# ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA CAPITAL GROUP

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 6 MONTHS ENDED 30 JUNE 2019 TOGETHER WITH THE REVIEW REPORT

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

19 September 2019

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*(in thousand PLN)*

# CONSOLIDATED STATEMENT OF PROFIT AND LOSS

***For the period of 6 months ended 30 June 2019***

| | *Nota* | *6 months period ended 30 June 2019 (unaudited)* | *3 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* | *3 months period ended 30 June 2018 (unaudited)* |
|---|---|---|---|---|---|
| **Continuing operation** | | | | | |
| **Sales revenue** | *12.1* | 1 406 030 | 710 899 | 982 840 | 517 054 |
| Cost of goods sold | *12.6* | (1 288 495) | (648 726) | (941 939) | (511 611) |
| **Gross profit / (loss)** | | **117 535** | **62 173** | **40 901** | **5 443** |
| Other operating revenues | *12.2* | 13 078 | 8 412 | 4 166 | 1 116 |
| Selling and distribution expenses | *12.6* | (2 683) | (810) | (2 042) | (898) |
| Administrative expenses | *12.6* | (55 253) | (25 135) | (64 792) | (29 898) |
| Other operating expenses | *12.3* | (6 333) | (5 901) | (2 870) | (1 749) |
| **Gross profit / (loss) from operations** | | **66 344** | **38 739** | **(24 637)** | **(25 986)** |
| Financial income | *12.4* | 8 058 | (182) | 5 530 | 3 214 |
| Financial costs | *12.5* | (13 030) | (5 303) | (25 488) | (14 285) |
| **Profit / (loss) before tax** | | **61 372** | **33 254** | **(44 595)** | **(37 057)** |
| Income tax expense (taxation) | *13.1* | (24 676) | (8 568) | (7 417) | 681 |
| **Net profit / (loss) for the period from continuing operations** | | **36 696** | **24 686** | **(52 012)** | **(36 376)** |
| **Discontinued operations** | | | | | |
| Profit/ (loss) for the period from discontinued operations | | - | - | - | - |
| **Net profit / (loss) for the period** | | **36 696** | **24 686** | **(52 012)** | **(36 376)** |
| Net profit/ (loss) attributable to equity holders of the parent | | 37 911 | 24 631 | (51 257) | (36 174) |
| Net profit/ (loss) attributable to non-controlling interests | | (1 215) | 55 | (755) | (202) |

*(in thousand PLN)*

| | Note | *6 months period ended 30 June 2019 (unaudited)* | *3 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* | *3 months period ended 30 June 2018 (unaudited)* |
|---|---|---|---|---|---|
| **Profit / loss per share (in PLN):** | | | | | |
| Basic/diluted, for profit for the period from continuing operations attributable to equity holders of the parent | *14* | 0,75 | 0,48 | (1,01) | (0,71) |

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

*(in thousand PLN)*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## *For the period of 6 months ended 30 June 2019*

| | Note | *6 months period ended 30 June 2019 (unaudited)* | *3 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* | *3 months period ended 30 June 2018 (unaudited)* |
|---|---|---|---|---|---|
| **Net profit / (loss) for the period** | | **36 696** | **24 686** | **(52 012)** | **(36 376)** |
| **Other comprehensive income** | | | | | |
| *Items to be reclassified to the profit / (loss) in subsequent reporting periods:* | | | | | |
| Cash flow hedges | | 568 | 231 | 1 560 | 693 |
| Income tax on other comprehensive income | *13.1* | (108) | (44) | (297) | (132) |
| Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods | | 460 | 187 | 1 263 | 561 |
| *Items not to be reclassified to the profit / (loss) in subsequent reporting periods:* | | | | | |
| Profits / (losses) on provisions for post-employment | | (867) | (139) | (516) | (206) |
| Income tax on other comprehensive income | *13.1* | 165 | 29 | 98 | 39 |
| Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods | | (702) | (110) | (418) | (167) |
| **Net other comprehensive income** | | **(242)** | **77** | **845** | **394** |
| **Comprehensive income for the period** | | 36 454 | 24 763 | (51 167) | (35 982) |
| Comprehensive income attributable to equity holders of the parent | | 37 669 | 24 708 | (50 412) | (35 780) |
| Comprehensive income attributable to non-controlling holders | | (1 215) | 55 | (755) | (202) |

*(in thousand PLN)*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITON

***As at 30 June 2019***

| | *Note* | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| Property, plant and equipment | *15* | 2 661 195 | 2 791 141 |
| Assets due to the right of use | *16* | 59 288 | - |
| Investment property | | 2 266 | 2 365 |
| Intangible assets | *17* | 3 327 | 3 773 |
| Assets of removing overburden and other mining assets (long-term) | *18* | 76 313 | 80 326 |
| Other long-term financial assets | *19.1* | 3 642 | 4 748 |
| Other long-term non-financial assets | *19.2* | 2 432 | 3 873 |
| Deferred tax assets | *13.3* | 81 822 | 81 817 |
| **Total fixed assets** | | **2 890 285** | **2 968 043** |
| **Current assets** | | | |
| Short-term intangible assets | *17* | 6 599 | 66 817 |
| Inventories | *20* | 101 364 | 109 239 |
| Trade and other receivables | *21* | 304 185 | 354 183 |
| Income tax receivables | | 9 765 | 1 544 |
| Short-term financial derivatives (assets) | *27.4* | - | 19 |
| Other short-term financial assets | *19.1* | - | 36 679 |
| Other short-term non-financial assets | *19.2* | 46 884 | 24 039 |
| Amounts due from customers under long-term construction contracts | *12.7* | 7 357 | 5 066 |
| Cash and cash equivalents | *22* | 130 481 | 304 658 |
| **Total current assets** | | **606 635** | **902 244** |
| Assets classified as held for sale | | - | 1 010 |
| **TOTAL ASSETS** | | **3 496 920** | **3 871 297** |

*(in thousand PLN)*

| | *Note* | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **Equity** | | | |
| Share capital | | 101 647 | 101 647 |
| Reserve capital | | 1 124 376 | 1 124 376 |
| Revaluation reserve from valuation of hedging instruments | | - | (460) |
| Other reserve capital | | 3 472 | 3 472 |
| Retained earnings / Accumulated losses | | 392 366 | 915 020 |
| Net profit / (loss) | | 37 911 | (460 196) |
| **Equity attributable to equity holders of the parent** | | 1 659 772 | 1 683 859 |
| Equity attributable to non-controlling interests | | 2 073 | 3 288 |
| **Total equity** | | **1 661 845** | **1 687 147** |
| **Long-term liabilities** | | | |
| Interest-bearing loans and borrowings | *24* | - | 59 424 |
| Long-term employee benefits | | 44 986 | 45 555 |
| Trade liabilities and other long-term financial liabilities | *27.2* | 8 853 | 11 468 |
| Long-term financial derivatives (liabilities) | | 46 648 | - |
| Long-term subsidies | *27.5* | 42 256 | 43 007 |
| Other long-term provisions and accruals | *25* | 450 176 | 450 033 |
| Deferred tax liability | *13.3* | 388 243 | 364 652 |
| **Total long-term liabilities** | | **981 162** | **974 139** |
| **Short-term liabilities** | | | |
| Trade liabilities and other short-term financial liabilities | *27.1* | 173 487 | 154 890 |
| Short-term leasing liabilities | | 2 576 | - |
| Current portion of interest-bearing loans and borrowings | *24* | 242 739 | 360 955 |
| Short-term financial derivatives (liabilities) | *27.4* | 252 | 921 |
| Other non-financial liabilities | *27.3* | 76 507 | 95 960 |
| Current income tax liability | | 363 | 21 |
| Short-term employee benefits | | 11 322 | 5 445 |
| Short-term subsidies | *27.6* | 1 502 | 1 502 |
| Amounts due to customers under long-term construction contracts | | 2 844 | 2 482 |
| Other short-term provisions and accruals | *25* | 342 321 | 587 835 |
| **Total short-term liabilities** | | **853 913** | **1 210 011** |
| **Total liabilities** | | **1 835 075** | **2 184 150** |
| **TOTAL LIABILITIES AND EQUITY** | | **3 496 920** | **3 871 297** |

*(in thousand PLN)*

# CONSOLIDATED STATEMENT OF CASH FLOWS

### *For the period of 6 months ended 30 June 2019*

| | *Nota* | *6 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit /(loss) before tax | | 61 372 | (44 595) |
| **Adjustments for:** | | | |
| Depreciation and amortization | *22* | 96 321 | 95 382 |
| Interests and shares in profits | | (198) | (79 801) |
| (Profit) / loss on foreign exchange differences | | 1 819 | 6 607 |
| (Profit) / loss on investing activities | | (82) | (2 596) |
| (Increase) / decrease in receivables | *22* | 24 859 | (64 033) |
| (Increase) / decrease in inventories | *22* | (2 376) | (7 424) |
| Increase / (decrease) in payables except for loans and borrowings | *22* | (6 222) | 53 187 |
| Change in provisions, prepayments, accruals and employee benefits | *22* | 250 597 | 166 036 |
| Income tax paid | | (8 913) | 9 178 |
| Allowances for emission of $CO_2$ | | (431 849) | (37 281) |
| Other | | 3 026 | (1 043) |
| **Net cash flow from operating activities** | | **(11 646)** | **93 617** |
| **Cash flow from investing activities** | | | |
| Proceeds from sale of property, plant and equipment and intangible assets | | 4 428 | 3 650 |
| Purchase of property, plant and equipment and intangible assets | | (21 324) | (53 682) |
| Proceeds and expenses relating to other financial assets | | 35 090 | 499 |
| Interest received | | - | 1 |
| **Net cash flow from investing activities** | | **18 194** | **(49 532)** |
| **Cash flow from financing activities** | | | |
| Payment of finance lease liabilities | | (669) | (639) |
| Proceeds from loans and borrowings and debt securities | | 12 188 | 36 991 |
| Repayment of loans and borrowings and debt securities | | (187 903) | (151 278) |
| Interest paid | | (2 999) | (11 728) |
| **Net cash flow from financing activities** | | **(179 383)** | **(126 654)** |
| **Net increase / (decrease) in cash and cash equivalents** | | **(172 835)** | **(82 569)** |
| **Cash and cash equivalents at the beginning of the period** | *22* | **303 316** | **322 570** |
| **Cash and cash equivalents at the end of the period** | | **130 481** | **240 001** |

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

*(in thousand PLN)*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

***For the period of 6 months ended 30 June 2019 (unaudited)***

| | *Note* | *Issued capital* | *Reserve capital* | Revaluation reserve of financial instruments | Other reserve capital | Retained earnings / accumulated losses | Total | Non-controlling interest | *Total equity* |
|---|---|---|---|---|---|---|---|---|---|
| **As of 1 January 2019** | | **101 647** | **1 124 376** | **(460)** | **3 472** | **454 824** | **1 683 859** | **3 288** | **1 687 147** |
| Adjustment concerning IFRS 16 | *5.1* | - | - | - | - | (61 754) | (61 754) | - | (61 754) |
| **Transformed data as of 1 January 2019** | | **101 647** | **1 124 376** | **(460)** | **3 472** | **393 070** | **1 622 105** | **3 288** | **1 625 393** |
| Net profit for the period | | - | - | - | - | 37 911 | 37 911 | (1 215) | 36 696 |
| Total other comprehensive income | | - | - | 460 | - | (702) | (242) | - | (242) |
| **Total income for the period** | | **-** | **-** | **460** | **-** | **37 209** | **37 669** | **(1 215)** | **36 454** |
| Distribution of profits from previous years | | - | - | - | - | - | - | - | - |
| Other changes | | - | - | - | - | (2) | (2) | - | (2) |
| **As of 30 June2019** | | **101 647** | **1 124 376** | **-** | **3 472** | **430 277** | **1 659 772** | **2 073** | **1 661 845** |

*(in thousand PLN)*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## *For the period of 6 months ended 30 June 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 1 January 2018** | **101 647** | **1 094 493** | **(2 678)** | **3 472** | **1 067 338** | **2 264 272** | **-** | **2 264 272** |
| Error adjustment | - | - | - | - | (36 783) | (36 783) | - | (36 783) |
| Adjustment concerning IFRS 9 | - | - | - | - | (4 338) | (4 338) | - | (4 338) |
| **Transformed data as of 1 January 2018** | **101 647** | **1 094 493** | **(2 678)** | **3 472** | **1 026 217** | **2 223 151** | **-** | **2 223 151** |
| Net profit / loss for the period | - | - | - | - | (51 257) | (51 257) | (755) | (52 012) |
| Total other comprehensive income | - | - | 1 263 | - | (418) | 845 | - | 845 |
| **Total income for the period** | **-** | **-** | **1 263** | **-** | **(51 675)** | **(50 412)** | **(755)** | **(51 167)** |
| Distribution of profits from previous years | - | 29 649 | - | - | (29 649) | - | - | - |
| Dividend for previous years | - | - | - | - | (60 988) | (60 988) | - | (60 988) |
| Distribution of profits from previous years for CSBF | - | - | - | - | (86) | (86) | - | (86) |
| Transactions with non-controlling shareholders | - | - | - | - | (755) | (755) | 755 | - |
| Other changes | - | - | - | - | 39 | 39 | - | 39 |
| **As of 30 June 2018** | **101 647** | **1 124 142** | **(1 415)** | **3 472** | **883 103** | **2 110 949** | **-** | **2 110 949** |

# ADDITIONAL EXPLANATORY NOTES

## 1. General information

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

The interim condensed consolidated financial statements of the group covers a period of 6 months ended 30 June 2019 year and contains comparative data for a period of 6 months ended 30 June 2018 year and data on 31 December 2018. Interim condensed consolidated statement of comprehensive income, the consolidated profit and loss account and the additional explanatory notes provide additional information for the 3 months ended 30 June 2019 year and data comparative studies for a period of 3 months ended 30 June 2018.

The data included in these interim condensed consolidated financial statements for the period of 6 months ended on June 30, 2019 and as at that day, as well as comparative data for the period of 6 months ended on June 30, 2018 were reviewed by a certified auditor. Comparative data as at December 31, 2018 was audited by a certified auditor.

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

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

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

The main activities of the Group are:

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

These interim condensed consolidated financial statements of the Group for a period of 6 months ended 30 June 2019, was approved by the Board for publication on 19 September 2019 year.

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

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

(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 30 June 2019 | As at 31 December 2018 |
| 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 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 | Repair and maintenance of machines | 100,00% | 100,00% |
| „PAK Kopalnia Węgla Brunatnego Konin" SA | 62-540 Kleczew ul. 600-lecia 9 | Lignite extraction | 97,68%* | 97,68% |
| „PAK Kopalnia Węgla Brunatnego Adamów" SA | 62-700 Turek Warenka 23 | Lignite extraction | 99,35% | 99,35% |
| „Aquakon" sp. z o.o. In liquidation | 62-610 Sompolno Police | In liquidation | 96,20%* | 96,20%* |
| „PAK-Volt" SA | 00-834 Warszawa ul. Pańska 77/79 | Trade of electricity | 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 with partial or total indirect share via other companies from ZE PAK Group.*

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

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

The Management Board of the Company started 2019 in the following composition:

1) Adam Kłapszta – President of the Board,
2) Aneta Lato-Żuchowska – Vice President of the Board,
3) Zygmunt Artwik – Vice President of the Board,
4) Elżbieta Niebisz – Vice President of the Board,
5) Marcin Ginel – Vice President of the Board.

On January 10$^{th}$, 2019 Mr. Adam Kłapszta resigned from the membership in the Management Board and performing the position of the President of the Management Board. Ms. Elżbieta Niebisz also ceased to be a Member of the Management Board of the Company, who also resigned from the position of Vice President of the Management Board on January 10$^{th}$ 2019. In this situation, at the meeting held on January 10$^{th}$, 2019, until the election of the new President of the Company's Management Board, the Supervisory Board entrusted the management of the Company as acting President of the Management Board to Mr. Marcin Ginel - Vice-President of the Management Board. During the same meeting, i.e. January 10, 2019, the Supervisory Board of the Company appointed Mr. Paweł Markowski as the Vice-President of the Management Board.

On April 12$^{th}$, 2019 Mr. Marcin Ginel resigned from the membership in the Management Board and performing the position of the Vice President acting President of the Management Board. The same day the resignation from membership in the Management Board and the function of the Vice President was also submitted by Ms. Aneta Lato-Żuchowska. At the meeting held on April 12, 2019, the Supervisory Board of the Company, acting pursuant to art. 383 § 1 of the Code of Commercial Companies delegated a member of the Company's Supervisory Board – Mr. Henryk

Sobierajski, for a period of three months to temporarily perform the duties of a Member of the Management Board, entrusting him with the duties of the President of the Management Board.

On May 10, 2019, the Company's Supervisory Board appointed Mr. Paweł Lisowski as the Vice President of the Management Board.

