the previous year by PLN 153 thousand.

The administrative costs in 1Q 2018 amounted to PLN 34 894 thousand and they were higher than those incurred in the corresponding period of the previous year by PLN 4 073 thousand, i.e. by 13.22%. The increase resulted mainly from the fact that the part of costs related to the maintenance of Adamów power plant (which was closed at the beginning of the year) was included in the administrative costs.

Other operating costs in the reported period amounted to PLN 1 121 thousand and they increased by PLN 242 thousand as compared to the 1Q of the previous year.

In the 1Q 2018 ZE PAK SA Group took profit on the operational activity in the amount of PLN 1 349 thousand, which decreased by PLN 70 981 thousand, i.e. by 98.13% as compared to the first quarter of the previous year.

In 1Q 2018 the achieved results were negatively affected by a negative result of financial activity which amounted to PLN 8 887 thousand. The impact of financial activity in the same period last year lowered the result much less because only by PLN 966 thousand. The difference on the results of financial activity in both compared periods is mainly caused by the difference in financial revenues that in 1Q 2018 decreased by PLN 10 085 thousand in relation to those from the analogous period of the previous year. The biggest impact on the decline in financial income was the lack of positive exchange rate differences, which was recorded in the first quarter of 2017, which was the effect of the euro / zloty exchange rate and the impact on the valuation of the foreign currency loan in euro.

Gross loss in 1Q 2018 amounted to PLN 7 538 thousand in relations to gross profit for 1Q 20177 at the level of PLN 71 364 thousand.

Net loss in 1Q 2018 amounted to PLN 15 636 thousand in relation to net profit for 1 Q 2017 at the level of PLN 56 007 thousand.

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

At the beginning of January 2018, coal units of Adamów power plant with a total capacity of 600 MW completed their operations. The Company has repeatedly reported in its periodic reports on the need to inactivate the above-mentioned blocks due to the end of the period of deviation from environmental regulations. The lack of electricity production at Adamów power plant had a significant impact on reducing the level of revenues in the reporting period in relation to the same period of the previous year. Adamów Power Plant generated 0.42 TWh of electricity in the first quarter of 2017, while in the whole 2017 year the production level was 2.47 TWh. The level of costs related to production at the Adamów power plant also decreased, however, taking into account the fact that production at Adamów was profitable, the decrease in production related to the inactivation of the power plant had a negative impact on the financial results in the reporting period. This impact will also be felt in subsequent periods.

Execution of the investment programme

In the period from 1 January to 31 March 2018, the investment expenses in the Group amounted to PLN 38 450 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.

The main purpose of spending capital expenditures in the first quarter of 2018 was to continue the adaptation of the TG-6 condensing turboset together with auxiliary installations for cooperation with the heating system at the Konin power plant. This task was put into operation. Currently, the heating of network water supplied to the city of Konin is carried out by the steam produced by the biomass block. This block has become a source of RES producing electricity for the National Power System and heating for heating the city of Konin. As part of the task, the first stage of guarantee measurements was carried out (during the heating season). Second stage of guarantee measurements will be carried out within 6 months from the date of put the block into operation (outside the heating season).

In the first quarter of 2018, the modernization of the carburizing system in Pątnów I power plant was also continued, which aims at securing a highly reliable technological system for supplying basic fuel to boilers at full capacity.

The implementation of the investment task consisting in sealing the wall between the boiler room and the engine room at Pątnów I power plant was completed. The task was to reduce the pollination of the boiler room towards the engine room, the construction and fire safety of the facilities was improved, aspects related to the safety and hygiene of the crew were improved.

In mining segment, PAK KWB Konin SA belonging to the Capital Group carried out investment tasks on active open pitches aimed at maintaining production capacity. On Jóźwin, Drzewce and Tomisławice open pit mines there are works carried out related to the need to build drainage systems 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 land on Jóźwin and Tomisławice pits, and the construction of a drainage system on Jóźwin open-cast, drilling of drainage wells on Tomisławice open pit and construction of power supply on Tomisławice open pit.

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. In the opinion of the Management Board of the Company, there are real reasons to expect that the final decision will be positive if the solutions proposed by PAK KWB Konin SA are applied. 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 case is being reconsidered by RDOŚ in Poznań which informed about June 5, 2018 as the new date of settling the matter.

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. The area covered by the protection and its scope may prove to be important from the perspective of the implementation of the investment. 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. 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 first 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, whose single or total value would exceed 10% of equity of ZE PAK SA, except the ones specified below.

