ZESPÓŁ ELEKTROWNI PĄTNÓW–ADAMÓW–KONIN SA CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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

30 APRIL 2019

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(in thousand PLN)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For 12 months period ended 31 December 2018

	Nota	*12 months period ended 31 December 2018*	*12 months period ended 31 December 2017*
Continuing operations			
Sales revenue	*14.1*	2 304 824	2 443 075
Cost of goods sold	*14.6*	(2 627 910)	(2 035 396)
including a write-off revaluating fixed assets and mining assets		*(372 540)*	-
Gross profit / (loss)		**(323 086)**	**407 679**
Other operating revenues	*14.2*	10 964	11 324
Selling and distribution expenses	*14.6*	(4 001)	(4 258)
Administrative expenses	*14.6*	(123 779)	(119 467)
Other operating expenses	*14.3*	(37 360)	(5 186)
Gross profit / (loss) from operations		**(477 262)**	**290 092**
Finance income	*14.4*	7 201	16 193
Finance costs	*14.5*	(45 387)	(47 652)
Profit / (loss) before tax		**(515 448)**	**258 633**
Income tax expense (taxation)	*15.1*	51 775	(75 089)
Net profit / (loss) for the period from continuing operations		**(463 673)**	**183 544**
Net profit / (loss) for the period		**(463 673)**	**183 544**
Net profit/ (loss) attributable to equity holders of the parent		(460 196)	183 243
Net profit/ (loss) attributable to non-controlling interests		(3 477)	301

Henryk Sobierajski	Zygmunt Artwik	Paweł Markowski	Aneta Desecka
/Member of the Supervisory Board of ZE PAK SA delegated to temporarily perform the duties of the President of the Management Board/	/Vice President of the Board/	/Vice President of the Board/	/Chief Accountant/

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

		12 months period ended *31 December 2018*	*12 months period ended* *31 December 2017*
Profit / loss per share (in zloty):	*Note*		
Basic/diluted for profit for the period from continuing operations attributable to equity holders of the parent		(9,05)	3,61

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(in thousand PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For 12 months period ended 31 December 2018

	Note	*12 months period ended 31 December 2018*	*12 months period ended 31 December 2017*
Net profit / (loss) for the period		**(463 673)**	**183 544**
Other comprehensive income			
Items to be reclassified to the profit / (loss) in subsequent reporting periods:			
Cash flow hedges		2 739	5 439
Income tax on other comprehensive income	*15.1*	(520)	(1 033)
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods		2 219	4 406
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:			
Profits / (losses) on provisions for post-employment		(862)	(2 155)
Income tax on other comprehensive income	*15.1*	252	409
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		(610)	(1 746)
Net other comprehensive income		**1 609**	**2 660**
Comprehensive income for the period		**(462 064)**	**186 204**
Comprehensive income attributable to equity holders of the parent		(458 587)	185 903
Comprehensive income attributable to non-controlling holders		(3 477)	301

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(in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	*31 December 2018*	*31 December 2017 (transformend data)*	*31 December 2016 (transformend data)*
ASSETS				
Fixed assets				
Property, plant and equipment	*19*	2 791 141	3 284 503	3 394 914
Investment property		2 365	2 365	2 337
Intangible assets	*21*	3 773	6 679	119 282
Assets of removing overburden and other mining assets (long-term)	*22*	80 326	72 536	80 524
Other long-term financial assets	*23.1*	4 748	10 311	11 945
Other long-term non-financial assets	*23.2*	3 873	2 122	5 726
Deferred tax assets	*15.3*	81 817	72 928	90 998
Total fixed assets		**2 968 043**	**3 451 444**	**3 705 726**
Current assets				
Short-term intangible assets	*21*	66 817	261 654	273 036
Inventories	*25*	109 239	97 758	105 296
Trade and other receivables	*26*	354 183	253 261	246 025
Income tax receivables		1 544	17 731	10 227
Short-term financial derivatives (assets)		19	-	296
Other short-term financial assets	*23.1*	36 679	35 788	77 317
Other short-term non-financial assets	*23.2*	24 039	11 425	28 776
Amounts due from customers under long-term construction contracts	*14.8*	5 066	7 080	8 168
Cash and cash equivalents	*27*	304 658	322 201	350 101
Total current assets		**902 244**	**1 006 898**	**1 099 242**
Assets classified as held for sale		1 010	1 038	-
TOTAL ASSETS		**3 871 297**	**4 459 380**	**4 804 968**