At the meeting on July 2, 2019, the Company's Supervisory Board, acting pursuant to art. 383 § 1 of the Code of Commercial Companies delegated a member of the Company's Supervisory Board - Mr. Henryk Sobierajski for a period of up to 3 months, to temporarily perform the duties of a Member of the Company's Management Board, entrusting him with the duties of the President of the Management Board. Also on July 2, 2019, the Company's Supervisory Board appointed Mr. Maciej Nietopiel to the Company's Management Board, entrusting him with the function of the Vice President of the Management Board.

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

1) Henryk Sobierajski – Member of the Supervisory Board of ZE PAK SA delegated to temporarily perform the duties of the President of the Board,
2) Zygmunt Artwik – Vice President of the Board,
3) Paweł Markowski – Vice President of the Board,
4) Paweł Lisowski – Vice President of the Board,
5) Maciej Nietopiel – Vice President of the Board.

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

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

The interim condensed consolidated financial statement does not include all information and disclosures required in the annual financial statement and should be read together with the consolidated financial statement of the Group for the year concluded on 31 December 2018 authorised for issue on 30 April 2019.

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.

These financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. However, the Company's Management Board notes that as at June 30, 2019, short-term liabilities, including bank loans, exceed the Group's current assets by PLN 247 million.

Increasing operating costs, significant fluctuations in the level of CO2 emission allowances, short-term debt and uncertainty regarding market regulations determining the prices of energy generated and certificates obtained, which affect the uncertainty of the implementation of plans adopted by the Management Board. Consequently, the Management Board draws attention to the existence of significant uncertainty which may raise serious doubts as to the Group's ability to continue as a going concern. However, it should be emphasized that a number of actions are taken at the operational level to improve the economic situation of the Group.

The Management Board has carried out a detailed analysis of cash flow forecasts and confirms that the analysis of cash flows indicates the possibility of generating sufficient, positive cash flows at least in the next 12 months from the date of these financial statements. This analysis assumes the renewal of credit limits held regarding the financing of current operations of the Group companies. According to the Management Board, the risk of not renewing credit limits is limited.

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

In these consolidated financial statements, the Group has not decided to apply the following published standards, interpretations or amendments to existing standards before their date of entry into force.

- ***IFRS 17 „Insurance agreements”***

  IFRS 17 "Insurance Agreements" was issued by the International Accounting Standards Board on May 18, 2017 and applies to annual periods beginning on January 1, 2021 or after that date.

  The new IFRS 17 Insurance Contracts will replace the current IFRS 4, which allows for a variety of practices in the field of settlement of insurance contracts. IFRS 17 will fundamentally change the accounting of all entities that deal with insurance contracts and investment contracts.

  As at the date of these consolidated financial statements, the new standard has not yet been approved by the European Union.

- ***Changes in reference to conceptual assumptions in IFRS***

  Changes in the reference to Conceptual Framework in IFRS will apply from January 1, 2020.

- ***MSSF 3 „Business combinations”***

  As a result of the amendment to IFRS 3, the 'undertaking' effect was modified. The current definition has been narrowed and will probably result in more acquisitions being classified as acquisitions of assets. Amendments to IFRS 3 are effective for annual periods beginning on or after January 1, 2020.

  As at the date of these consolidated financial statements, this change has not yet been approved by the European Union.

- ***IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies (policy), changes in accounting estimates and errors"***

  The Council has published a new definition of the term "materiality". The amendments to IAS 1 and IAS 8 clarify the definition of materiality and increase consistency between standards, but they are not expected to have a significant impact on the preparation of financial statements. The change is mandatory for annual periods beginning on or after January 1, 2020.

  As at the date of these consolidated financial statements, these changes have not yet been approved by the European Union.

- ***IFRS 14 "Regulatory accruals"***

  This standard allows entities that prepare financial statements in accordance with IFRS for the first time (on or after January 1, 2016) to recognize amounts arising from activities with regulated prices, in accordance with the accounting principles applied so far. To improve comparability with entities that already apply IFRS and do not show such amounts, in accordance with published IFRS 14, amounts arising from activities with regulated prices should be presented in a separate item in both the statement of financial position and the income statement and the statement of other total income.

  By the decision of the European Union IFRS 14 will not be approved.

- ***Amendments to IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associates or joint ventures***

  The amendments solve the problem of the current inconsistency between IFRS 10 and IAS 28. The accounting treatment depends on whether the non-monetary assets sold or contributed to the associate or joint venture constitute a "business".

  In the event that non-monetary assets are 'business', the investor will show full profit or loss on the transaction. On the other hand, if the assets do not meet the definition of business, the investor recognizes profit or loss excluding the part constituting the shares of other investors.

  The changes were published on September 11, 2014. The effective date of the amended regulations has not been set by the International Accounting Standards Board.

  As at the date of preparation of these consolidated financial statements, approval of this amendment is deferred by the European Union.

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

## 5.1. Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued the International Financial Reporting Standard 16 Lease ("IFRS 16"), which replaced IAS 17 Leasing, IFRIC 4 Determining whether the contract includes leasing, SKI 15 Operating leases - special promotional offers and SKI 27 Substance assessment transactions using the form of leasing. IFRS 16 sets out the accounting principles for leasing in terms of valuation, presentation and disclosure. IFRS 16 applies to annual periods beginning on or after January 1, 2019.

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.

Lessor accounting in accordance with IFRS 16 remains substantially unchanged from lessor's 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.

### *First application of IFRS 16*

As required, as of January 1, 2019, the Group applied IFRS 16 Leasing for the first time. As a consequence, the Group changed its accounting policy regarding the recognition of lease contracts. The changes in accounting policy were made in accordance with the transitional provisions included in IFRS 16.

The Group implemented IFRS 16 using a modified retrospective approach, according to which the combined effect of the first application of the standard was recognized in retained earnings as at January 1, 2019. Therefore, comparative data for 2018 has not been restated.

### *Definition of leasing*

The Group has so far used the definition of leasing specified in accordance with IAS 17 and IFRIC 4. In accordance with IFRS 16, the Group assesses whether the contract is or concludes a lease based on the definition of leasing contained in this new Standard.

### *The Group as a lessee*

Pursuant to the IAS 17 Leasing applied so far, the Group classified leasing contracts as financial or operational leasing based on the assessment whether substantially all the risk and benefits arising from the ownership of the leased item were transferred to the lessee. Pursuant to IFRS 16, the Group recognizes in the balance sheet an asset due to the right to use and a liability for leasing for the majority of leases (irrespective of their previous classification).

For lease contracts classified until December 31, 2018 as operating leases (and contracts not classified in accordance with IAS 17 as leases), the Group recognized assets under the right to use and liabilities under the lease as follows:

- the leasing liability was valued at the present value of the remaining leasing payments, discounted using the marginal interest rate on the day of first application,
- the value of the right to use the underlying assets for individual leasing contracts (separately for each contract) has been determined at a value equal to the leasing liability, adjusted for previously recognized prepaid or accrued leasing fees (according to their value as at December 31, 2018).

Applying the modified retrospective method of implementing IFRS 16, the Group took advantage of practical solutions in relation to leases previously classified as operating leases in accordance with IAS 17 consisting in:

- The Group has applied exclusion in its application, in relation to lease contracts, which period ends up to 12 months from the date of first application of IFRS 16,
- The Group used the knowledge acquired after the fact to determine the lease period, for contracts containing the option to extend or terminate the lease.

For leases that were previously classified as finance leases in accordance with IAS 17, the carrying amount of the asset due to the right to use and the lease liability as at 1 January 2019 was determined as the carrying amount of the leased asset and lease liabilities directly prior to that date, measured in accordance with IAS 17.

The discount rates used to calculate lease liabilities recognized in the statement of financial position as at January 1, 2019 were as follows:

(in thousand PLN)

- for leases with a duration of up to 5 years - discount rate on average 3.49%,
- for leases with a duration of 5 to 10 years - discount rate at 5.07%,
- for leases with a duration exceeding 10 years - discount rate at 8.01%.

The methodology for determining discount rates is described in note 5.1.

The Group has carried out a comprehensive analysis of the impact of IFRS 16 on its financial statements. The Group analysed its contracts in terms of identifying contracts that, in accordance with IFRS 16, include leasing or a leasing component.

The Group has determined that it is the lessee in the case of land use contracts, including perpetual usufruct rights to land, car rental and leasing as well as machinery leasing.

The Group availed itself of the possibility of simplified recognition of contracts concluded for periods shorter than 12 months and contracts that end within 12 months from January 1, 2019. The Group has not identified lease contracts for low-value assets.

The Group has adopted the following assumptions regarding the determination of the leasing period:

- right of perpetual usufruct of land - the leasing period was determined as the remaining period of validity of the decision,
- land lease contracts concluded for an indefinite period or until the purchase of real estate / disassembly of infrastructure - the Group will estimate the lease period in accordance with the period of operation of the open pit,
- fixed-term contracts - the leasing period was determined in accordance with the contract, taking into account the individual consideration of the extension option.

The impact on the financial statements as at the date of initial application is as follows:

As at January 1, 2019, the Group recognized an additional PLN 60,830 thousand of assets under the right to use and PLN 54,579 thousand of lease liabilities. The impact of IFRS 16 on individual items of the consolidated statement of financial position of the Group as at January 1, 2019 is presented below.

| | *1 January 2019* |
|---|---|
| Asset due to the right of use [1, 3, 4] | 60 830 |
| Property, plant and equipment [2, 3, 4] | (68 005) |
| ***Total assets*** | **(7 175)** |
| | |
| **Liabilities** | |
| Finance lease liability (acc. to IAS 17)[5] | (2 670) |
| Lease liabbility[1, 5] | 57 249 |
| ***Total liabilities*** | **54 579** |
| | |
| **Equity capital** | |
| Retained earnings [2] | (61 754) |
| ***Total equity*** | **(61 754)** |

*[1] Recognition of the asset due to the right of use and lease liability on the basis of identified leasing agreements in accordance with IFRS 16*

*[2] Correction due to derecognition of IFRS 1 effect (PWUG measurement at fair value) as at December 31, 2018*

*[3] Transfer of property, plant and equipment recognized as at 31/12/2018 under finance lease agreements in accordance with IAS 17 to the item Asset due to the right of use*

(in thousand PLN)

[4] *Transfer of the value of PWUG recognized as at 31/12/2018 under property, plant and equipment to the position Asset due to the right of use. As at January 1, 2019, the company adjusted the effect of IFRS 1 in the books of the asset due to the right of perpetual usufruct of land and recognized it in retained earnings.*

[5] *Transfer of the value of finance lease liabilities recognized as at 31/12/2018 to the item Lease liabilities*

There are no variable components of leasing fees in the group.

***Impact of applying IFRS 16 on the statement of financial position as at June 30, 2019 and the income statement for the six-month period ended June 30, 2019***

| | *30 June 2019 (unaudited)* | *Impact of IFSR 16 application* | *30 June 2019 without IFRS 16* |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| Property, plant and equipment | 2 661 195 | (67 428) | 2 728 623 |
| Assets due to the right of use | 59 288 | 59 288 | - |
| Investment property | 2 266 | - | 2 266 |
| Intangible assets | 3 327 | - | 3 327 |
| Assets of removing overburden and other mining assets (long-term) | 76 313 | - | 76 313 |
| Other long-term financial assets | 3 642 | - | 3 642 |
| Other long-term non-financial assets | 2 432 | - | 2 432 |
| Deferred tax assets | 81 822 | 318 | 81 504 |
| **Total fixed assets** | **2 890 285** | **(7 822)** | **2 898 107** |
| **Current assets** | | | |
| Short-term intangible assets | 6 599 | - | 6 599 |
| Inventories | 101 364 | - | 101 364 |
| Trade and other receivables | 304 185 | - | 304 185 |
| Income tax receivables | 9 765 | - | 9 765 |
| Short-term financial derivatives (assets) | - | - | - |
| Other short-term financial assets | - | - | - |
| Other short-term non-financial assets | 46 884 | - | 46 884 |
| Amounts due from customers under long-term construction contracts | 7 357 | - | 7 357 |
| Cash and cash equivalents | 130 481 | - | 130 481 |
| **Total current assets** | **606 635** | **-** | **606 635** |
| Assets classified as held for sale | - | - | - |
| **TOTAL ASSETS** | **3 496 920** | **(7 822)** | **3 504 742** |

| | *30 June 2019 (unaudited)* | *Impact of IFSR 16 application* | *30 June 2019 without IFRS 16* |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **Equity** | | | |
| Share capital | 101 647 | - | 101 647 |
| Reserve capital | 1 124 376 | - | 1 124 376 |
| Revaluation reserve from valuation of hedging instruments | - | - | - |
| Other reserve capital | 3 472 | - | 3 472 |

(in thousand PLN)

| | | | |
|---|---|---|---|
| Retained earnings / Accumulated losses | 392 366 | (61 754) | 454 120 |
| Net profit / (loss) | 37 911 | 4 708 | 33 203 |
| **Equity attributable to equity holders of the parent** | 1 659 772 | (57 046) | 1 716 818 |
| Equity attributable to non-controlling interests | 2 073 | - | 2 073 |
| **Total equity** | **1 661 845** | **(57 046)** | **1 718 891** |
| **Long-term liabilities** | | | |
| Interest-bearing loans and borrowings | - | - | - |
| Long-term employee benefits | 44 986 | - | 44 986 |
| Trade liabilities and other long-term financial liabilities | 8 853 | - | 8 853 |
| Long-term financial derivatives (liabilities) | 46 648 | 46 648 | - |
| Long-term subsidies | 42 256 | - | 42 256 |
| Other long-term provisions and accruals | 450 176 | - | 450 176 |
| Deferred tax liability | 388 243 | - | 388 243 |
| **Total long-term liabilities** | **981 162** | **46 648** | **934 514** |
| **Short-term liabilities** | | | |
| Trade liabilities and other short-term financial liabilities | 173 487 | - | 173 487 |
| Short-term leasing liabilities | 2 576 | 2 576 | - |
| Current portion of interest-bearing loans and borrowings | 242 739 | - | 242 739 |
| Short-term financial derivatives (liabilities) | 252 | - | 252 |
| Other non-financial liabilities | 76 507 | - | 76 507 |
| Current income tax liability | 363 | - | 363 |
| Short-term employee benefits | 11 322 | - | 11 322 |
| Short-term subsidies | 1 502 | - | 1 502 |
| Amounts due to customers under long-term construction contracts | 2 844 | - | 2 844 |
| Other short-term provisions and accruals | 342 321 | - | 342 321 |
| **Total short-term liabilities** | **853 913** | **2 576** | **851 337** |
| **Total liabilities** | **1 835 075** | **49 224** | **1 785 851** |
| **TOTAL LIABILITIES AND EQUITY** | **3 496 920** | **(7 822)** | **3 504 742** |

### *Profit and loss account*

| | *6 months period ended*<br><br>*30 June 2019 (unaudited)* | *Impact of IFRS 16 application* | *6 months period ended*<br>*30 June 2018 (unaudited) without IFRS 16* |
|---|---|---|---|
| **Continuing operation** | | | |
| **Sales revenue** | 1 406 030 | - | 1 406 030 |
| Cost of goods sold | (1 288 495) | 6 159 | (1 294 654) |
| **Gross profit / (loss)** | **117 535** | **6 159** | **111 376** |
| Other operating revenues | 13 078 | - | 13 078 |

(in thousand PLN)

| | | | |
|---|---|---|---|
| Selling and distribution expenses | (2 683) | - | (2 683) |
| Administrative expenses | (55 253) | - | (55 253) |
| Other operating expenses | (6 333) | - | (6 333) |
| **Gross profit / (loss) from operations** | **66 344** | **6 159** | **60 185** |
| Financial income | 8 058 | - | 8 058 |
| Financial costs | (13 030) | (1 769) | (11 261) |
| **Profit / (loss) before tax** | **61 372** | **4 390** | **56 982** |
| Income tax expense (taxation) | (24 676) | 318 | (24 994) |
| **Net profit / (loss) for the period from continuing operations** | **36 696** | **4 708** | **31 988** |
| **Discontinued operations** | - | - | - |
| **Net profit / (loss) for the period** | **36 696** | **4 708** | **31 988** |
| Net profit/ (loss) attributable to equity holders of the parent | 37 911 | 4 708 | 33 203 |
| Net profit/ (loss) attributable to non-controlling interests | (1 215) | - | (1 215) |

# 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 2018 except for the item described below:

### *Spare parts*

Inventories recognized as parts of strategic repairs and breakdowns of machinery and equipment are recognized in property, plant and equipment. Strategic spare parts are amortized to the expected period of their use. As at January 1, 2019, the Group transferred spare parts with a net value of PLN 14,399 thousand from inventory to property, plant and equipment

The revaluation write-off is created for non-rotating materials over 3 years. For spare parts with a value above PLN 100,000, the write-off amounts to 100% of the value. As at June 30, 2019, the inventory write-down is PLN 11,033 thousand.

The Group has not decided to early apply any standard, interpretation or amendment that has been published but has not yet entered into force in the light of European Union legislation.