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. 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 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.

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.

At present, the case is being reconsidered by RDOŚ in Poznań, which informed about June 5, 2018 as the new date of settling the matter.

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* *Number of shares and corresponding number of votes at the General Meeting**	*%* *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 OF 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 OR DECLARED DIVIDENDS

On 2 May 2018 the Management Board of the Company adopted a resolution on distribution of the net profit for the financial year ended 31 December 2017. In the adopted resolution the Management Board of the Company proposed to divide the net profit achieved by the Company in the amount of PLN 90 636 796.27 in the following way:

a) amount of PLN 60 988 256.40 allocate for a dividend for shareholders, which means that dividend per a share will be PLN 1.20,
b) remaining part of the profit in the amount of PLN 29 648 539.87 allocate for the reserve capital.

On 9 May 2018 the Supervisory Board of the Company issued a positive opinion on the Management Board's proposal. The final decision on the distribution of profit will be taken by the Ordinary General Meeting of the Company.

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 first 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 first 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 first quarter of 2018, PAK KWB Konin SA, a company being a subject to consolidation within the Group, made one issue of bonds for the amount of PLN 20 000 thousand (fully covered by companies within the Group). PAK KWB Konin SA also bought back bonds worth PLN 20 000 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 31 March 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.

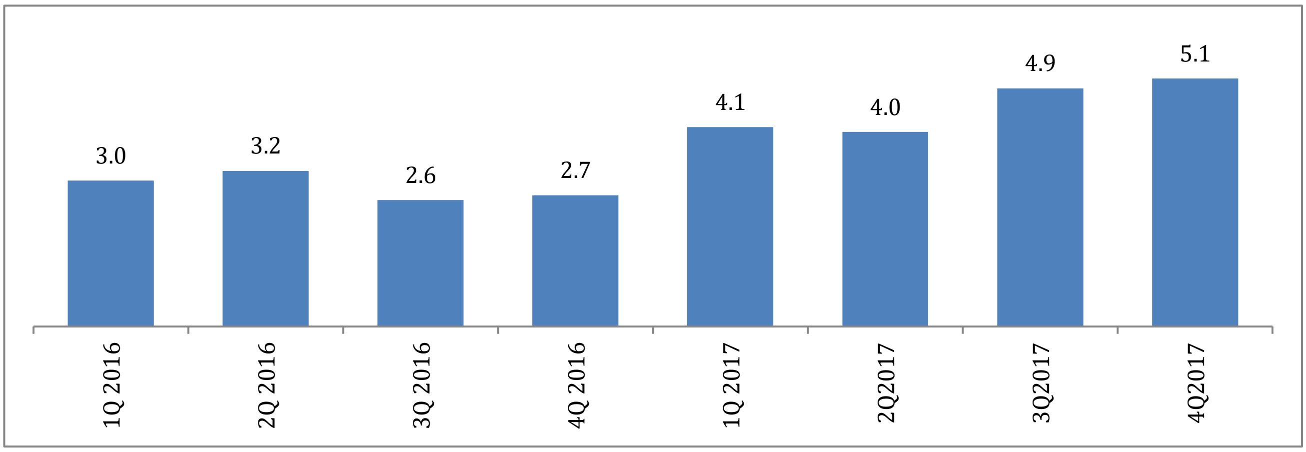
Another analysis of the reasons justifying the potential necessity to conduct the value impairment test of the Company's asset components will be executed at the end of the next reporting period.

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 preliminary estimate of the Central Statistical Office regarding the increase in gross domestic product ("GDP") of Poland in 2017 was calculated at 4.6%. In 2016, it was 2.9%. The dynamics of GDP growth recorded in 2017 is the highest rate achieved since 2011.