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(in thousand PLN)

	Note	*31 December 2018*	*31 December 2017 (transformend data)*	*31 December 2016 (transformend data)*
LIABILITIES AND EQUITY				
Equity				
Share capital	*28*	101 647	101 647	101 647
Reserve capital	*29*	1 124 376	1 094 493	1 028 647
Revaluation reserve from valuation of hedging instruments		(460)	(2 678)	(7 084)
Other reserve capital	*29.1*	3 472	3 472	3 472
Retained earnings / Accumulated losses		915 020	830 870	716 077
Net profit / (loss)		(460 196)	183 243	247 674
Equity attributable to equity holders of the parent		**1 683 859**	**2 211 047**	**2 090 433**
Equity attributable to non-controlling interests		3 288	-	-
		1 687 147	**2 211 047**	**2 090 433**
Total equity				
Long-term liabilities	*30*	59 424	302 465	587 851
Interest-bearing loans and borrowings	*24*	45 555	48 166	48 587
Long-term employee benefits	*33.2*	11 468	5 146	5 069
Trade liabilities and other long-term financial liabilities	*33.4*	-	870	4 294
Long-term financial derivatives (liabilities)	*33.5*	43 007	44 509	43 302
Long-term subsidies	*31*	450 033	414 795	369 146
Other long-term provisions and accruals	*15.3*	364 652	432 900	388 359
Deferred tax liability		**974 139**	**1 248 851**	**1 446 608**
Short-term liabilities				
Trade liabilities and other short-term financial liabilities	*33.1*	154 890	146 416	302 662
Current portion of interest-bearing loans and borrowings	*30*	360 955	349 573	421 958
Short-term financial derivatives (liabilities)	*33.4*	921	4 139	5 759
Other non-financial liabilities	*33.3*	95 960	107 387	116 431
Current income tax liability		21	1 092	166
Short-term employee benefits	*24*	5 445	5 457	6 503
Short-term subsidies	*33.6*	1 502	1 507	6 670
Amounts due to customers under long-term construction contracts	*14.8*	2 482	5 626	3 990
Other short-term provisions and accruals	*31*	587 835	378 285	403 788
Total short-term liabilities		**1 210 011**	**999 482**	**1 267 927**
Total liabilities		**2 184 150**	**2 248 333**	**2 714 535**
TOTAL LIABILITIES AND EQUITY		**3 871 297**	**4 459 380**	**4 804 968**

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(in thousand PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