# 7. Significant values based on professional judgment and estimates

The range of significant values based on professional judgment and estimates was presented in the consolidated financial statements prepared as at December 31, 2018 and has not changed in the current period, except for the items described below.

### *Valuation of energy certificates*

For the production of energy in renewable, gas and high cogeneration sources, the Group recognizes energy origin certificates (green and red certificates) at fair value at the end of the month in which they were produced. As at the balance sheet date, the Group measures certificates of origin to the net realizable value - for green certificates as at 30 June 2019 at the price of 132.23 PLN / MWh. Data on prices come from listing on the Polish Power Exchange. A revaluation write-off of certificates is created when the obtainable sale price less the costs of sale is lower than the historical cost of production. The amount of the write-down is PLN 125,000. The value of the write-down reduces the value of inventories due to certificates of origin and increases the cost of sales. The source of uncertainty is legal regulations regarding the RES market.

***Provision for greenhouse gas emissions obligations (EUA)***

The Group recognises the provision for greenhouse gas emission obligations. A new 2013-2020 settlement period related to emission allowances is effective as of 1 January 2013. The assumption of that period is to grant the Group free EUAs, resulting from the generation of thermal energy, however, the power sector was additionally covered by the possibility of derogation, resulting from Art. 10c of the ETS Directive, involving the granting of extra free allowances, under the condition of transferring declared investment expenses on the investments reported in the National Investment Plan.

Emissions in ZE PAK SA Group in 2018 amounted to 7 235 157 tons of $CO_2$.

In April 2019, the Group redeemed CO2 emissions for 2018.

Details regarding the provision for liabilities for greenhouse gas emissions are presented in Note 26.

# 8. Change of estimates

Within the 6-month period concluded on 30 June 2019, 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. Information on the comparability of data in the financial statements

After an in-depth analysis, the Group identified significant (key for the operation of the power plant and mine) spare parts that were previously presented in the inventory line of the statement of financial position. As of January 1, 2019, such spare parts are presented in the asset, plant and equipment line of this report. The Management Board considered the impact of such a change on comparative data to be insignificant, therefore there was no change in the presented data as at December 31, 2018.

# 10. Seasonality of the activities

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

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

# 11. Operating segments

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

Therefore, there are the following operating segments:

- The Generation Segment covering production of electricity both from conventional sources (including cogeneration) and by combustion and co-combustion of biomass. Basic fuels used by the Generation Segment are lignite and biomass. The Generation Segment covers following entities:
    - Zespół Elektrowni Pątnów–Adamów–Konin SA

(in thousand PLN)

  - Elektrownia Pątnów II sp. z o.o.
  - PAK Infrastruktura sp. z o.o.

- The Mining Segment covering the extraction of lignite. In the Mining Segment, within the Capital Group of ZE PAK SA there operate the following:
  - PAK Kopalnia Węgla Brunatnego Konin SA
  - PAK Kopalnia Węgla Brunatnego Adamów SA
- The Renovation Segment performing services in the scope of construction and renovation services. The Segment covers activities of Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.
- The Sales Segment performing services of the sale of electricity. The Sales Segment also includes "PAK – Volt" SA company.

The ZE PAK SA Group also conducts other types of activities that have been included in the "Other" column. During the six-month period ended June 30, 2019, it includes the activities of 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 body making key decisions in the Group is the Management Board of ZE PAK SA. The Management Board separately monitors the operating results of the segments in order to make decisions regarding the allocation of resources, assess the effects of this allocation and the results of operations. The basis for assessing performance is profit or loss on operating activities and EBITDA. EBITDA should be seen as an addition and not a replacement for the results of operations presented in accordance with IFRS. EBITDA is a useful indicator of the ability to contract and service debt. The EBITDA level is not defined by IFRS and may be calculated differently by other entities. The following is the reconciliation and definitions that the ZE PAK Group applies in determining these measures.

The Group defines EBITDA as net profit without financial revenues and expenses, income tax as well as depreciation and write-downs.

***EBITDA for the entire ZE PAK SA Capital Group***

| | *6 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* |
|---|---|---|
| Net profit / (loss) | 36 696 | (52 012) |
| Financial revenues | - 8 058 | -5 530 |
| Financial costs | + 13 030 | +25 488 |
| Income tax | + 24 676 | +7 417 |
| Depreciation and impairment write-downs | + 96 788 | +96 133 |
| EBITDA | 163 132 | 71 496 |

The following tables present segment results for the 6-month periods ended June 30, 2019, June 30, 2018.

(in thousand PLN)

***6-month period ended 30 June 2019 (unaudited)***

| | Generation | Mining | Renovation | Sale | Other | Consolidation adjustment | Total |
|---|---|---|---|---|---|---|---|
| Sales revenues to external customers | 1 030 991 | 4 778 | 37 410 | 331 733 | 1 118 | - | 1 406 030 |
| Sales revenues between segments | 116 284 | 248 401 | 33 812 | - | 114 092 | (512 589) | - |
| **Sales revenue** | **1 147 275** | **253 179** | **71 222** | **331 733** | **115 210** | **(512 589)** | **1 406 030** |
| Cost of goods sold | (993 122) | (309 292) | (65 463) | (333 647) | (110 718) | 523 747 | (1 288 495) |
| **Gross profit / (loss)** | **154 153** | **(56 113)** | **5 759** | **(1 914)** | **4 492** | **11 158** | **117 535** |
| Other operating income | 4 545 | 10 925 | 3 017 | 4 320 | 320 | (10 049) | 13 078 |
| Selling and distribution expenses | (1 046) | - | - | (1 312) | (325) | - | (2 683) |
| Administrative expenses | (24 141) | (21 621) | (4 954) | (1 490) | (3 047) | - | (55 253) |
| Other operating expenses | (1 058) | (702) | (4 333) | (3) | (237) | - | (6 333) |
| Financial income | 1 631 | 11 | 2 | 6 886 | 14 | (486) | 8 058 |
| Financial costs | (5 271) | (7 860) | (258) | (7) | (120) | 486 | (13 030) |
| **Profit / (loss) before tax** | **128 813** | **(75 360)** | **(767)** | **6 480** | **1 097** | **1 109** | **61 372** |
| Income tax expenses (tax burden)/tax benefits | (23 207) | 1 396 | (410) | (1 753) | (490) | (212) | (24 676) |
| **Net profit / (loss) for the period from continuing operation** | **105 606** | **(73 964)** | **(1 177)** | **4 727** | **607** | **897** | **36 696** |
| **Profit / (loss) from operating activities, without financial operations and income tax** | **132 453** | **(67 511)** | **(511)** | **(399)** | **1 203** | **1 109** | **66 344** |
| Depreciation | 60 273 | 30 231 | 1 720 | 18 | 2 871 | 1 959 | 97 072 |
| Impairment write-down | - | (284) | - | - | - | - | (284) |
| **EBITDA** | **192 726** | **(37 564)** | **1 209** | **(381)** | **4 074** | **3 068** | **163 132** |

(in thousand PLN)

### *6-month period ended 30 June 2019 (unaudited)*

| | Generation | Mining | Renovation | Sale | Other | Consolidation adjustment | Total |
|---|---|---|---|---|---|---|---|
| Sales revenues to external customers | 684 215 | 4 187 | 40 166 | 251 963 | 2 309 | - | 982 840 |
| Sales revenues between segments | 148 669 | 269 230 | 40 476 | 2 | 118 215 | (576 592) | - |
| **Sales revenue** | **832 884** | **273 417** | **80 642** | **251 965** | **120 524** | **(576 592)** | **982 840** |
| Cost of goods sold | (769 666) | (305 331) | (74 757) | (254 608) | (116 365) | 578 788 | (941 939) |
| **Gross profit / (loss)** | **63 218** | **(31 914)** | **5 885** | **(2 643)** | **4 159** | **2 196** | **40 901** |
| **The moment of recognition of revenues:** | | | | | | | |
| - obligation to perform fulfilled in time | 72 502 | - | 80 103 | - | - | - | 152 605 |
| - a one-off obligation / at a specified time | 760 382 | 273 417 | 539 | 251 965 | 120 524 | (576 592) | 830 235 |
| Other operating income | 1 451 | 1 073 | 576 | 1 033 | 246 | (213) | 4 166 |
| Selling and distribution expenses | (920) | - | - | (538) | (584) | - | (2 042) |
| Administrative expenses | (29 353) | (22 695) | (6 536) | (2 077) | (4 131) | - | (64 792) |
| Other operating expenses | (609) | (912) | (591) | (612) | (146) | - | (2 870) |
| Financial income | 5 626 | 179 | 80 | 124 | 17 | (496) | 5 530 |
| Financial costs | (17 237) | (8 473) | (158) | (2) | (114) | 496 | (25 488) |
| **Profit / (loss) before tax** | **22 176** | **(62 742)** | **(744)** | **(4 715)** | **(553)** | **1 983** | **(44 595)** |
| Income tax expenses (tax burden)/tax benefits | (6 582) | (685) | (34) | 698 | (430) | (384) | (7 417) |
| **Net profit / (loss) for the period from continuing operation** | **15 594** | **(63 427)** | **(778)** | **(4 017)** | **(983)** | **1 599** | **(52 012)** |
| **Profit / (loss) from operating activities, without financial operations and income tax** | **33 787** | **(54 448)** | **(666)** | **(4 837)** | **(456)** | **1 983** | **(24 637)** |
| Depreciation | 59 237 | 33 574 | 3 231 | 34 | 1 666 | (1 607) | 96 135 |
| Impairment write-down | - | (2) | - | - | - | - | (2) |
| **EBITDA** | **93 024** | **(20 876)** | **2 565** | **(4 803)** | **1 210** | **376** | **71 496** |

(in thousand PLN)

# 12. Revenues and costs

## 12.1. Sale revenues

| | *6 months period ended 30 June 2019 (unaudited)* | *3 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* | *3 months period ended 30 June 2018 (unaudited)* |
|---|---|---|---|---|
| *Revenues by type* | | | | |
| Revenues from electricity sale | 712 435 | 384 403 | 574 174 | 307 750 |
| Revenues from electricity resold on the market | 520 568 | 223 577 | 262 697 | 134 732 |
| Income from the price difference amount | 16 963 | 16 963 | - | - |
| Energy certificates of origin | 25 820 | 14 836 | 9 194 | 7 610 |
| Revenues from construction contracts | 31 538 | 19 607 | 35 400 | 14 443 |
| Compensation related to PPA termination | 61 125 | 34 618 | 72 502 | 39 339 |
| Revenues from heat sale | 25 043 | 9 202 | 18 827 | 6 317 |
| Other | 13 842 | 8 314 | 13 814 | 8 737 |
| Excise | (1 304) | (621) | (3 768) | (1 874) |
| Total revenues | 1 406 030 | 710 899 | 982 840 | 517 054 |

## 12.2. Other operating revenues

| | *6 months period ended 30 June 2019 (unaudited)* | *3 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* | *3 months period ended 30 June 2018 (unaudited)* |
|---|---|---|---|---|
| Revenues from the sale of $CO_2$ allowances | 1 365 | - | - | - |
| Compensation received | 4 273 | 3 081 | 674 | (305) |
| Reversal of write-down against receivables | 6 | (287) | 82 | 69 |
| Grants settlement | 751 | 376 | 751 | 376 |
| Profit from disposal of non-financial fixed assets | 1 218 | (54) | 778 | (369) |
| Release of the provision for costs and losses and cancellation of liabilities | 4 321 | 4 319 | 1 012 | 1 011 |
| Other | 1 144 | 977 | 869 | 334 |
| Total other operating revenues | 13 078 | 8 412 | 4 166 | 1 116 |

(in thousand PLN)

## 12.3. Other operating costs

| | *6 months period ended 30 June 2019 (unaudited)* | *3 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* | *3 months period ended 30 June 2018 (unaudited)* |
|---|---|---|---|---|
| Loss on the sale of property, plant and equipment | 77 | 40 | 139 | (49) |
| Creation of provisions | 221 | 221 | 7 | 7 |
| Impairment write-downs on receivables | 39 | 30 | 419 | 387 |
| Compensation paid | 4 316 | 4 296 | 22 | (9) |
| Electricity-related damage | 16 | 16 | 78 | 48 |
| Donations given | 155 | 141 | 219 | 165 |
| Other | 1 509 | 1 157 | 1 986 | 1 200 |
| Total other operating costs | 6 333 | 5 901 | 2 870 | 1 749 |

The main components of the item "Compensation paid" for the period of 6 months ended on 30 June 2019 are penalties and damages related to the implementation of construction contracts in the amount of PLN 4,294 thousand. The part concerning subcontractors and consortium members in the amount of PLN 2,000 thousand is presented in other operating revenues in the item "compensation received". As at the date of publication of this report, the Group does not anticipate additional charges for any penalties and damages related to the implementation of construction contracts.

## 12.4. Financial income

| | *6 months period ended 30 June 2019 (unaudited)* | *3 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* | *3 months period ended 30 June 2018 (unaudited)* |
|---|---|---|---|---|
| Interest income | 821 | 282 | 1 782 | 787 |
| Dividends | - | - | 82 | 82 |
| Foreign exchange rates | - | - | 231 | 131 |
| Valuation of exchange rates hedging instruments (forward) | - | - | 1 645 | 840 |
| Release of write-offs on futures contracts | 6 765 | - | - | - |
| Other | 472 | (464) | 1 790 | 1 374 |
| Total financial income | 8 058 | (182) | 5 530 | 3 214 |

(in thousand PLN)

## 12.5. Financial costs

| | *6 months period ended 30 June 2019 (unaudited)* | *3 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* | *3 months period ended 30 June 2018 (unaudited)* |
|---|---|---|---|---|
| Interest expenses | 5 387 | 2 205 | 7 102 | 2 584 |
| Valuation and realization of derivative financial instruments | 603 | 245 | 2 462 | 774 |
| Foreign exchange losses | 530 | (532) | 7 033 | 5 469 |
| Reserve discount for the liquidation of power units | 553 | 353 | 274 | 137 |
| Reserve discount for reclamation | 4 976 | 2 488 | 5 726 | 2 863 |
| Other | 981 | 544 | 2 891 | 2 458 |
| Total financial costs | 13 030 | 5 303 | 25 488 | 14 285 |

## 12.6. Costs by type

| | *6 months period ended 30 June 2019 (unaudited)* | *3 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* | *3 months period ended 30 June 2018 (unaudited)* |
|---|---|---|---|---|
| Depreciation | 97 072 | 50 437 | 96 135 | 47 686 |
| Impairment write-downs on fixed assets | (284) | (51) | (2) | (2) |
| Impairment write-downs on inventories | 1 168 | (690) | 111 | 111 |
| Materials usage | 152 281 | 71 147 | 139 154 | 76 714 |
| External services | 43 146 | 25 547 | 45 863 | 23 836 |
| Taxes and fees excluding excise duty | 85 093 | 42 511 | 76 365 | 34 217 |
| Costs of $CO_2$ emission allowances | 261 555 | 148 769 | 166 169 | 109 582 |
| Costs of employee benefits | 215 282 | 110 632 | 225 202 | 114 024 |
| Other costs by type | 14 273 | 8 812 | 20 170 | 10 902 |
| The value of sold goods and materials and sold energy purchased from the market | 489 055 | 231 674 | 253 318 | 136 083 |
| Total costs by type | 1 358 641 | 688 788 | 1 022 485 | 553 153 |
| Items included in cost of goods sold | 1 288 495 | 648 726 | 941 939 | 511 611 |
| Items included in selling and distribution expenses | 2 683 | 810 | 2 042 | 898 |
| Items included in administrative expenses | 55 253 | 25 135 | 64 792 | 29 898 |
| Change in the stocks of finished goods | 10 925 | 13 498 | 12 643 | 9 771 |
| Cost of goods and services for internal needs | 1 285 | 619 | 1 069 | 975 |

(in thousand PLN)

## 12.7. Construction agreements

The Group executes contracts that are settled during the execution of works - issuing partial invoices adequately to the progress of works and the final invoice upon completion of works.

Payment terms due to contracts are usually 30 days. In the case of certain high value contracts, the Group has the possibility to obtain an advance payment. Advances are settled with partial invoices and a final invoice.

The revenue of 1H'19 did not include the part of revenue for which the obligation to meet the service was already included in previous reporting periods

In the Group, during 1H'19, there were no adjustments of revenues that would affect assets or liabilities under contracts resulting from a change in the method of measuring the stage of completion or amending the contract.