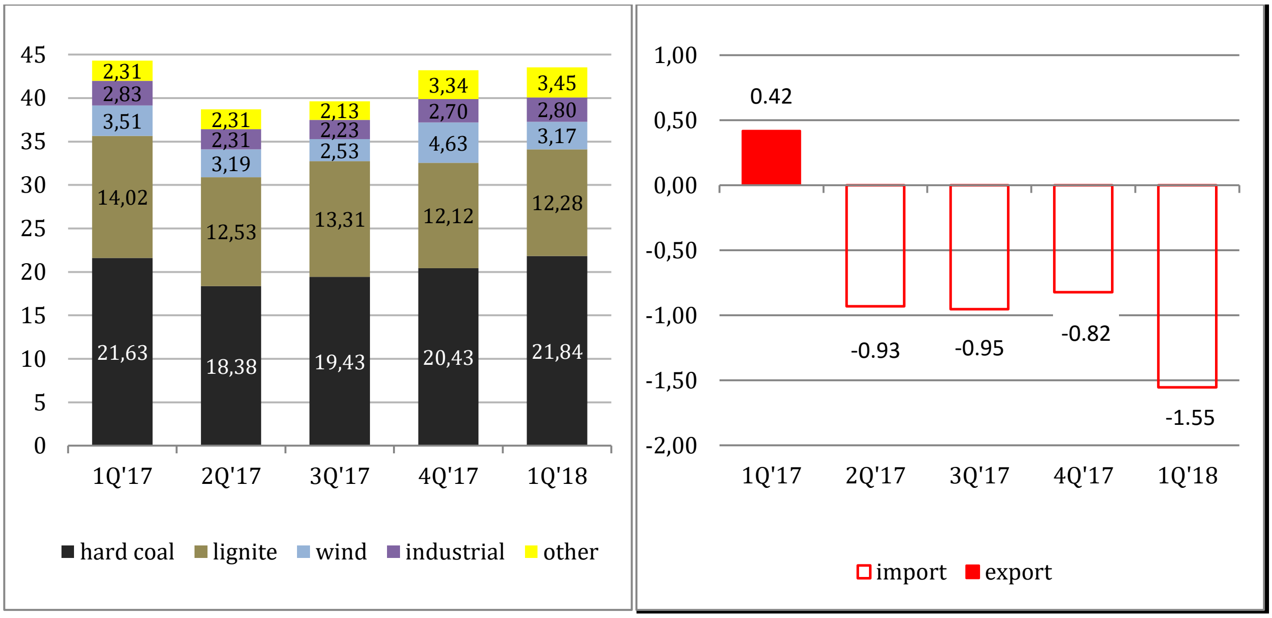
Chart 6: GDP dynamics (%) in relation to the analogous quarter of the previous year (yearly average fixed prices)



Source: Own elaboration based on CSO Data

On the basis of the partial data on the economy in the first quarter, it should be expected that GDP growth will be at a level comparable to the last quarterly readings. The growth rate of sold production of industry in the period January-March 2018 was higher than a year before by 5.6%. Domestic demand, in particular private consumption, should continue to be very positive. Factors determining the good condition of domestic demand have been the same for several quarters: rising household income, record low unemployment rate, good consumer sentiment, and low interest rates. On the basis of partial data from individual months, it can be expected that the growth of private consumption in the first quarter of 2018 will be similar to the result from the previous quarter. The dynamics of investment demand should also have a positive impact on the economy.

Chart 7: 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 first quarter of 2018 amounted to 45.1 TWh and increased by 2.76% compared to the first quarter of the previous year. In the first quarter of 2018 gross electricity production amounted to 43.5 TWh, which means a decrease by 1.71% compared to the same period of the previous year. The largest share in the production structure had power plants producing on hard coal, and hard coal production amounted to 21.8 TWh. 12.3 TWh were produced from lignite. Wind farms produced 3.2 TWh. In the first quarter of 2018, Poland was a net importer of energy, the balance of exchange amounted to 1.55 TWh on the import side.

11.2. Regulatory environment

Entities operating on the power market are subject to strict regulations, such as, e.g., the Energy Law, the act on renewable energy sources (”RES”), regulations regarding the obligation of selling a part of generated power to the public, as well as supporting defined power generation technologies, and the regulations and directives of the European Commission and international conventions, on, i.e., environmental protection and climate change (including CO_2 emissions). It is also necessary to take into consideration the regulations of the tax law as well as interpretations and recommendations issued by the Energy Regulatory Office.

On 27 February 2018, the European Council officially approved the reform of the EU Emissions Trading Scheme (EU ETS) for the period after 2020. In the opinion of their initiators, subsequent reforms of the EU ETS system, through interference with the market system model, contribute to the achievement of the assumed goals of reduction of greenhouse gas emissions by 2030. The most important proposition assumes: the total emissions ceiling is to be reduced every year by 2.2% (linear reduction factor - LRF), moreover the rate of reduction can be increased once again in 2024, after prior examination of the effectiveness of the implemented mechanisms. By the end of 2023, the number of allowances transferred to the market stability reserve (Market Stability Reserve, MSR) is expected to double temporarily, and in 2023 a new mechanism limiting the validity of allowances in the market stability reserve to a certain level will enter into force. After the reform, MSR is to absorb up to 24% of the excess of emission allowances every year for the first four years of the reformed system. The provisions of the new EU ETS Directive are to be regularly reviewed. The Council's decision closes the legislative process on the new EU ETS directive.