For 12 months period ended 31 December 2018

	Note	*12 months period ended 31 December 2018*	*12 months period ended 31 December 2017*
Cash flow from operating activities			
Profit /(loss) before tax		(515 448)	258 633
Adjustments for:			
Depreciation and amortization	*27*	193 012	195 692
Interests and shares in profits		17 158	32 129
(Profit) / loss on foreign exchange differences		1 217	(13 801)
(Profit) / loss on investing activities		(2 497)	2 516
(Increase) / decrease in receivables	*27*	(115 290)	11 701
(Increase) / decrease in inventories	*27*	(11 480)	7 537
Increase / (decrease) in payables except for loans and borrowings	*27*	11 491	(99 080)
Change in provisions, prepayments, accruals and employee benefits	*27*	515 132	328 799
Income tax paid		(9 604)	(19 679)
Allowances for emission of CO_2		(93 103)	(249 437)
Impairment write-down on fixed assets and mining assets		372 540	22 165
Other		3 626	1 623
Net cash flow from operating activities		**366 754**	**478 798**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		8 854	3 478
Purchase of property, plant and equipment and intangible assets		(70 293)	(98 272)
Proceeds and expenses relating to other financial assets	*27*	641	1 451
Deposit termination for securing debt		-	35 630
Dividends received		93	208
Interest received		2	5
Other		-	(124)
Net cash flow from investing activities		**(60 703)**	**(57 624)**
Cash flow from financing activities			
Payment of finance lease liabilities		(1 571)	(7 012)
Proceeds from loans and borrowings and debt securities		43 414	-
Repayment of loans and borrowings and debt securities		(284 949)	(340 837)
Dividends paid		(60 988)	(65 562)
Interest paid		(21 218)	(33 373)
Other		7	(466)
Net cash flow from financing activities		**(325 305)**	**(447 250)**

(in thousand PLN)

Net increase / (decrease) in cash and cash equivalents		**(19 254)**	**(26 076)**
Cash and cash equivalents at the beginning of the period	*27*	**322 570**	**348 646**
Cash and cash equivalents at the end of the period		**303 316**	**322 570**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For 12 months period ended 31 December 2018

	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 2018		**101 647**	**1 094 493**	**(2 678)**	**3 472**	**1 014 113**	**2 211 047**	**-**	**2 211 047**
Adjustment concerning IRFS 9	*8*	-	-	-	-	(4 338)	(4 338)	-	(4 338)
Transformed data as of 1 January 2018		**101 647**	**1 094 493**	**(2 678)**	**3 472**	**1 009 775**	**2 206 709**	**-**	**2 206 709**
Net profit for the period		-	-	-	-	(460 196)	(460 196)	(3 477)	(463 673)
Total other comprehensive income		-	-	2 219	-	(610)	1 609	-	1 609
Total income for the period		**-**	**-**	**2 219**	**-**	**(460 806)**	**(458 587)**	**(3 477)**	**(462 064)**
Distribution of profits from previous years		-	29 649	-	-	(29 649)	-	-	-
Dividend for previous years		-	-	-	-	(60 988)	(60 988)	-	(60 988)
Transactions with non-controlling shareholders		-	-	-	-	(3 199)	(3 199)	6 765	3 566
Other changes		-	234	(1)	-	(309)	(76)	-	(76)
As of 31 December 2018		**101 647**	**1 124 376**	**(460)**	**3 472**	**454 824**	**1 683 859**	**3 288**	**1 687 147**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For 12 months period ended 31 December 2017 (transformed data)

	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 2017		**101 647**	**1 028 647**	**(7 084)**	**3 472**	**1 016 976**	**2 143 658**	**-**	**2 143 658**
Korekta błęduError adjustment	*7*	-	-	-	-	(53 225)	(53 225)	-	(53 225)
Transformed data as of 1 January 2017		**101 647**	**1 028 647**	**(7 084)**	**3 472**	**963 751**	**2 090 433**	**-**	**2 090 433**
		-	-	-	-	183 243	183 243	301	183 544
Net profit for the period		-	-	4 406	-	(1 746)	2 660	-	2 660
Total other comprehensive income		**-**	**-**	**4 406**	**-**	**181 497**	**185 903**	**301**	**186 204**
Total income for the period		-	65 846	-	-	(65 846)	-	-	-
Distribution of profits from previous years		-	-	-	-	(65 562)	(65 562)	-	(65 562)
Dividend for previous years		-	-	-	-	(28)	(28)	-	(28)
Distribution of profits from previous years for CSBF						301	301	(301)	-
The effect of the 'put' option settlement on the shares of non-controlling interests		**101 647**	**1 094 493**	**(2 678)**	**3 472**	**1 014 113**	**2 211 047**	**-**	**2 211 047**

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RULES (POLICIES) OF ACCOUNTANCY AND ADDITIONAL EXPLANATORY NOTES

1. General information

The Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin SA ("the Group") consists of Zespół Elektrowni Pątnów – Adamów – Konin SA ("the parent company", "the Company", "ZE PAK SA"), with its head office in Konin at 45 Kazimierska str., and its subsidiaries (see Note 2). The Group's consolidated financial statement covers the year ended 31 December 2017 and includes comparative data for the year ended 31 December 2016. 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.