***Assets and liabilities due to contracts for construction and assembly services concluded***

| | *1 January 2019* | *Change in the valuation of contracts* | *Revenues recognized in 2019 included in the balance of liabilities as at 31.12.2018* | *Change of the period in which the right to remuneration becomes unconditional* | *30 June 2019* |
|---|---|---|---|---|---|
| Valuation of construction contracts | 5 601 | 7 754 | - | -5 601 | 7 754 |
| Assets due to contracts with clients | 5 601 | 7 754 | - | -5 601 | 7 754 |
| Valuation of construction contracts | 2 683 | 415 | 133 | - | 3 231 |
| Liabilities due to contracts with clients | 2 683 | 415 | 133 | - | 3 231 |

***Remaining commitments to perform the obligations***

| *The total amount of the transaction price assigned to the obligation to perform the service, which remained unmet (or partially unfulfilled) at the end of the reporting period to be implemented:* | *30 June 2019 (unaudited)* | *31 December 2019* |
|---|---|---|
| - up to 1 year | 15 944 | 24 720 |
| - over 1 year | - | - |
| Total | 15 944 | 24 720 |

| | *30 June 2019 (unaudited)* | *30 June 2018 (unaudited)* |
|---|---|---|
| The gross amount due from the contracting parties for works under the contract: | 7 357 | 5 692 |
| The gross amount due to the contracting parties for work under the contract: | 2 844 | 2 284 |

# 13. Income tax

## 13.1. Tax load

The main components of the tax burden for the 6-month period ended June 30, 2019 and June 30, 2018 are as follows:

(in thousand PLN)

| | *6 months period ended 30 June 2019 (unaudited)* | *3 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* | *3 months period ended 30 June 2018 (unaudited)* |
|---|---|---|---|---|
| Included in profit or loss | | | | |
| Current income tax | | | | |
| Current (encumbrance) / income tax benefit | 2 785 | (4 794) | 399 | 108 |
| Deferred income tax | | | | |
| Related to creation and reversal of temporary differences | 21 854 | 13 341 | 7 009 | (797) |
| Other changes | 37 | 21 | 9 | 8 |
| **Tax burden in consolidated profit or loss** | **24 676** | **8 568** | **7 417** | **(681)** |
| Included in the consolidated statement of the comprehensive income | | | | |
| Net profit/ (loss) tax due to revaluation of cash flow securities | (108) | (44) | (297) | (132) |
| Actuarial allowance concerning actuarial profits/losses | 165 | 29 | 98 | 39 |
| **Tax benefits / (tax burden) included in other comprehensive income** | **57** | **(15)** | **(199)** | **(93)** |

## 13.2. Fixing of an effective tax rate

The agreement of income tax on the gross financial result before taxation according to the statutory tax rate with the income tax calculated according to the effective tax rate of the Group for 6 months period ended on 30 June 2019 and year ended 31 December 2018 is as follows:

| | *6 months period ended 30 June 2019 (unaudited)* | *Year ended 31 December 2018* |
|---|---|---|
| **Gross profit before taxation from continuing operations** | **72 176** | **(515 448)** |
| **Tax at the statutory tax rate applicable in Poland, amounting to 19%** | 13 713 | (97 935) |
| Adjustment concerning the current income tax from previous years | - | - |
| Not included tax losses | 11 865 | 23 822 |
| Usage of the tax losses not recognised earlier | - | 393 |
| Fixed costs that are not tax deductible costs | 59 | 5 468 |
| A write-off on the deferred tax asset | | 17 240 |
| Revenues that are not taxable | (3 606) | (528) |
| Others | 2 645 | (235) |
| **Tax at the effective tax rate** | 24 676 | (51 775) |
| **Income tax in profit and loss account** | **24 676** | **(51 775)** |

(in thousand PLN)

## 13.3. Deferred income tax

Deferred income tax results from the following items:

| | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|
| **Deferred tax asset** | | |
| Balance sheet provisions | 186 480 | 127 458 |
| Overburden and other mining assets | 5 157 | 5 105 |
| Interest and exchange rate differences | 2 589 | 4 947 |
| Hedging instruments | - | 175 |
| Valuation of non-terminated agreements for building services | 689 | 612 |
| Tax loss | 45 949 | 19 384 |
| Impairment write-down on inventories | 2 838 | 2 972 |
| Impairment write-down on receivables | 776 | 738 |
| Impairment write-downs on fixed assets | - | 8 773 |
| Settlements with employees | 1 830 | 3 169 |
| Difference between the balance sheet value and the tax value of fixed assets | 18 477 | 35 |
| Other | 20 895 | 34 677 |
| Total | 285 680 | 208 045 |
| **Provision under deferred income tax** | | |
| Difference between the balance sheet value and the tax value of fixed assets | 504 579 | 471 631 |
| Receivables under PPAs | 17 980 | 10 961 |
| Energy certificates | 4 330 | 3 948 |
| Interest and exchange rate differences | 650 | 1 029 |
| Valuation of non-terminated construction agreements | 1 547 | 1 103 |
| Purchased $CO_2$ allowances | 63 612 | 2 203 |
| Other | (597) | 5 |
| Total | 592 101 | 490 880 |
| *After offsetting the balances at the level of the Group companies, the deferred tax is presented as:* | | |
| **Asset:** | **81 822** | **81 817** |
| **Provision:** | **388 243** | **364 652** |

Under the item other deferred tax asset, the main item as at June 30, 2019 is the provision for redemption of CO2 emission rights at Elektrownia Pątnów II sp. z o.o. in the amount of PLN 17,810 thousand.

Below is the status of tax settlements of the Group companies for tax losses as at June 30, 2019, including deferred tax.

As at June 30, 2019, Elektrownia Pątnów II sp. z o.o. showed a tax result of PLN 1,701 thousand, which, after accounting for the cumulative tax loss settlement, as at December 31, 2018 amounted to 0.

The accumulated value of tax losses as at June 30, 2019 was PLN 42,073 thousand. Pątnów II Power Plant sp. z o.o. created a tax asset for the amount of accumulated tax losses in the amount of PLN 7 994 thousand PLN, providing that these losses will be fully settled with taxable income of future periods.

(in thousand PLN)

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

On April 24, 2017, the company received an individual interpretation of tax law provisions regarding the recognition over time of tax deductible expenses, expenses due to the return of Zarządca Rozliczeń SA of funds to cover stranded costs. This interpretation recognizes that the company's position regarding the settlement of the above-mentioned costs is incorrect. In the current tax returns for the years 2014 - 2017, the company assumed that the repayment of stranded costs from the company to Zarządca Rozliczeń SA, whose legitimacy results from the LTC Act, constitute tax deductible costs when these payments are made. On the other hand, the tax authorities consider that these costs are recognized as tax deductible costs on the day they are incurred, i.e. posted in the accounts. In the light of receiving an individual tax interpretation, taking into account unsettled tax losses, the Management Board of the Company assessed that there is no risk of tax arrears on this account. The company appealed against the individual interpretation received. On July 7, 2017, Elektrownia Pątnów II Sp. z o.o. submitted to the Provincial Administrative Court in Poznań (via the Director of the National Tax Information Service) a complaint against the abovementioned individual interpretation of tax law. On January 18, 2018, the Provincial Administrative Court in Poznań, in response to a complaint filed by the Pątnów II Power Plant, issued a verdict abrogating the contested Interpretations of the Director of the National Tax Information dated 20 April 2017. On 27 March 2018, the Director of the National Tax Information filed a cassation complaint from the Judgment of the Provincial Administrative Court in Poznań of January 18, 2018. With reference to the above, on 17 April 2018 Elektrownia Pątnów II sp. Z o.o. received the decision of the Head of the Second Wielkopolska Tax Office in Kalisz to initiate tax proceedings regarding the settlement of the corporate income tax for 2016. On June 25, 2018 Elektrownia Pątnów II sp. z o.o. received the decision of the Head of the Second Wielkopolska Tax Office in Kalisz to suspend tax proceedings, initiated in April 2018, regarding the settlement of the corporate tax for 2016, until the issue was resolved by the Supreme Administrative Court. As at the date of the report, the Group maintains the inclusion of the penalty paid in tax costs at the time of payment, therefore no provision or contingent liability was created. A description of disputable matters related to tax settlements is provided in Note 28.3.

As at June 30, 2019, PAK KWB Konin SA shows a tax loss of PLN 30,490 thousand. The deferred tax asset as at June 30, 2019 is PLN 73,163 thousand, it does not include tax losses.

As at June 30, 2019, PAK KWB Adamów SA shows a tax loss of PLN 31,959 thousand. No tax asset was created on this loss.

***Asset due to unused tax loss***

| | *ZE PAK SA* | *Elektrownia Pątnów II sp. z o.o.* | *PAK Serwis sp. z o.o.* | *Total* |
|---|---|---|---|---|
| *Loss from 2016* | 50 899 | 2 754 | 2 973 | 56 626 |
| *Asset created* | 9 671 | 523 | 565 | 10 759 |
| *Loss from 2017* | | 39 319 | | 39 319 |
| *Asset created* | | 7 471 | | 7 471 |
| *Loss from 2018* | | | 4 376 | 4 376 |
| *Asset created* | | | 831 | 831 |
| *Loss from 2019* | 141 107 | | 410 | 141 517 |
| *Asset created* | 26 810 | | 78 | 26 888 |
| *Total loss* | 192 006 | 42 073 | 7 759 | 241 838 |
| *Total asset created* | 36 481 | 7 994 | 1 474 | 45 949 |

# 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:

| | *6 months period ended 30 June 2019 (unaudited)* | *3 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* | *3 months period ended 30 June 2018 (unaudited)* |
|---|---|---|---|---|
| Net (loss) / profit on continued activities of the parent company's shareholders | 37 911 | 24 631 | (51 257) | (36 174) |
| Profit / (loss) on abandoned activities of the parent company's shareholders | - | - | - | - |
| Net (loss) / profit of ordinary shareholders used for calculation of diluted profit / (loss) per one share | 37 911 | 24 631 | (51 257) | (36 174) |
| The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share | 50 823 547 | 50 823 547 | 50 823 547 | 50 823 547 |

The table below presents profit / (loss) per share in Polish zlotys for the 6-month period ended June 30, 2019 and June 30, 2018 presented in the income statement.

| | *6 months period ended 30 June 2019 (unaudited)* | *3 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* | *3 months period ended 30 June 2018 (unaudited)* |
|---|---|---|---|---|
| Basic from profit for the financial year attributable to the shareholders of the parent | 0,75 | 0,48 | (1,01) | (0,71) |
| Diluted from profit from continuing operations attributable to the shareholders of the parent | 0,75 | 0,48 | (1,01) | (0,71) |

In the period between the balance sheet date and the date of these financial statements, there were no changes in the number of ordinary shares or potential ordinary shares.

(in thousand PLN)

## 15. Tangible fixed assets

***A period of 6 months ended 30 June 2019 (unaudited)***

| | *Lands* | *Buildings and constructions* | *Plants and machinery* | *Motor vehicles* | *Other* | *Assets under construction* | *Total* |
|---|---|---|---|---|---|---|---|
| Gross value as at 1January 2019 (transformed data) | 218 269 | 2 033 360 | 4 998 420 | 69 045 | 33 721 | 176 498 | 7 529 313 |
| Purchase | - | - | 4 719 | 2 707 | 223 | 10 189 | 17 838 |
| Repairs | - | - | (22) | - | - | - | (22) |
| Transfer from fixed assets under construction | 4 198 | 5 064 | 3 862 | - | - | (13 124) | - |
| Sale and liquidation | (950) | (3 126) | (1 448) | (3 245) | (376) | (226) | (9 371) |
| Gross value as at 30 June 2019 | 221 517 | 2 035 298 | 5 005 531 | 68 507 | 33 568 | 173 337 | 7 537 758 |
| Depreciation and impairment write-downs as at 1 January 2019 (transformed data) | 46 383 | 1 223 454 | 3 324 971 | 46 462 | 22 149 | 131 413 | 4 794 832 |
| Depreciation write-down for the period | 1 837 | 22 891 | 60 306 | 2 604 | 791 | - | 88 429 |
| Impairment write-downs (change of the state) | - | - | - | - | - | (284) | (284) |
| Sale and liquidation | (3) | (3 083) | (1 511) | (1 450) | (367) | - | (6 414) |
| Depreciation and impairment write-downs as at 30 June 2019 | 48 217 | 1 243 262 | 3 383 766 | 47 616 | 22 573 | 131 129 | 4 876 563 |
| Net value as at 1 January 2019 (transformed data) | 171 886 | 809 906 | 1 673 449 | 22 583 | 11 572 | 45 085 | 2 734 481 |
| Net value as at 30 June 2019 | 173 300 | 792 036 | 1 621 765 | 20 891 | 10 995 | 42 208 | 2 661 195 |

(in thousand PLN)

### *A period of 6 months ended 30 June 2018 (unaudited)*

| | *Lands* | *Buildings and constructions* | *Plants and machinery* | *Motor vehicles* | *Other* | *Assets under construction* | *Total* |
|---|---|---|---|---|---|---|---|
| Gross value as at 1January 2018 (transformed data) | 264 070 | 2 019 714 | 4 941 958 | 69 440 | 29 741 | 222 654 | 7 547 577 |
| Purchase | - | - | 4 032 | 6 714 | 499 | 37 344 | 48 589 |
| Repairs | - | - | - | - | - | 1 425 | 1 425 |
| Transfer from fixed assets under construction | 23 381 | 6 991 | 17 620 | (1) | (4) | (47 987) | - |
| Sale and liquidation | (2 417) | (738) | (831) | (713) | (712) | - | (5 411) |
| Gross value as at 30 June 2018 | 285 034 | 2 025 967 | 4 962 779 | 75 440 | 29 524 | 213 436 | 7 592 180 |
| Depreciation and impairment write-downs as at 1 January 2018 (transformed data) | 11 065 | 1 169 349 | 2 892 319 | 44 041 | 21 404 | 124 896 | 4 263 074 |
| Depreciation write-down for the period | 1 733 | 20 591 | 64 562 | 3 343 | 866 | - | 91 095 |
| Impairment write-downs (change of the state) | - | - | - | - | - | (2) | (2) |
| Sale and liquidation | (13) | (684) | (806) | (561) | (685) | - | (2 749) |
| Depreciation and impairment write-downs as at 30 June 2018 | 12 785 | 1 189 256 | 2 956 075 | 46 823 | 21 585 | 124 894 | 4 351 418 |
| Net value as at 1 January 2018 (transformed data) | 253 005 | 850 365 | 2 049 639 | 25 399 | 8 337 | 97 758 | 3 284 503 |
| Net value as at 30 June 2018 | 272 249 | 836 711 | 2 006 704 | 28 617 | 7 939 | 88 542 | 3 240 762 |

## 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 factors which the Management Board took into account when assessing the need for the test were the following:

- The continuing lower market value of the Group's net assets from their carrying amount.
- Determination by the Ministry of Energy of parameters of the main auction of the capacity market for supplies in 2024.

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.

As at 30 June 2019, PAK KWB Konin SA and PAK KWB Adamów SA lignite mines run business operations on Jóźwin, Tomisławice, Drzewce and Adamów open pit lands. PAK KWB Konin SA plans to start mining in the open-pit Ościsłowo, the issue of obtaining consent for the open-pit Ościsłowo has been described in note 28.2.

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 cash flows within the ZE PAK SA Capital Group:

- fixed assets (manufacturing) of ZE PAK SA such as the Pątnów I power plant, Konin power plant collector, Konin biomass power plant ("CGU ZE PAK"),
- fixed assets (manufacturing) of Pątnów II Power Plant sp. z o.o. such as Pątnów II power plant ("CGU Pątnów II Power Plant"),
- fixed assets (mining) and mining assets of PAK KWB Konin SA concerning outcrops in Jóźwin, Tomisławice and Drzewce ("CGU PAK KWB Konin"),
- fixed assets (mining) and mining assets of PAK KWB Adamów SA concerning the open pit in Adamów ("CGU PAK KWB Adamów").