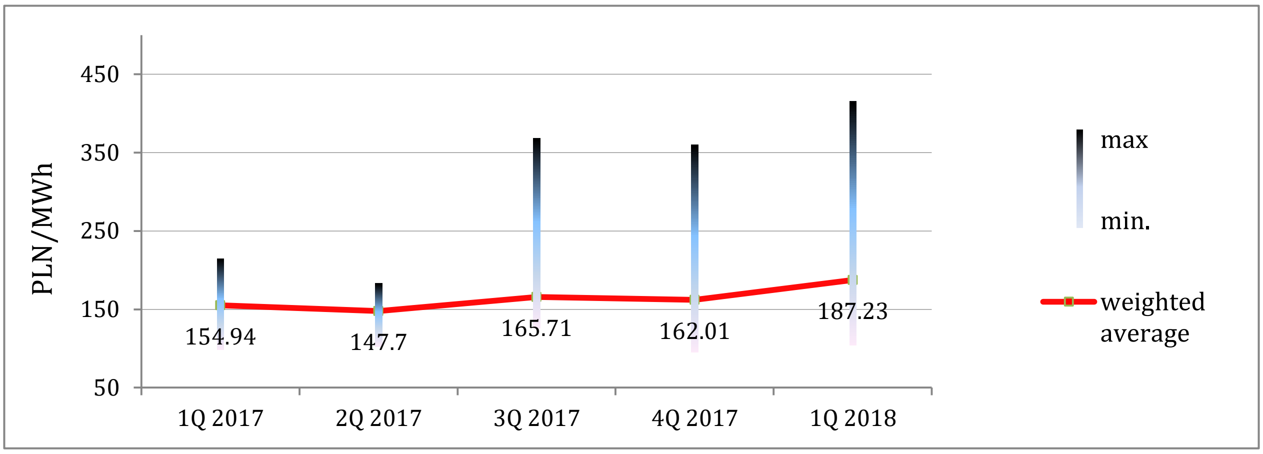
11.3. Electricity prices

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.

According to the communication of the Energy Regulatory Office, the average price of electricity sold on terms other than those resulting from Art. 49a paragraph 1 and 2 of the Energy Law Act for the first quarter of 2018 amounted to PLN 171.85 / MWh.

On the day-ahead market for Towarowa Giełda Energii SA, the first quarter of 2018 was characterized by greater price volatility than in all quarters of 2017. The reasons that determined both higher volatility and higher weighted average price of electricity in the first quarter of 2018 were characteristic for the winter period. First, there was an increase in domestic electricity consumption by 2.76% compared to the same period last year, and again in Poland in the first quarter there was a record demand for electrical power in the evening peak of the winter period. Recorded record demand on February 28 amounted to 26,448 MW. Another factor that supported higher prices and higher volatility was lower than in the same period last year wind generation (-9.6%). Higher prices of hard coal could be also determined by higher prices of hard coal and CO2 emission allowances. All these factors supported the increase in prices on the electricity market. The weighted average price (IRDN) in the first quarter of 2018 amounted to 187.23 PLN / MWh, up by 32.29 PLN, i.e. around 20.84% compared to the first quarter of the previous year and higher by nearly 15.57 % than in the fourth quarter of 2017.