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 2019-2047 reflecting strategic priorities of the parent company – ZE PAK SA

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

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

- Production of electricity from Pątnów I was founded by 2030, production from Pątnów II was established until 2047, production from biomass from Konin was established until 2047.
- Heat production was set up until 2047 in connection with the operation of the biomass block that was created up to this year, from which heat is generated to the city of Konin.
- Production assumptions result from the adopted investment and renovation program for the Generation segment.
- Receipts from the capacity market in 2021-2023 based on the results of the auction were adopted; additionally, participation in the auction for 2024 was assumed, and participation in the secondary power market was also assumed.
- Electricity sales prices were adopted on the basis of developed forecasts broken down into BASE, PEAK and OFFPEAK prepared for ZE PAK SA by an independent external advisor, taking into account own estimates, based on the current market situation for the first years of the forecast.
- Heat sales prices were adopted on the basis of currently realized deliveries along with forecasted steady growth in subsequent years.
- Price forecasts for CO2 emission allowances, based on assumptions from the Ministry of Energy document - "National Plan for Energy and Climate for 2021-2030" (Project - item 3.1 of 4 January 2019), including own estimates, based on current market situation for the first years of the forecast.
- The purchase costs of lignite purchased for production were determined on the basis of the delivery schedule and prices agreed with the relevant schedules included in the financial projections of mining companies.
- The costs of biomass purchase were set at the level of contracted prices for 2019 together with forecasted steady growth in subsequent years.
- The forecast of the margin on the biomass block was estimated with the assumption of support mechanisms. It is assumed that the margin in constant prices will decrease after 2027, with the growing price of biomass. The "State Energy Policy until 2040" and the "National Energy and Climate Plan for 2021-2030" submitted for public consultations outline a clear direction for the further development of RES, which is necessary to meet the indicators adopted by Poland that meet the RES obligation. For this purpose to be achieved, and in the following years at least maintained Poland as an EU member must ensure maintenance of existing RES sources, including existing biomass units, which in the next few years will end their participation in the support system, and because of their good technical condition will be able to work further. The factor that gives such powers today to adopt the above thinking is the current provisions on statistical transfer, which on the one hand impose penalties on a member state that fails to fulfil the obligation and on the other hand already included in the act on RES providing a signal about the organization of the ERO auction for units that after the end of the support period they will be able to continue to participate in the newly created mechanisms. The provisions of the applicable RES Act authorize this for this purpose. At the same time, the provisions of the Act provide for the possibility of extending support for RES installations over 15 years. It is also important that the Ministry of Energy withdrew from the proposals for changes in the rules for determining the substitution fee.
- The Company assumed the use of free allowances for CO2 emissions in the amount resulting from Art. 10a of Directive 2003/87 / EC of the European Parliament and of the Council of October 13, 2003.
- The effects of labour cost optimization resulting from the implemented etatization policy have been taken into account,
- The weighted average post-tax capital (WACC) was assumed in the projection period at 6.57%.
- Within the scope of BAT conclusions for ZE PAK SA, it was assumed to receive derogations from the required emission limit values due to the planned short life span of generation assets, whereas in the case of Elektrownia Pątnów II sp. z o. o. A periodic release was assumed until 2024 to realize investments as part of the general renovation planned for this year.
- In the case of Elektrownia Pątnów II sp. z o.o. the participation of this unit in the stranded costs scheme (LTC) was accepted.

(in thousand PLN)

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

The financial projections of the companies from the Extraction segment were built taking into account the following parameters:

- The volume of production (coal extraction) and revenues was determined based on the forecasts of the main coal recipients, i.e. ZE PAK SA and Elektrownia Pątnów II sp. z o.o. and anticipated price pathways for coal based on the opencast finance agreement. The planned mining of lignite on individual outcrops is as follows (the planned quantities were reduced by the performance for the first half of 2019):
    - Adamów open pit – 4.62 m tons till 2023,
    - Tomisławice open pit – 27.68 m tons till 2030,
    - Jóźwin open pit – 5.20 m tons till 2021,
    - Drzewce open pit – 4.85 m tons till 2021,
    - Ościsłowo – open pit 31.32 tons from 2024 till 2036.
- The level of investment expenditures allowing the construction of a new Ościsłowo open pit ensuring the supply of the power plant and maintaining specific production capacities during their operation was adopted.
- The effects of employment restructuring processes were taken into account.
- There were taken into account the costs of such events as:
    - costs of pitting reclamation,
    - pension reserves,
    - for PAK KWB Adamów SA, severance pay for group layoffs,
    - for PAK KWB Adamów SA revenues from the sale of assets after the exploitation of the open pit,
    - the extension of the concession in PAK KWB Adamów SA for Adamów deposit was concluded.
- the weighted average cost of capital after tax (WACC) was assumed in the projection period for PAK KWB Adamów SA at 6.93% and for PAK KWB Konin SA at 7.08%, the higher discount rate reflects the higher risk related to the functioning of PAK KWB Konin SA in the longer term (longer horizon of the forecast), in particular with regard to investment activities related to the development of new lignite deposits.

The recoverable amount of individual CGUs was estimated based on value in use using the discounted cash flow method on the basis of prepared financial projections.

The tests were performed as at 30 June 2019.

Based on the tests carried out, no need was recognized to recognize impairment losses on property, plant and equipment for the cash-generating units of the ZE PAK SA Group.

### *Sensitivity analysis*

Changes of financial parameters underlying the evaluation of the recoverable amount would change the present value of the discounted cash flow with the amounts presented below.

The results of the sensitivity analysis showed that the value in use of the tested assets for CGU ZE PAK is significantly affected by the consideration of support for the biomass unit after 2027. In the pessimistic scenario, in the absence of support mechanism after 2027, the price of biomass would have to be lower by 17.40% in the analysed period, with the remaining assumptions remaining unchanged, to cover the loss of revenues.

| **Zespół Elektrowni Pątnów-Adamów-Konin SA** | **(+) increase by 1,0 p.p.** | **(-) decrease by 1,0 p.p.** |
|---|---|---|
| weighted average cost of capital | (51 m PLN) | 61 m PLN |
| | (+) increase by 1% | (-) decrease by 1%. |
| change in sales revenues (electricity price) | 75 m PLN | (75 m PLN) |
| | (+) increase by 5% | (-) decrease by 5%. |

(in thousand PLN)

| | | |
|---|---|---|
| change in cost of sales (price 1 EUA) | (102 m PLN) | 102 m PLN |
| | (+) increase by 5% | (-) decrease by 5% |
| Change in biomass price (PLN/GJ) | (139 m PLN) | 139 m {LN |

In the event of a decrease in sales revenues by 0.29% over the forecast horizon with other parameters of the model unchanged, as well as in the case of a weighted average cost of capital increase by 0.58 pp. with the other parameters of the model unchanged, the recoverable amount of CGU would be equal to the carrying amount.

| **Elektrownia Pątnów II sp. z o.o.** | (+) increase by 1,0 p.p. | (-) decrease by 1,0 p.p. |
|---|---|---|
| weighted average cost of capital | (123 m PLN) | 144m PLN |
| | (+) increase by 1% | (-) decrease by 1%. |
| change in sales revenues (electricity price) | 106 m PLN | (-106 m PLN) |
| | (+) increase by 5% | (-) decrease by 5%. |
| change in cost of sales (price 1 EUA) | (154 m PLN) | 154 m PLN |

In the event of a decrease in sales revenues by approx. 0.0115% in the forecast horizon with other parameters of the model unchanged, as well as in the case of an increase in weighted average cost of capital by 0.0092 pp with the other parameters of the model unchanged, the recoverable amount of CGU would be equal to the carrying amount.

| **PAK KWB Konin SA** | **(+) increase by 1,0 p.p.** | **(-) decrease by 1,0 p.p.** |
|---|---|---|
| Weighted average cost of capital | (63 m PLN) | 72 m PLN |
| | (+) increase by 1% | (-) decrease by 1% |
| Change in sales revenues | 52 m PLN | (52 m PLN) |

In the event of a decrease in sales revenues by 1.74% over the forecast horizon, with the remaining parameters of the model determining the recoverable amount unchanged, or in the event of an increase in weighted average cost of capital by 1.47 pp. with the other parameters of the model unchanged, the recoverable amount of CGU would be equal to the carrying amount.

| **PAK KWB Adamów SA** | **(+) increase by 1,0 p.p.** | **(-) de crease by1,0 p.p.** |
|---|---|---|
| Weighted average cost of capital | 1 m PLN | (1 m PLN) |
| | (+) increase by 1% | (-) decrease by 1% |
| Change in sales revenues | 5 m PLN | (5 m PLN) |

In the event of a decrease in sales revenues by 12.84% over the forecast horizon, with the remaining parameters of the model determining the recoverable amount unchanged, or in the event of a weighted average cost of capital decrease by 27.9 pp. with the other parameters of the model unchanged, the recoverable amount of CGU would be equal to the carrying amount.

(in thousand PLN)

## 16. Assets due to the right to use

Assets due to the right to use include assets used under land lease contracts, perpetual usufruct rights to land and financial leasing at PAK KWB Konin SA, PAK KWB Adamów SA and ZE PAK SA.

| | *6 months period ended 30 June 2019 (unaudited)* |
|---|---|
| Gross value as at 1 January | 65 803 |
| Remission as at 1 January | (3 103) |
| Net value as at 1 January | 62 700 |
| Depreciation for the period | (3 412) |
| State as at the end of period | 59 288 |

(in thousand PLN)

# 17. Intangible assets

***Long-term intangible assets – a period of 6 months ended 30 June 2019 (unaudited)***

| | *$CO_2$ emission units (EUA)* | *Patents and licences* | *Computer software* | *Other* | *Total* |
|---|---|---|---|---|---|
| Gross value as at 1 January 2019 | - | 22 333 | 2 133 | 417 | 24 883 |
| Decrease | - | - | (2) | - | (2) |
| Increase | - | 235 | - | - | 235 |
| Gross value as at 30 June 2019 | - | 22 568 | 2 131 | 417 | 25 116 |
| Depreciation and impairment write-downs as at 1 January 2019 | - | 18 734 | 2 015 | 361 | 21 110 |
| Depreciation write-down for the period | - | 612 | 67 | 2 | 681 |
| Impairment write-down | - | - | - | - | - |
| Decrease | - | - | (2) | - | (2) |
| Depreciation and impairment write-down as at 30 June 2019 | - | 19 346 | 2 080 | 363 | 21 789 |
| Net value as at 1 January 2019 | - | 3 599 | 118 | 56 | 3 773 |
| Net value as at 30 June 2019 | - | 3 222 | 51 | 54 | 3 327 |

(in thousand PLN)

## *Long-term intangible assets – a period of 6 months ended 30 June 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 | - | (11) | (3) | (16) | (30) |
| Increase | - | 5 | 10 | - | 15 |
| Gross value as at 30 June 2018 | 2 266 | 21 880 | 1 988 | 412 | 26 546 |
| Depreciation and impairment write-downs as at 1 January 2018 | - | 17 561 | 1 958 | 363 | 19 882 |
| Depreciation write-down for the period | - | 586 | 33 | 10 | 629 |
| Impairment write-down | - | - | - | - | - |
| Decrease | - | (9) | (3) | (16) | (28) |
| Depreciation and impairment write-down as at 30 June 2018 | - | 18 138 | 1 988 | 357 | 20 483 |
| Net value as at 1 January 2018 | 2 266 | 4 325 | 23 | 65 | 6 679 |
| Net value as at 30 June 2018 | 2 266 | 3 742 | - | 55 | 6 063 |

(in thousand PLN)

***Short-term intangible assets***

| | *6 months period ended 30 June 2019 (EUA) (unaudited)* | *6 months period ended 30 June 2018 (EUA) (unaudited)* |
|---|---|---|
| Gross value as at 1 January 2019 | 66 817 | 261 654 |
| Purchase | 443 789 | 37 280 |
| Decrease | (11 940) | - |
| Remission of EUA | (492 067) | (290 205) |
| Gross value as at 30 June 2019 | 6 599 | 8 729 |
| Net value as at 1January 2019 | 66 817 | 261 654 |
| Net value as at 30 June 2019 | 6 599 | 8 729 |

# 18. Assets for overburden removal and other mining assets

As at 30 June 2019, the item of assets concerning overburden stripping and other mining assets includes the assets related to overburden stripping and other mining assets of PAK KWB Konin in the amount of PLN 76 313 thousand.

| | *6 months period ended 30 June 2019 (unaudited)* | *Year ended 31 December 2018* |
|---|---|---|
| As at 1 January 2019 | 80 326 | 72 536 |
| Increase | 537 | 16 369 |
| Depreciation for the period | (4 550) | (8 579) |
| As at 30 June 2019 | 76 313 | 80 326 |
| Long-term | 76 313 | 80 326 |
| Short-term | - | - |

# 19. Other assets

## 19.1. Other financial assets

| | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|
| Deposits for debt security service | - | 36 679 |
| Investments and FLZG* deposits | 3 097 | 4 203 |
| Shares | 352 | 352 |
| Other | 193 | 193 |
| Total of financial assets | 3 642 | 41 427 |

(in thousand PLN)

| | | |
|---|---|---|
| Short-term | - | 36 679 |
| Long-term | 3 642 | 4 748 |

**FLZG – mining liquidation fund*

## 19.2. Other non-financial assets

| | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|
| VAT receivables | 22 919 | 18 378 |
| Insurance | 117 | 1 516 |
| Compensation for the freezing of energy prices | 16 963 | - |
| Other receivables from the state budget | 456 | 1 842 |
| Other non-financial assets | 1 517 | 2 682 |
| Other accruals | 3 407 | 2 149 |
| Delivery prepayments | 90 | 66 |
| Prepayments for assets under construction | 751 | 751 |
| Other | 3 096 | 528 |
| Total other non-financial assets | 49 316 | 27 912 |
| Short-term | 46 884 | 24 039 |
| Long-term | 2 432 | 3 873 |

The largest components of the "Other" item in the first half of 2019 are settlements regarding the Company Social Benefits Fund in the amount of PLN 1,596 thousand.

# 20. Inventories

| | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|
| Production fuel | 11 592 | 7 131 |
| Other materials used to ongoing service works | 64 414 | 75 205 |
| Certificates of origin | 25 349 | 26 897 |
| Goods | 9 | 6 |
| Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire | 101 364 | 109 239 |

Certificates of origin of energy from the production of energy in renewable sources, gas and high-efficiency cogeneration are recognized at fair value at the end of the month in which they were produced.

(in thousand PLN)

# 21. Trade and other receivables

| | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|
| Trade receivables | 139 687 | 150 765 |
| Receivables due to compensation related to the termination of the PPAs | 94 631 | 57 691 |
| Receivables due to security of purchase of electricity in the balancing market | 21 747 | 14 761 |
| Receivables due to security of transactions on the Polish Power Exchange | 36 811 | 121 797 |
| Other receivables | 11 309 | 9 169 |
| Net receivables | 304 185 | 354 183 |
| Impairment write-down on receivables | 42 200 | 42 110 |
| Gross receivables | 346 385 | 396 293 |

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 an appropriate policy for making sales only to verified customers. Thanks to this, in the management's opinion, there is no additional credit risk above the level determined by the write-down of bad debts appropriate for the Group's trade receivables.

# 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 at June 30, 2019 is PLN 130,481 thousand (as at June 30, 2018: PLN 240,035 thousand). The Group invests cash in bank accounts and deposits in banks with good financial condition, therefore there was no write-down of financial assets in the form of cash. Ratings assigned to banks in which the Group has cash are presented in note 32.3.

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

### *Cash structure*

| | *30 June 2019 (unaudited)* | *30 June 2018 (unaudited)* |
|---|---|---|
| Cash in hand and at bank | 85 404 | 182 280 |
| Short-term deposits | 45 077 | 57 755 |
| **Total cash and cash equivalents in the balance sheet** | 130 481 | 240 035 |
| Foreign exchange differences | - | (34) |
| **Total cash and cash equivalents in cash flow statement** | 130 481 | 240 001 |

(in thousand PLN)

## *Explanation of changes in balance sheet items and changes in items recognized in the cash flow statement*

| | *6 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* |
|---|---|---|
| **Depreciation:** | | |
| Depreciation shown in the income statement | 97 072 | 96 135 |
| Settlement of subsidies | (751) | (753) |
| **Depreciation shown in the cash flow statement** | 96 321 | 95 382 |

| | *6 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* |
|---|---|---|
| **Receivables:** | | |
| Balance sheet change in trade receivables and other receivables | 49 998 | (48 511) |
| Balance sheet change in other long and short-term non-financial assets | (21 403) | (15 263) |
| Balance sheet change in amounts due from clients under PPAs | (2 292) | 1 388 |
| Change in advances for fixed assets under construction | (698) | (1 698) |
| Other changes | (746) | 51 |
| **Change in receivables shown in the cash flow statement** | 24 859 | (64 033) |

| | *6 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* |
|---|---|---|
| **Liabilities:** | | |
| Balance sheet change in trade liabilities and other financial liabilities, long and short-term | 16 234 | 62 883 |
| Balance sheet change in other non-financial liabilities | (19 453) | (44 079) |
| Balance sheet change in amounts paid to clients under PPAs | 362 | (3 342) |
| Change in liabilities under investment settlements | 21 255 | 8 445 |
| Purchase of debt securities | (37) | - |
| New lease agreements and payment of lease liabilities | 860 | 353 |
| Other changes | (25 443) | 28 927 |
| **Change in liabilities shown in the cash flow statement** | (6 222) | 53 187 |

(in thousand PLN)

| | *6 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* |
|---|---|---|
| **Change in provisions, prepayments and accruals and employee benefits:** | | |
| Change in provisions and accruals | (245 374) | (123 389) |
| Change in long and short-term employee benefits | 5 308 | 523 |
| Change in provision from redemption of EUA | 334 714 | 290 205 |
| Change in actuarial provisions indicated in other comprehensive income | (867) | (516) |
| Other changes | 156 816 | (787) |
| **Change in provisions, prepayments and accruals and employee benefits** | 250 597 | 166 036 |

The main component of other changes is the value of redeemed CO2 emission allowances in the amount of PLN 157 354 thousand.

| | *6 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* |
|---|---|---|
| Inventories | | |
| Balance change in inventories | 7 875 | (7 424) |
| Other changes | (10 251) | - |
| **Change in inventories disclosed in the cash flow statement** | (2 376) | (7 424) |

# 23. Dividends paid and proposed for payment

ZE PAK SA did not pay or declare dividends in the first half of 2019.

# 24. Interest-bearing loans and borrowings

| **Short-term** | *Maturity* | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|---|
| Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin (Elektrownia Pątnów II sp. z o.o.) | 23.04.2019 | - | 108 200 |
| Overdraft facility at Santander Bank Polska SA in the amount of zloty 40 000 thousand; interest rate at WIBOR 1M + bank margin (PAK KWB Konin SA) | 30.06.2020 | 36 368 | 38 998 |
| Overdraft in Alior Bank SA in the amount of PLN 66 700 thousand, bearing interest at WIBOR 1M + bank margin(PAK KWB Konin SA)* | 26.07.2019 | 66 068 | 58 448 |

(in thousand PLN)

| | | | |
|---|---|---|---|
| Investment loan (syndicated) in the amount of PLN 577 000 thousand (Loan A), bearing interest at WIBOR 3M + bank margin (ZE PAK SA) | 20.03.2020 | 89 311 | 139 188 |
| Investment loan (syndicated)in the amount of PLN 90 000 thousand (Loan B), bearing interest at WIBOR 3M + bank margin (ZE PAK SA) | 20.03.2020 | 46 424 | 11 683 |
| Overdraft facility in mBank SA in the amount of PLN 10 000 thousand, bearing interest at WIBOR 1M + bank margin (PAK Serwis sp. z o.o.) | 29.05.2020 | 2 179 | 4 438 |
| Overdraft facility in Pekao SA in the amount of PLN 10 000 thousand, bearing interest at WIBOR 1M + bank margin (PAK Serwis sp. z o.o.) | 30.11.2019 | 2 389 | - |
| **TOTAL** | | **242 739** | **360 955** |

| **Long-term** | *Maturity* | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|---|
| Investment loan (syndicated) in the amount of PLN 577 000 thousand (Loan A), bearing interest at WIBOR 3M + bank margin (ZE PAK SA) | 20.03.2020 | - | 19 447 |
| Investment loan (syndicated) in the amount of PLN 90 000 thousand (Loan B), bearing interest at WIBOR 3M + bank margin (ZE PAK SA) | 20.03.2020 | - | 39 977 |
| **TOTAL** | | **-** | **59 424** |

** A description of the loan after the balance sheet date is provided in Note 34.*

# 25. Provisions and accruals

## 25.1. Accruals

| | *30 June2019 (unaudited)* | *31 December 2018* |
|---|---|---|
| Provision for bonuses and holiday leaves | 16 425 | 25 545 |
| Compensation from an insurance company | 34 | 38 |
| Audit of financial statements | - | 264 |
| Other | 9 468 | 1 545 |
| Total | 25 927 | 27 392 |
| Short-term | 25 927 | 27 392 |
| Long-term | - | - |

The main components of the "Other" item are fees for economic use of the environment in the amount of PLN 8 267 thousand and a provision for a fine for exceeding the amount of dust released into the air in 2015 in the amount of PLN 1 190 thousand. The group appealed against this decision to the Provincial Inspectorate for Environmental Protection in Poznań. The case was referred to the Chief Inspector for Environmental Protection. As at the date of these financial statements, the procedure of collecting and analysing documents related to Adamów Power Plant was completed. The Group is currently awaiting a decision.

(in thousand PLN)

## 25.2. Change in provisions

| | *Provision for EUA redemption* | *Provision for return of $CO_2$ emission allowances* | *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 at 1 January 2019** | 492 104 | 30 640 | 17 391 | 63 656 | 65 | 21 919 | 358 718 | 25 983 | 1 010 476 |
| Increase | 260 773 | 221 | 400 | 154 | 27 | 215 | 5 526 | 1 860 | 269 176 |
| decrease | (491 285) | | - | (88) | (74) | (13 955) | (7 049) | (631) | (513 082) |
| **As at 30 June 2019 (unaudited)** | 261 592 | 30 861 | 17 791 | 63 722 | 18 | 8 179 | 357 195 | 27 212 | 766 570 |
| Long-term | - | 30 861 | 17 791 | 63 594 | - | - | 332 976 | 4 954 | 450 176 |
| Short-term | 261 592 | | - | 128 | 18 | 8 179 | 24 219 | 22 258 | 316 394 |
| | | | | | | | | | |
| **As at 1 January 2018** | 289 942 | - | 16 593 | 57 649 | 370 | 8 522 | 362 416 | 24 754 | 760 246 |
| increase | 492 104 | 30 640 | 798 | 6 223 | 290 | 14 201 | 13 559 | 15 174 | 572 989 |
| decrease | (289 942) | - | - | (216) | (595) | (804) | (17 257) | (13 945) | (322 759) |
| **As at 31 December 2018** | 492 104 | 30 640 | 17 391 | 63 656 | 65 | 21 919 | 358 718 | 25 983 | 1 010 476 |
| Long-term | - | 30 640 | 17 391 | 63 440 | - | - | 333 005 | 5 557 | 450 033 |
| Short-term | 492 104 | - | - | 216 | 65 | 21 919 | 25 713 | 20 426 | 560 443 |

## 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.

The description of reserve for liabilities for greenhouse gas emissions is included in note 26 of the CO2 emission rights.

### *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 is data prepared by domestic services. The value of the provision is estimated and verified on every balance sheet date on the basis of estimated cost to be incurred in the future and a discount. As of 30 June 2019, the created provision amounted to PLN 63 722 thousand. A description of the contingent liabilities related to the decommissioning of the power plant is provided in Note 28.4.

Due to the legal obligation to liquidate fixed assets after their period of use, the Group creates the provision for projected future costs, which will be necessary to pay for fulfilment of this obligation. As of 30 June 2019, the provision due to this amounted to PLN 17 791 thousand.

### *25.3.3. Reclamation provisions 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 June 30, 2019 amounted to PLN 357 195 thousand and decreased compared to the year ended December 31, 2018 by PLN 1 523 thousand. While calculating the provision, the Group adopted the following assumptions: discount rate at 3.0%, inflation level at 2.5%. The discount amount charged to financial expenses is PLN 4 976 thousand.

### *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 30 June 2019, the provision due to this amounted to PLN 8 179 thousand.

### *25.3.5. Provision for the return of free $CO_2$ emission allowances for abandoning investments in units 3 and 4 and the gas and steam block*

The provision is described in note 26.

### *25.3.6. Other provisions*

In PAK KWB Konin, the main items of other reserves as of 30 June 2019 are: provisions for mining damage in the amount of PLN 4 088 thousand, the provisions for pending legal proceedings in the amount of PLN 536 thousand, provision for remuneration for perpetual usufruct in the amount of PLN 1 577 thousand. In PAK KWB Adamów:

provisions for permanent taking out of production for the final reservoir of Adamów open pit in the amount of PLN 15 828 thousand, the provision for mining damage in the amount of PLN 3 383 thousand, the provisions for legal proceedings in the amount of PLN 524 thousand.

# 26. $CO_2$ emission allowances

As at January 1, 2018, the PAK Group physically had EUA units in its accounts in the Union Registry in the amount of 9 776 059 tonnes. In the first quarter of 2018, the Group received free EUA for heat in 2018 (Article 10a of the ETS Directive) in the amount of 69 066 tonnes. In March 2018, futures contracts concluded for the needs of 2017 issue in the amount of 1 330 000 EUA were settled. In connection with the above, the balance of EUA units on the accounts in the KOBIZE register in ZE PAK SA Group on March 31, 2018 was 11 175 125 EUA. In April 2018, the Group discontinued CO2 emissions for 2017 in the amount of 10 866 104 tonnes, including ZE PAK SA in the amount of 8 260 668 tonnes and Elektrownia Pątnów II sp. z o.o. in the amount of 2 605 436 tonnes. In May 2018, ZE PAK SA purchased 82,000 EUA in spot transactions. As at September 30, 2018, in the ZE PAK SA Group, it was 391 021 EUA.

In October and November 2018, ZE PAK SA bought 200,000 EUA in spot transactions from Vertis. In December 2018, ZE PAK SA terminated Dec18 futures contracts in the amount of 590,000 EUA and Pątnów II Power Plant in the amount of 702,000 EUA. The status of EUA as at December 31, 2018 in the Group was 1 883 021 EUA.

In February 2019, ZE PAK SA received free EUA for 2019, resulting from heat production (Art. 10a), in the amount of 37 081, which will be used to redeem CO2 emissions for 2019. In March 2019, the Group executed futures contracts in the amount of 3,060,000 EUA. The emission at ZE PAK SA for 2018 amounted to 4,780 925 tonnes, and at Elektrownia Pątnów II sp. z o.o. 2 454 232 tonnes. Accordingly, the Group transferred 111 877 EUA from 2018 to 2019 (including ZE PAK SA 31 201 EUA, Elektrownia Pątnów II sp. z o.o. 80 676 EUA). In the first quarter of 2019, ZE PAK SA purchased 775,000 EUA in futures contracts, and Elektrownia Pątnów II sp. z o.o. 25,000 EUA. The status of EUA as at March 31, 2019 is 4 980 102 EUA.

In April 2019, ZE PAK SA settled forward contracts in the amount of 809 000 EUA, and Elektrownia Pątnów II sp. z o.o. in the amount of 1 589 000 EUA. At the same time, in April, ZE PAK SA Group redeemed EUA units for 2018 in the amount of 7 235 157 EUA. Thus, the balance of EUA units as at June 30, 2019 in ZE PAK SA Group was 142 945 EUA.

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

Due to the suspension of investments in blocks 3 and 4 and the gas and steam block, the Management Board of the Company estimated the potential risk of returning free CO2 emission rights in the amount of approximately EUR 7.5 million with interest.

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

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

As at the date of this report, the Management Board decided that there was a risk of potential reimbursement of free CO2 emission allowances related to the aforementioned investments and, therefore, a provision of PLN 30 861 thousand was created.

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 June 30, 2019 and June 30, 2018.

***CO2 emission allowances for the period of 6 months ended 30 June 2019 (unaudited)***

| *(tons)* | | ***Zespół Elektrowni Pątnów-Adamów-Konin SA*** | | ***Elektrownia Pątnów II sp. z o.o.*** | |
|---|---|---|---|---|---|
| | $CO_2$ emission* | 1 930 479 | | 1 035 685 | |
| | | *quantity (in tons)* | *amount (thousand PLN)* | *quantity (in tons)* | *amount (thousand PLN)* |
| **EUA** | Balance at the beginning of the period | 1 062 113 | 42 236 | 820 908 | 24 581 |
| | Purchased | 3 744 000 | 292 566 | 1 714 000 | 139 284 |
| | Free of charge | 37 081 | - | - | - |
| | Redemption | (4 780 925) | (334 714) | (2 454 232) | (157 354) |
| | Balance at the end of the period | 62 269 | 88 | 80 676 | 6 511 |
| | Remain to purchase | 1 868 210 | | 955 009 | |

***CO2 emission allowances for the period of 6 months ended 30 June 2018 (unaudited)***

| *(tons)* | | ***Zespół Elektrowni Pątnów-Adamów-Konin SA*** | | ***Elektrownia Pątnów II sp. z o.o.*** | |
|---|---|---|---|---|---|
| | $CO_2$ emission* | 2 291 455 | | 1 188 293 | |
| | | *quantity (in tons)* | *amount (thousand PLN)* | *quantity (in tons)* | *amount (thousand PLN)* |
| **EUA** | Balance at the beginning of the period | 7 051 715 | 193 504 | 2 724 344 | 70 416 |
| | Purchased | 1 412 000 | 37 281 | - | - |
| | Free of charge | 69 066 | - | - | - |
| | Redemption | (8 260 668) | (222 055) | (2 605 436) | (68 150) |
| | Balance at the end of the period | 272 113 | 8 730 | 118 908 | 2 266 |
| | Remain to purchase | 2 019 342 | | 1 069 385 | |

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

# 27. Trade liabilities, other liabilities and accruals

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

| | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|
| Trade liabilities: | 147 680 | 123 339 |
| Investment liabilities | 3 411 | 9 468 |
| Liabilities to employees due to salaries | 16 403 | 16 313 |
| Other liabilities | 5 993 | 5 770 |
| Total | 173 487 | 154 890 |

In the line other liabilities as at June 30, 2019, the Group mainly presents liabilities regarding settlements with employees and deductions from the payroll in the amount of PLN 1,202 thousand, settlements due to the Company Social Benefits Fund in the amount of PLN 905 thousand and for deposits in the amount of PLN 1 553 thousand.

Terms and conditions of payment of the above financial obligations:

(in thousand PLN)

Liabilities due to deliveries and services are interest-free and usually settled within 14 or 30 days. Interest payable is usually accounted for on a monthly or quarterly basis throughout the financial year.

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

| | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|
| Liability due to financial lease | 769 | 1 389 |
| Short-term liabilities to other entities - over 12 months | 6 000 | 8 017 |
| Investment liabilities | 2 000 | 2 000 |
| Other | 84 | 62 |
| Total | 8 853 | 11 468 |

## 27.3. Other non-financial liabilities

| | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|
| VAT tax liabilities | 37 551 | 35 817 |
| Liabilities due to environmental charges | 290 | 15 832 |
| Liabilities due to the excise tax | 648 | 2 660 |
| Liabilities due to social insurance | 23 651 | 21 714 |
| Individual income tax | 5 217 | 5 244 |
| Other budget liabilities | 713 | 6 092 |
| Advanced payments for deliveries | 12 | 94 |
| Service charge | 6 142 | 7 517 |
| Other | 2 283 | 990 |
| Total | 76 507 | 95 960 |

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.

The main component of the item "Other" is the excess of liabilities over the assets of the Company Social Benefits Fund in the amount of PLN 1,820 thousand.

## 27.4. Derivative financial instruments

| | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|
| Instruments securing floating interest rates (SWAP) | - | 921 |
| Exchange rate hedging instruments (forward) | 252 | - |
| Total | 252 | 921 |
| Short-term | 252 | 921 |
| Long-term | - | - |

(in thousand PLN)

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

| | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|
| Long-term grants | 39 252 | 40 003 |
| Other | 3 004 | 3 004 |
| Total | 42 256 | 43 007 |

The main component of the item "Long-term grants": Grants presented at June 30, 2019 in the amount of PLN 38,865 thousand arose as a result of the valuation of the loan received from the National Fund for Environmental Protection and Water Management as if it had been granted on market terms. The subsidy is settled in accordance with the useful life of fixed assets included in the 464 MW block at Pątnów II Power Plant.

The main component of the item "Other" are land received for free from Starostwo Powiatowe and Gmina in the amount of PLN 2,852 thousand.

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

| | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|
| Short-term grants | 1 501 | 1 501 |
| Other | 1 | 1 |
| Total | 1 502 | 1 502 |

# 28. Contingent liabilities and description of significant judicial cases

Apart from liabilities described in notes 28.1, 29 and 30 below, as of 30 June 2019, the Group did not have any other contingent liabilities, guarantees and sureties granted.

## 28.1. Impact of the Act amending the act on excise duty and some other acts

On January 1, 2019, the Act of December 28, 2018 amending the Act on excise duty and some other acts ('the Act') (Journal of Laws of 2018, item 2538, as amended) entered into force. In key issues, the Act refers to the Regulation of the Minister of Energy of 19 July 2019 on how to calculate the amount of the price difference and financial compensation and how to set reference prices ("Regulation") (Journal of Laws of 2019, item 1369), which was in force on August 14, 2019 and the Announcement of the Minister of Energy of August 28, 2019 regarding other unit costs and co-financing rate ("Notice") (MP of 2019 item 775).

The Act introduced, among others:

1) reducing the excise duty rate on electricity from PLN 20 to PLN 5 per megawatt hour (MWh),
2) a 95% reduction in the rate of the transitional fee paid monthly by electricity consumers in distribution bills,
3) for energy enterprises carrying out economic activity in the field of electricity trading, the obligation to specify prices and rates for electricity for final customers for the period from 1 January to 31 December 2019 in an amount not higher than the prices and rates of electricity charges applicable on June 30, 2018,
4) a compensation system to cover the difference:

- between the weighted average price of electricity on the wholesale market for the period from January 1, 2019 to June 30, 2019, increased by other unit costs, and the net price of electricity for the final customer referred to in art. 5 of the Act, applicable on June 30, 2018, containing the excise duty rate on electricity settled by the trading company in 2018 (price difference amount) and
- between the weighted average electricity price on the wholesale market applicable in the month of supply (for deliveries from July 1, 2019 to December 31, 2019), increased by other unit costs, and the net price of electricity for the final customer referred to in art. 5 paragraph 1a of the Act, applicable on June 30, 2018, containing the excise duty rate on electricity settled by the trading company in 2018 (financial compensation).

The Act requires energy companies conducting business activities in the field of electricity trading to reduce prices in contracts with final customers, but at the same time, by introducing a compensation system, it assumes balancing the interests of energy companies conducting business activities in the field of electricity trading and electricity end users.