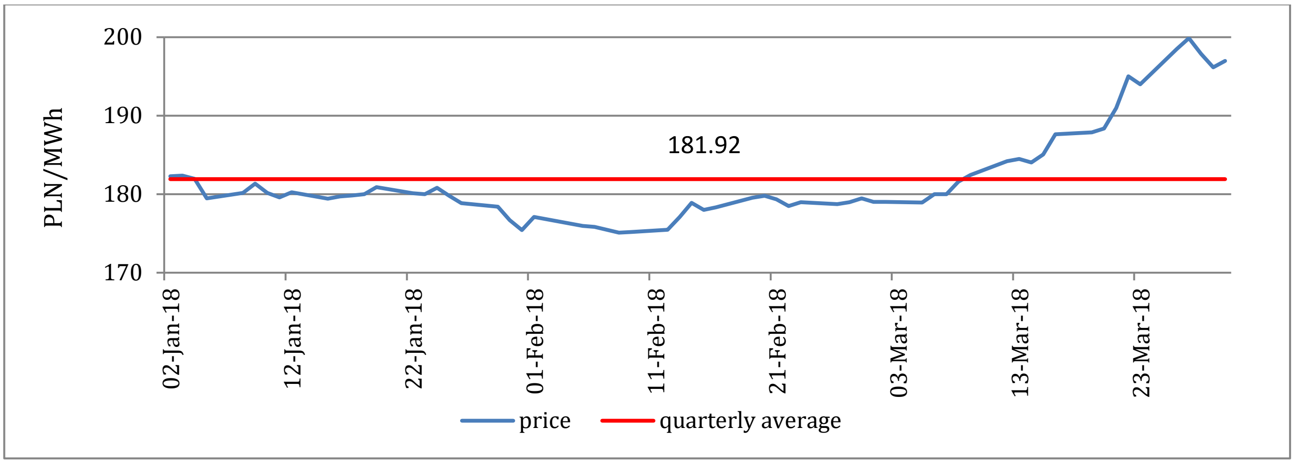
Chart 8: Energy prices (IRDN - Instruments of the Day Ahead Market)



Source: Own elaboration based on TGE data

On the electricity futures market of the Polish Power Exchange, the reference forward contract BASE_Y-19 in January and February was characterized by low volatility, prices stabilized at a relatively high level after increases recorded in the fourth quarter of last year. It was not until March that a clear upward trend continued. It seems that the factors conducive to the price increase are still the same as in the previous quarter and can be associated with high prices of thermal coal on the European stock exchanges and with the price increases of CO2 emission allowances. The annual contract BASE_Y-19 in the first quarter of 2018 the lowest levels, similar to 175 PLN / MWh, were recorded in the first ten days of February. At the end of the first quarter, the highest daily clearing price was recorded at PLN 199.89 / MWh. The arithmetic average of the daily settlement rates for the BASE_Y-19 contract in the first quarter of 2018 amounted to PLN 181.92 / MWh.

Chart 9: The price of the futures contract for the supply of electricity (band) for 2019



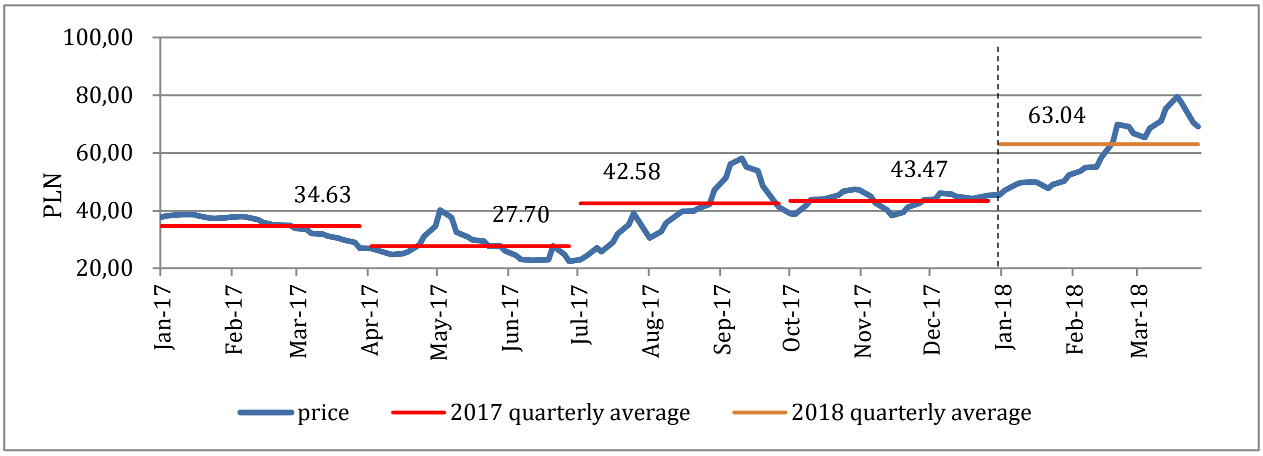
Source: Own elaboration on the basis of TGE data

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, we had to deal with quite significant and dynamic increase in prices. The increase recorded in the first quarter of 2018 was preceded by a three-month stabilization period in the fourth quarter of 2017, in this perspective the increase may be treated as a further part of the upward trend initiated in mid-2017. Despite the considerable oversupply of renewable energy rights on the market, there are several reasons for price increases in recent times. First of all, the provisions of the act on renewable energy sources caused that entities obliged to fulfil the redemption obligation this year are not 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 green certificates supply 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 they were used mainly by biogas plants and hydroelectric power plants. In the first quarter of 2018, the wind generation was also lower, i.e. from the main source of green certificate supply. The weighted average price of green certificates in the first quarter of 2018 amounted to 63.04 PLN / MWh, which means an increase of 82% compared to the weighted average price from the first quarter of 2017.