### *Impact of the Act on the first half of 2019*

The Group has estimated the potential financial effects of the Act on PAK-Volt SA, a company within the Group conducting business activities in the field of electricity trading. When making estimates, the following assumptions were made:

a) legal status as at the date of publication of the report,

b) in relation to determining the costs of providing the service, the amount of costs was adopted in accordance with the Regulation and the Notice of the Minister of Energy,

c) the volume of sales in the first half of 2019 was adopted in accordance with the agreements concluded by PAK-Volt SA, i.e. in the amount of 279 thousand of MWh.

Based on the adopted assumptions the following were received:

a) revenues in the electricity sales segment decreased by PLN 27,767 thousand (this is the amount that PAK-Volt SA is obliged to return to final customers in accordance with the Act),

b) the amount of the price difference that PAK-Volt SA should receive from Zarządca Rozliczeń SA will be PLN 16,963 thousand.

In addition, the Act's beneficiaries are PAK Kopalnia Węgla Brunatnego Adamów SA and PAK Kopalnia Węgla Brunatnego Konin SA, which purchase electricity for the needs of lignite mining from an entity outside the Group and are included in final recipients other than those specified in art. 5 paragraph 1a of the Act. For these companies, for the supply period from January 1, 2019 to June 30, 2019, the energy prices applicable on June 30, 2018 will apply. Therefore, based on the calculations made, the report for the first half of 2019 included a reduction in the cost of electricity consumption in the total amount of PLN 13 841 thousand.

### *Impact of the Act on subsequent reporting periods*

The Group has assessed the impact of the Act on results in the second half of 2019, in terms of the provisions of IAS 37 "Provisions, contingent liabilities and contingent assets", whether it is required to create provisions for the so-called load-bearing contracts. It follows from IAS 37 that if an entity is a party to a chargeable contract, the current obligation under the contract is recognized and measured as a provision. Calculations have made that the impact of the Act on the Group's financial results in the second half of 2019 will be insignificant. Due to the above, the report for the first half of 2019 did not include a provision for contracts generating charges.

## 28.2. Court proceedings

### *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.

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

The proceeding is in progress.

### *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. As a result of the consideration of the arguments raised in the said letter, the EC took the position in which it stated that the arguments invoked by ZE PAK SA did not contain grounds for the Commission to take any action in relation to which the procedure regarding the complaint of ZE PAK SA against the activities of Polish authorities would be closed.

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 18th January 2019 the Local Government Appeal Court in Konin issued a decision refusing to annul the environmental decision issued on August 7, 2007 by the Head of Wierzbinek Commune related to the exploitation of Tomisławice lignite open pit.

The decision of the Local Government Appeal Court in Konin, means that the environmental decision issued by the Head of Wierzbinek Commune is still in legal circulation. The decision is not final. There has been submitted an application for reconsideration of the case.

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

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

PAK KWB Konin SA, by letter of December 18, 2017 filed an objection against the abovementioned decision of GDOŚ in Warsaw to the Provincial Administrative Court in Warsaw (WSA). In the opinion of PAK KWB Konin S.A. there were grounds for issuing a reformatory decision by GDOŚ in Warsaw, i.e. amending the contested decision of RDOŚ in Poznań and substantive decision in this matter, not referring the matter for reconsideration. The other party also opposed the WSA. Both objections were dismissed by the WSA. The verdict was passed on March 1, 2018. On April 12, 2018, PAK KWB Konin SA filed a cassation complaint with the Supreme Administrative Court in Warsaw against the verdict of the WSA in Warsaw of 1 March 2018. The Supreme Administrative Court in Warsaw, by a judgment of September 25, 2018, repealed the appealed judgment and forwarded the case to the Provincial Administrative Court in Warsaw for reconsideration. The Provincial Administrative Court by judgment of 18 October 2018 annulled the contested decision of 30 November 2017 issued by GDOŚ in Warsaw. At present, the matter is being reviewed by GDOŚ in Warsaw and the announced date of settling the case was scheduled for 30 September 2019.

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

Significant tax proceedings have been described in note 28.3.

## 28.3. Tax settlements

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

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

Tax settlements may be subject to inspection for a period of five years, starting from the end of the year of the tax payment. As a result of the conducted inspections, the current tax settlements of the Group may be increased by additional tax liabilities. In the Group's opinion, as of 30 June 2019 and 31 December 2018, appropriate provisions for the recognised and calculable tax risk were created.

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

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

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

On January 18, 2018, the Provincial Administrative Court in Poznań responded to the abovementioned complaint of Elektrownia Pątnów II sp. o.o., issued a verdict abrogating the contested Interpretations of the Director of the National Tax Information dated 20 April 2017. In the justification of the judgment, the WSA shared the position of Elektrownia Pątnów II sp. z o.o. that in the present case, contrary to the tax authority's position, general rules defining the day of tax deductible costs, which were set out in the Act on Corporate Income Tax (hereinafter 'u.p.d.o.p'), cannot be applied, in particular in art. 15. In the present case, the provision of Article 42 section 4 of the LTC Act as "Lex Specialis" to the provisions of the Law on u.p.d.o.p.

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

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

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

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

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

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

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

On 25 June 2018 Elektrownia Pątnów II sp. z o.o. was given the decision of the Head of the Second Wielkopolska Tax Office on suspension of the tax proceeding initiated in April 2018, on the settlement of the corporate income tax for 2016, until the issue is resolved by the Supreme Administrative Court. The Group does not recognize the risk associated with tax control. As at the date of the report, the Company did not create a deferred tax asset or other provision.

(in thousand PLN)

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

On April 13, 2016, the Director of the Tax Inspection Office in Poznań instituted tax proceedings against ZE PAK SA ex officio in the area of reliability of declared tax bases and correctness of calculation of corporate income tax for the fiscal year 2014, including the issue of transfer pricing. On June 11, 2019, the tax authority completed the tax audit.

On July 22, 2019, the Company adjusted the corporate income tax for 2014 in accordance with the findings of the report. The correction resulted in a shift in the recognition of the tax cost related to the purchase of CO2 emission rights in individual periods.

In 2014, there was a tax liability to be paid in the amount of PLN 1,954 thousand together with interest due PLN 646 thousand. However, the company additionally corrected CIT8 declarations for 2013, 2015-2018, which resulted in overpayment in corporate income tax in the amount of PLN 3,809 thousand. Finally, the Tax Office will settle the 2014 liability and interest due. These adjustments will result in tax losses, as shown below:

- 2015 PLN 24 149 thousand,
- 2016 PLN 22 990 thousand,
- 2017 PLN 37 586 thousand,
- 2018 PLN 248 114 thousand.

As at the date of the report, the Company did not create a deferred tax asset or other provision.

## 28.4. Contingent liabilities related to the decommissioning of the power plant

The obligation to carry out liquidation and land reclamation results from integrated permits for running fuel combustion installations in Pątnów, Konin and Adamów power plants belonging to ZE PAK SA and Pątnów II power plant belonging to Pątnów II power plant sp. z o.o. On the abovementioned entities, in the case of termination of the business, it is obliged to carry out the liquidation of all facilities and equipment of the installation in accordance with the requirements resulting from the provisions of the construction law. The installation area after their liquidation should be managed according to arrangements made with the local government body. In particular, it is necessary to draw up a project for the decommissioning of facilities and equipment that takes into account environmental protection requirements, mainly in relation to waste management.

In connection with the above, in order to reliably estimate the costs of decommissioning facilities and equipment, it is necessary to prepare a project that takes into account a number of requirements (e.g. construction, health and safety, environmental). However, these requirements will be fully dependent on the arrangements made with the local government body, because it is up to him to determine the manner of land development. As of today, we do not know the date of completion of activities, we do not know the arrangements that will have to be elaborated with the local government authority as to the manner of land development, thus, it is not possible to reliably estimate the costs of liquidation.

# 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 30 June 2019 and 31 December 2018, the Group had liabilities protected with its assets and other protections of payment of liabilities:

***Liabilities secured with the assets***

| *Agreement* | *Kind of security* | *30 June 2019 (unaudited)*<br>*Security amount* | *Curren cy* | *31 December 2018*<br>*Security amount* | *Curren cy* |
|---|---|---|---|---|---|
| Syndicated loan agreement of 13 March | Registered pledge on a collection of items | Up to 2 040 000 | PLN | Up to 2 040 000 | PLN |

(in thousand PLN)

| | | | | | |
|---|---|---|---|---|---|
| 2014 for PLN 667 million for ZE PAK SA | Registered pledge on bank accounts<br>Joint contractual mortgage established on real estate | | | | |
| Syndicated loan agreement dated 14 January 2011 for EUR 240 million for Pątnów II Power Plant | Registered pledge on shares of ZE PAK in PAK Infrastruktura<br>Registered pledge on shares of ZE PAK in Elektrownia Pątnów II<br>Joint contractual mortgage established on the property of Pątnów II and PAK Infrastruktura<br>Registered pledge on a collection of items<br>Registered pledge on bank accounts | Up to 400 000<br>up to 339 750 | EUR<br>PLN | Up to 400 000<br>Up to 339 750 | EUR<br>PLN |

* *The loan for Pątnów II Power Plant was fully repaid on April 23, 2019. Pątnów II Power Plant is in the process of releasing collateral - as at June 30, 2019, collateral was still active.*

***Other securities of liabilities***

*Guarantees given*

| *Kind of guarantee* | *30 June 2019 (unaudited)* *Security amount* | *Currency* | *31 December 2018* *Security amount* | *Currency* |
|---|---|---|---|---|
| Guarantees of good performance of the contract | 17 352 | PLN | 19 255 | PLN |
| Guarantees to remove defects and faults | 4 442<br>463 | PLN<br>EUR | 4 317<br>438 | PLN<br>EUR |
| Payment guarantees | 30 058 | PLN | 219 | PLN |
| Guarantee of advance payment | 42 | PLN | 148 | PLN |

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

The table below shows the sum of granted guarantees.

| | *30 June 2019 (unaudited)* | *Currency* | *31 December 2018* | *Currency* |
|---|---|---|---|---|
| Intra-Group Guarantees | 126 700 | PLN | 126 700 | PLN |

# 30. Obtained guarantees and sureties

| *Kind of guarantee* | *30 June 2019 (unaudited)* *Security amount* | *Currency* | *31 December 2018* *Security amount* | *Currency* |
|---|---|---|---|---|
| Guarantees of good performance of the contract | 12 480 | PLN | 13 909 | PLN |
| Guarantees to remove defects and faults | 3 017<br>- | PLN<br>EUR | 3 344<br>18 | PLN<br>EUR |
| Payment guarantees | 6 233 | PLN | 22 689 | PLN |

(in thousand PLN)

| | | | | |
|---|---|---|---|---|
| | - | EUR | - | EUR |
| Guarantee of advance payment | - | PLN | - | PLN |

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

# 31. Information about related entities

The following table shows the total amounts of transactions concluded with related entities for six months ended June 30, 2019 and June 30, 2018, and receivables and liabilities as at June 30, 2019 and June 30, 2018. Transactions with related entities are carried out on market principles.

| *Related entity* | | *Sales to related entities (unaudited)* | *Purchase from related entities (unaudited)* | *Receivables from related entities (unaudited)* | *Liabilities towards related entities (unaudited)* |
|---|---|---|---|---|---|
| Elektrim SA | I half of 2019 | - | 60 | - | - |
| | I half of 2018 | - | 60 | - | - |
| Megadex Serwis sp. z o.o. | I half of 2019 | 1 | 25 508 | - | - |
| | I half of 2018 | - | 17 919 | - | 3 698 |
| Polkomtel sp. z o.o. | I half of 2019 | 86 068 | 1 122 | 13 240 | 1 346 |
| | I half of 2018 | 90 748 | 815 | 22 325 | 366 |
| Laris Investments sp. z o.o. | I half of 2019 | 358 | 206 | 339 | - |
| | I half of 2018 | 219 | 414 | 278 | - |
| CPE sp. z o.o. | I half of 2019 | - | 52 | - | 63 |
| | I half of 2018 | - | 2 | - | 1 |
| Plus Flota sp. z o.o. | I half of 2019 | - | 133 | - | 66 |
| | I half of 2018 | - | 146 | - | 13 |
| **Total** | **I half of 2019** | **86 427** | **27 081** | **13 579** | **1 475** |
| | **I half of 2018** | **90 967** | **19 356** | **22 603** | **4 078** |

Elektrim SA is the parent company in relation to the ZE PAK SA Group. Other companies are subsidiaries or affiliates of Elektrim SA.

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

During the period of 6 months ended 30 June 2019 as well as during the period of 6 months ended 30 June 2018 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 6 months ended 30 June 2019 as well as during the period of 6 months ended 30 June 2018 there were no transactions with members of management and supervisory Staff.

(in thousand PLN)

## 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 Board of the Group*

| | *6 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* |
|---|---|---|
| **Management Board of the parent company** | | |
| Short-term employee benefits | 977 | 1 644 |
| Termination benefits | 65 | - |
| **Supervisory Board of the parent company** | | |
| Short-term employee benefits | 572 | 555 |
| **Supervisory Board of subsidiaries** | | |
| Short-term employee benefits | 1 174 | 1 794 |
| Short-term employee benefits | - | - |
| **Total** | 2 788 | 3 993 |

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

| | *6 months period ended 30 June 2019 (unaudited)* | *6 months period ended 30 June 2018 (unaudited)* |
|---|---|---|
| Short-term employee benefits | 6 048 | 6 923 |
| Post-employment benefits | - | - |
| Benefits for termination of the contract of employment | 148 | 118 |
| Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board) | 6 196 | 7 041 |

## 32. Goals and rules of financial risk management

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

The Group also concludes transactions involving derivatives, primarily contracts to mitigate the risk arising from changes in exchange rates (forwards into EUR). The purpose of these transactions is to manage the currency risk arising in the course of the Group's operations and resulting from the commercial contracts it uses.

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

Potential exposure of the Group to risk caused by the changes of interest rates mainly concerns financial liabilities. The Group uses financial liabilities, mostly variable rate credits and loans.

### *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* | *30 June 2019 (unaudited)* | | **Interest rate risk sensitivity as of 30 June 2019** | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | *WIBOR* | | | | *EURIBOR* | | | |
| | | | *WIBOR + 48pb* | | *WIBOR - 48pb* | | *EURIBOR + 19,6pb* | | *EURIBOR - 19,6pb* | |
| | *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 | 3 642 | 3 097 | 15 | - | (15) | - | - | - | - | - |
| Trade and other receivables | 304 185 | - | - | - | - | - | - | - | - | - |
| Derivative financial instruments | - | - | - | - | - | - | - | - | - | - |
| Cash and cash equivalents | 130 481 | 130 481 | 626 | - | (626) | - | 171 | - | (171) | - |
| Interest-bearing loans and borrowings | (242 739) | (242 739) | (1 165) | - | 1 165 | - | - | - | - | - |
| Liabilities for deliveries and services and other financial liabilities | (182 340) | - | - | - | - | - | - | - | - | - |
| Derivative financial instruments | (252) | (252) | - | - | - | - | - | - | - | - |
| **Total** | **12 977** | **(109 413)** | **(524)** | **-** | **524** | **-** | **171** | **-** | **(171)** | **-** |

*pb – base points*

(in thousand PLN)

| ***Classes of financial instruments*** | ***30 June 2018 (unaudited)*** | | ***Interest rate risk sensitivity as of 30 June 2018*** | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | ***WIBOR*** | | | | ***EURIBOR*** | | | |
| | | | ***WIBOR + 47pb*** | | ***WIBOR - 47pb*** | | ***EURIBOR + 12,74pb*** | | ***EURIBOR - 12,74pb*** | |
| | ***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 | 45 879 | 26 171 | 36 | - | (36) | - | 24 | - | (24) | - |
| Trade and other receivables | 301 771 | - | - | - | - | - | - | - | - | - |
| Derivative financial instruments | 1 636 | - | - | - | - | - | - | - | - | - |
| Cash and cash equivalents | 240 035 | 240 035 | 1 029 | - | (1 029) | - | 27 | - | (27) | - |
| Interest-bearing loans and borrowings | (551 653) | (551 653) | (1 741) | - | 1 741 | - | (231) | - | 231 | - |
| Liabilities for deliveries and services and other financial liabilities | (214 445) | - | - | - | - | - | - | - | - | - |
| Derivative financial instruments | (2 347) | (2 347) | - | - | - | - | - | 90 | - | (90) |
| **Total** | **(179 124)** | **(287 794)** | **(676)** | **-** | **676** | **-** | **(180)** | **90** | **180** | **(90)** |

*pb – base points*

(in thousand PLN)

## 32.2. Currency risk

As at 30 June 2019, one company of the Group applied instruments to limit the risk resulting from changes in foreign exchange rates. Elektrownia Pątnów II hedged the euro exchange rate for a part of cash flows related to the purchase of CO2 emission allowances. To hedge the exchange, forward transactions were made with the settlement date on 18 December 2019. Potential possible changes in exchange rates have been calculated on the basis of the annual volatilities implied for currency options quoted on the interbank market for a given currency pair from the balance sheet date.

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

| *Classes of financial instruments* | *30 June2019 (unaudited)* | | *Sensitivity analysis for currency risk as of June 30, 2019* | | | |
|---|---|---|---|---|---|---|
| | | | *EUR/PLN* | | | |
| | | | *EUR/PLN + 4,15%* | | *EUR/PLN - 4,15%* | |
| | | | *4,4285* | | *4,0755* | |
| | *Carrying amount* | *Value at risk* | *Profit/loss* | *Other comprehensive income* | *Profit/loss* | *Other comprehensive income* |
| Other financial assets | 3 642 | - | - | - | - | - |
| Receivables for deliveries and services and other financial receivables | 304 185 | 3 839 | 159 | - | (159) | - |
| Derivative financial instruments | - | - | - | - | - | - |
| Cash and cash equivalents | 130 481 | 87 | 4 | - | (4) | - |
| Interest-bearing loans and borrowings | (242 739) | - | - | - | - | - |
| Liabilities for deliveries and services and other financial liabilities | (182 340) | (816) | (34) | - | 34 | - |
| Derivative financial instruments | (252) | - | - | - | - | - |
| **Total** | **12 977** | **3 110** | **129** | **-** | **(129)** | **-** |

(in thousand PLN)

| | ***30 June 2018 (unaudited)*** | | ***Sensitivity analysis for currency risk as of June 30, 2018*** | | | |
|---|---|---|---|---|---|---|
| | | | ***EUR/PLN*** | | | |
| ***Classes of financial instruments*** | | | ***EUR/PLN + 6,35%*** | | ***EUR/PLN - 6,35%*** | |
| | | | ***4,6386*** | | ***4,0846*** | |
| | ***Carrying amount*** | ***Value at risk*** | ***Profit/loss*** | ***Other comprehensive income*** | ***Profit/loss*** | ***Other comprehensive income*** |
| Other financial assets | 45 879 | 18 587 | 1 180 | - | (1 180) | - |
| Receivables for deliveries and services and other financial receivables | 301 771 | 523 | 33 | - | (33) | - |
| Derivative financial instruments | 1 636 | - | - | - | - | - |
| Cash and cash equivalents | 240 035 | 21 156 | 1 343 | - | (1 343) | - |
| Interest-bearing loans and borrowings | (551 653) | (181 267) | (11 510) | - | 11 510 | - |
| Liabilities for deliveries and services and other financial liabilities | (214 445) | (450) | (29) | - | 29 | - |
| Derivative financial instruments | (2 347) | - | - | - | - | - |
| **Total** | **(179 124)** | **(141 451)** | **(8 983)** | **-** | **8 983** | **-** |

## 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 concentration of receivables in relation to key electricity consumers of the Group is subject to monitoring. The main recipients of electricity include the companies with a significant position in the electricity trade sector, such as Energa Obrót, GetEntra, Tauron Polska Energia 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. The large share of sales on the power exchange and the selection of reputable companies with good credit ratings to the Group's sales portfolio mean that despite the presence of a portfolio of entities with a relatively large share of over 5% in the portfolio, the level of concentration is not identified as significant. In the light of the above, the Group does not apply additional collateral resulting from the mere phenomenon of concentration, the application of collateral depends on the financial condition of the counterparty.

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.

The Group analyses and reduces credit risk in relation to cash through ongoing monitoring of financial institution ratings and reduces the risk of concentration of cash surpluses in one financial institution, using internal rules of risk management principles.

Long-term ratings granted to banks in which the Group has cash:

| *Name of the bank* | *Rating granted by Rating Agency* | | |
|---|---|---|---|
| | Fitch | S&P | Moody's |
| PEKAO SA | BBB+ | BBB+ | A2 |
| PKO BP | - | - | A2 |
| BGK | A- | - | - |
| mBank | BBB | - | - |
| Bank Millennium | - | - | Baa1 |
| Santander Bank Polska | BBB+ | - | A3 |
| Alior Bank | BB | BB | - |
| BNP Paribas Bank Polska | - | - | Baa1 |

In addition to the banks presented in the table above, the Group also had cash at Plus Bank SA as at 30 June 2019. The bank has not been evaluated by any of the main rating agencies, i.e. Fitch, Standard & Poor's and Moody's. Due to the fact that Plus Bank SA is controlled by the same owner, the Group assesses the credit risk of this bank as insignificant.

## 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, long-term bank credits, debentures, preferred shares, financial lease agreements and lease agreements with the purchase option

The following tables present financial liabilities of the Group as of 30 June 2019 and 31 December 2018 according to the maturity date based on contractual non-discounted payments.

(in thousand PLN)

| ***30 June 2019 (unaudited)*** | *Less than 3 months* | *3 - 12 months* | *1 - 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|
| Interest bearing loans and borrowings | 140 710 | 99 699 | - | - | 240 409 |
| Trade payables and other financial liabilities | 139 042 | 34 445 | 8 853 | - | 182 340 |
| Derivative financial instruments | - | 43 165 | - | - | 43 165 |
| | **279 752** | **177 309** | **8 853** | **-** | **465 914** |

| ***31 December 2018*** | *Less than 3 months* | *3 - 12 months* | *1 - 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|
| Interest bearing loans and borrowings | 75 524 | 285 051 | 61 738 | - | 422 313 |
| Trade payables and other financial liabilities | 137 478 | 17 412 | 11 468 | - | 166 358 |
| Derivative financial instruments | 69 450 | 421 | - | - | 69 871 |
| | **282 452** | **302 884** | **73 206** | **-** | **658 542** |

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: As at June 30, 2019, there was no interest rate swap derivative in the Group due to its complete settlement together with the early repayment of the syndicated loan of Pątnów II Power Plant on April 23, 2019.

(in thousand PLN)

| ***30 June 2019 (unaudited)*** | *On demand* | *Less than 3 months* | *3 – 12 months* | *1 – 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|---|
| Inflows | - | - | - | - | - | - |
| Outflows | - | - | - | - | - | - |
| Net amounts | - | - | - | - | - | - |
| **Discounted using appropriate interbank rates** | **-** | **-** | **-** | **-** | **-** | **-** |

| ***31 December 2018*** | *On demand* | *Less than 3 months* | *3 – 12 months* | *1 – 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|---|
| Inflows | - | (43) | (40) | - | - | (83) |
| Outflows | - | 416 | 421 | - | - | 837 |
| Net amounts | - | (459) | (461) | - | - | (920) |
| **Discounted using appropriate interbank rates** | **-** | **(459)** | **(461)** | **-** | **-** | **(920)** |

(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 IFRS 9.

| *Financial assets* | Category acc. to IFRS 9 | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|---|
| Other financial assets | AFwgZK | 3 642 | 41 427 |
| Trade receivables and other receivables | AFwgZK | 304 185 | 354 183 |
| Derivative financial instruments | WwWGpWF | - | 19 |
| Cash and cash equivalents | AFwgZK | 130 481 | 304 658 |
| *Financial liabilities* | | | |
| Interest-bearing bank credits and loans, including: | | 242 739 | 420 379 |
| long term | PZFwgZK | - | 59 424 |
| short term | PZFwgZK | 242 739 | 360 955 |
| Liabilities due to supplies and services and other financial liabilities | PZFwgZK | 182 340 | 166 358 |
| Derivative financial instruments | WwWGpWF | 252 | 921 |

*Used abbreviations:*

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

(in thousand PLN)

As of 30 June 2019 and 31 December 2018, the Group had following financial instruments evaluated in the fair value:

| | *30 June 2019 (unaudited)* | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|---|
| Derivatives hedging assets | - | - | - | - |
| Derivatives hedging liabilities | - | - | 252 | - |

| | 31 *December 2018* | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|---|
| Derivatives hedging assets | - | - | 19 | - |
| Derivatives hedging liabilities | - | - | 921 | - |

The fair value of financial instruments other than derivatives as at June 30, 2019 and December 31, 2018 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.

In the period ended 30 June 2019 and the one ended 31 December 2018, 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 table below presents the interest rate gap constituting the Group's exposure to interest rate risk and the concentration of this risk by currency and type of interest.

| | *Type of interest rate* | *Carrying amount as of 30 June 2019 (unaudited)* | *Carrying amount as of 31 December 2018* |
|---|---|---|---|
| Financial assets at interest rate risk – PLN | Fixed | - | - |
| | Variable | 133 491 | 192 891 |
| Financial assets at interest rate risk – Other currencies | Fixed | - | - |
| | Variable | 87 | 134 310 |
| Financial liabilities at interest rate risk - PLN | Fixed | - | - |
| | Variable | 242 739 | 312 179 |
| Financial liabilities at interest rate risk – Other currencies | Fixed | - | 53 756 |
| | Variable | - | 54 444 |
| Net exposure -PLN | Fixed | - | - |
| | Variable | (109 248) | (119 288) |
| Net exposure - other currencies | Fixed | - | (53 756) |
| | Variable | 87 | 79 866 |

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*

As at 31 December 2018 the Group secured 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 was the Interest Rate Swap transaction, within which the Group exchanged stream of cash interest payments based on the variable EURIBOR 3M rate for payments of fixed interest rate at 3.1050%. The Group indicated designated derivative instruments as protecting instruments in the model of cash flow security, and included them in accordance with protections accounting rules.

As at June 30, 2019, there was no interest rate swap derivative in the Group due to its complete settlement together with the early repayment of the syndicated loan of Pątnów II Power Plant on April 23, 2019.

In the tables shown below, basic parameters of derivative transaction indicates as security instruments, including periods, when cash flows due to cash flow securities and when they will influence the financial result, as well as their fair value in zloty as of 30 June 2019 and 31 December 2018 are presented.

| *Instrument type* | *Nominal value in the transaction currency [euro]** | *Fair value in PLN* | *Expected duration of hedged item's realisation* |
|---|---|---|---|
| | *30 June 2019(unaudited)* | *30 June 2019 (unaudited)* | *30 June 2019 (unaudited)* |
| IRS transaction | - | - | 23 April 2019 |

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

| *Instrument type* | *Nominal value in the transaction currency [euro]** | *Fair value in PLN* | *Expected duration of hedged item's realisation* |
|---|---|---|---|
| | *31 December 2018* | *31 December 2018* | *31 December 2018* |
| IRS transaction | 12 501 | (921) | 23 April 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:

| | *6 months period ended* | *Year ended* |
|---|---|---|
| | *30 June 2019 (unaudited)* | *31 December 2018* |
| Opening balance | (568) | (3 307) |
| Effective part of profits / losses on a security instrument | 950 | 4 413 |
| Amounts charged to the income statement, including: | 382 | 1 675 |
| - adjustment of costs of interest | 382 | 1 675 |
| - adjustment under ineffective hedging | - | - |
| Closing balance | - | (569) |
| Deferred tax assets – recognized in the revaluation reserve | - | 108 |
| Closing balance including deferred tax | - | (460) |

As at June 30, 2019, one company from the Group used instruments to limit the risk resulting from changes in exchange rates. Pątnów II Power Plant sp.z o.o. secured the euro exchange rate for some flows related to the purchase of CO2 emission allowances. To hedge the exchange rate, forward transactions with a settlement date of December 18, 2019 were used.

| Type of concluded transactions | *Currency cross* | *Transaction amount (nominal value in thousand EUR) 30 June 2019* | *Net market value (fair value in thousand PLN) 30 June 2019* | *Maturity* |
|---|---|---|---|---|
| Purchase of EUR transaction (forward) | (EUR/PLN) | 10 000 | (252) | December 2019 |

The Group also hedges the risk of changes in the prices of CO2 emission allowances by using forward transactions for the purchase of allowances for its own needs. The table below presents a summary of forward transactions active on June 30, 2019.

***30 June 2019 (unaudited)***

| *Type of concluded transactions* | *Number of purchased allowances (unaudited)* | *Total value of transactions in EUR thousand (unaudited)* | *Currency of transactions* | *Maturity* |
|---|---|---|---|---|
| Forward transaction | 6 814 000 | 143 814 | EUR | Up to 1 year |

***30 June 2018 (unaudited)***

| *Type of concluded transactions* | *Number of purchased allowances (unaudited)* | *Total value of transactions in EUR thousand (unaudited)* | *Currency of transactions* | *Maturity* |
|---|---|---|---|---|
| Forward transaction | 3 148 000 | 35 878 | EUR | Up to 1 year |
| Forward transaction | 260 000 | 4 134 | EUR | Over 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 the period ended 30 June 2019 and 31 December 2018, there were no introduced amendments to goals, rules and processes applying in this area.

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

| | *30 June 2019 (unaudited)* | *31 December 2018* |
|---|---|---|
| Interest-bearing credits and loans | 242 739 | 420 379 |
| Derivative financial instruments (liabilities) | 252 | 921 |
| Trade liabilities and other financial liabilities | 182 340 | 166 358 |
| Minus cash and its equivalents | 130 481 | 304 658 |
| Net debt | 294 850 | 283 000 |
| Equity | 1 661 845 | 1 687 147 |
| Capitals from revaluation of security instruments | - | (460) |
| Total capital | 1 661 845 | 1 686 687 |
| **Net capital and debt** | 1 956 696 | 1 969 687 |
| Leverage ratio | 15,07% | 14,37% |

# 35. Significant events after the balance sheet date

### *Non-revolving loan agreement for financing the activities of PAK KWB Konin SA*

Due to the repayment date on July 26, 2019 of the current account loan in the amount of PLN 66,700 thousand granted to PAK KWB Konin SA by Alior Bank SA on November 20, 2013, PAK KWB Konin SA signed an agreement on July 25, 2019 non-revolving loan in the amount of PLN 66,700 thousand with Alior Bank SA for the repayment of the previous loan and further financing of the company's current operations. Non-revolving loan bears interest according to WIBOR 3M rate increased by the bank's margin. The loan will be repaid in monthly instalments, the final repayment date is December 15, 2021.

### *A Tender Offer for the sale of ZE PAK SA shares*

On July 30, 2019, Argumenol Investment Company Limited announced a Tender Offer for the sale of the Company's shares. The subject of the Tender Offer is 34,823,241 ordinary bearer shares of the Company with a nominal value of PLN 2.00 each.

The shares being the subject of the Tender Offer jointly represent approx. 68.52% of the share capital of the Company and entitle to 34 823 241 votes at the General Meeting of the Company, which corresponds to approx. 68.52% of votes at the General Meeting of the Company.

The Offeror has not specified the minimum number of shares covered by subscriptions, after reaching which the Offeror will be required to purchase these shares. The shares covered by the Tender Offer will be purchased at the price of PLN 7.47 for each of the shares.

Enrolment started on August 20 and will end on September 19, 2019. The expected date of the share purchase transaction is September 24, and the transaction will be settled on September 27.

On August 7, 2019, the Management Board of ZE PAK SA in current report No. 24/2019 presented its position regarding the announced Tender Offer for the sale of shares. For the purpose of preparing this position, the Management Board has analysed the Tender Offer document, market prices of the Company's shares for the 6 and 3 months preceding the announcement of the Tender Offer, publicly available information on current valuations of the Company and other industry companies and publicly available financial and operational information about the Company and its Capital Group, including in particular the data contained in the consolidated and separate financial statements. When preparing this position, the Management Board of the Company was also guided by its knowledge of the industry, the development prospects and major challenges currently facing companies operating in the lignite electricity generation sector.

The Management Board of the Company expressed the view that, as a rule, increasing the involvement of a strategic investor in the Company's shareholder structure may positively affect its interest by willingness to contribute to its development. The Company's Management Board was unable to precisely define the strategic plans of the Offeror. The content of the tender offer does not contain information on the impact of the tender offer on employment in the Company, therefore the Company's Management Board was not able to assess the impact of the tender offer on the employment.

As regards the price per share of the Company proposed in the tender offer, the Management Board stated that in its opinion the price proposed in the tender offer falls within the estimated range of the fair value of the Company's shares.

### *Conclusion of a significant agreement for the supply of heat to the city of Konin*

On September 6, 2019 the Company signed an agreement with Miejskie Przedsiębiorstwo Energetyki Cieplnej - Konin Sp. z o.o. ("MPEC"), the subject of which is the sale of heat to the City of Konin with the commencement of deliveries from July 1, 2022 ("Agreement"). The agreement has been concluded for a definite period and is valid until June 30, 2032.

C Heat, which is the subject of sale to MPEC Konin, is currently, based on an existing contract, generated by ZE PAK SA in a dedicated biomass combustion installation that is a cogeneration unit, which currently has the status of an installation generating heat from renewable energy sources. The heat sale prices used by ZE PAK SA result from the tariff in force for a given year, which is subject to approval by the President of the Energy Regulatory Office.

The agreement is a continuation of existing cooperation in the field of heat supply for the city of Konin.

## *SIGNATURES:*

Henryk Sobierajski
Member of the Supervisory Board
of ZE PAK SA delegated to temporarily
perform the duties of the President of the Board ........................................................................................

Zygmunt Artwik
Vice President of the Management Board ........................................................................................

Paweł Markowski
Vice President of the Management Board ........................................................................................

Paweł Lisowski
Vice President of the Management Board ........................................................................................

Maciej Nietopiel
Vice President of the Management Board ........................................................................................

Aneta Desecka
Chief Accountant ........................................................................................