Chart 10: 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.

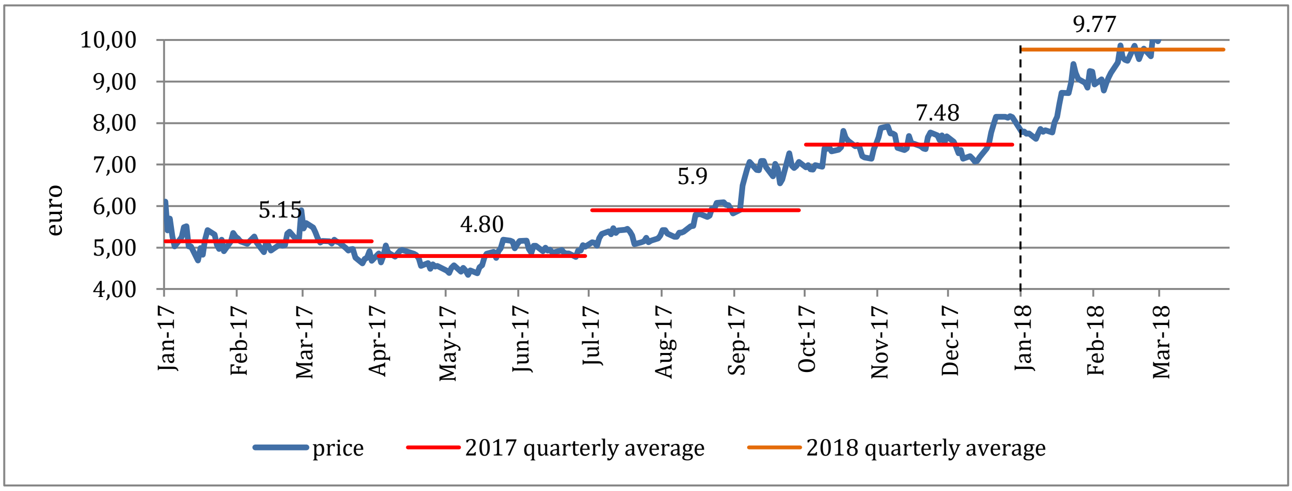
The deposits exploited by the Group's mines have specified richness. The opportunity to achieve the expected level of electricity production in the long term is partially dependent on the ability of extracting from the currently exploited deposits and launching the exploitation of new lignite deposits, 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 2017, the Group received a small amount of free CO2 emission allowances, i.e., 83 317 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.

In the first quarter of 2018, the upward trend on the CO2 emission allowances market continued. At the same time its dynamics was even stronger than in the previous two quarters. It is worth noting that the last month which ended with the price level lower than at the beginning was only April 2017, since then each subsequent month brought higher prices of emission allowances. The obvious reason for the increases in the second half of 2017 were changes in the future operating principles of the EU ETS system, consisting in intervention into a market mechanism that would, according to the authors of the plan, increase the price of emission rights. However, it is more difficult to explain such a strong growth dynamics in the first quarter of 2018 because the changes mentioned above were already known at that time. The price increase may be partly related to the period of cancellation of emission allowances that is approaching in April each year. In the face of a strong price increase in the second half of 2017, some market participants who did not have sufficient allowances could be forced to buy at high levels, rising further the price. It may also be unreasonable to assume that emission allowance units could become the object of interest of financial investors with speculative attitudes, in connection with the strong trend prevailing in this market. The arithmetic average of EUA quotations in the first quarter of 2018 amounted to 9.77 euro, which means an increase of 89.7% compared to the first quarter of 2017 and by 30.6% as compared to the fourth quarter of 2017.

Chart 11: 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 of Elektrownia Pątnów II sp. z o.o., pursuant to the Act of 29 June 2007 on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity, 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.

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.

In the first quarter 2018, two 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 CO2 emission allowances. To hedge the exchange, forward transactions were made with the settlement date in March 2018. Elektrownia Pątnów II sp. o.o. hedged the euro exchange rate for a part of the flows related to the repayment of the syndicated loan instalment, also applying a forward transaction with the settlement date in April and July 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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