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 %*	
			31.12.2017	*31.12.2017*
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100,00%	100,00%
„Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric Energy production and distribution from the 464 MW power unit	100,00%*	100,00%*
„PAK – Holdco" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activity	-	100,00%
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	100,00%	100,00%
„PAK Górnictwo" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Exploration and recognition of lignite	100,00%	100,00%
„Energoinwest Serwis" sp. z o.o. in liquidation	62-510 Konin ul. Przemysłowa 75	Repair-construction service	-	100,00%*
„PAK Kopalnia Węgla Brunatnego Konin" SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	97,68%*	97,58%
„PAK Kopalnia Węgla Brunatnego Adamów" SA	62-700 Turek Warenka 23	Lignite extraction	99,35%	99,26%
„Aquakon" sp. z o.o. in liquidation	62-610 Sompolno Police	in liquidation	96,20%*	96,20%*
„Eko-Surowce" sp. z o.o. in liquidation	62-540 Kleczew ul. 600-lecia 9	in liquidation	-	100,00%*
„PAK-Volt" SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%
„EL PAK Serwis" sp. z o.o. in liquidation	62-510 Konin ul. Przemysłowa 158	in liquidation	-	100,00%*
„PAK Adamów" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Buying and selling real estate	100,00%	100,00%

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

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

As of 31 December 2018, the share in the general number of votes held by the Group in subsidiaries is equal to the Group's share in capitals of these subsidiaries.

3. Composition of the Management Board of the parent company

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

- Henry Sobierajski — Member of the Supervisory Board of ZE PAK SA delegated to temporarily perform the duties of the President of the Management Board
- Zygmunt Artwik — Vice President of the Board,
- Paweł Markowski — Vice President of the Board,

On January 10th, 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 10th 2019. In this situation, at the meeting held on January 10th, 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 12th, 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.

4. Approval of the financial statement

This consolidated financial statement was approved for issuing by the Management Board on 30 April 2019.

5. Essential values based on professional judgement and estimates

The preparation of the consolidated financial statement of the Group requires, from the Management Board of the parent company, the judgements, estimates and assumptions, which affect the reported income, costs, assets, liabilities and the related notes and disclosures related to contingent liabilities. Uncertainty about these assumptions and estimates may result in the significant impairment of balance sheet values of assets and liabilities in the future.

5.1. Professional judgement

In the process of application of the rules (policies) of accounting, the Management Board made the following judgements that have the greatest impact on the presented balance sheet values of assets and liabilities.

Capitalisation of foreign exchange rates

Due to executed investments, the Group's companies use external financing sources.

The borrowing costs, which can be directly allocated to the implementing investments, are capitalized in the value of the capital work in progress until the commissioning of the capital work to use.

The companies capitalize the foreign exchange rates related to the received credits and loans in the foreign currency to the extent to which they represent an adjustment to the interest costs. The Group uses the cumulative approach in the scope of capitalisation of external borrowing costs. The cumulative approach considers an investment as a whole. That is why the amount of foreign exchange rates possible to be capitalised as an adjustment of external financing costs in the reporting period may be subject to changes together with changes in exchange rates in the period of investment.

Classification of lease contract

The Group classifies the lease as operating or financial one based on the assessment of the extent to which the risk and benefits of ownership of the leased asset come to the lessor and to the lessee. This assessment is based on the economic content of each transaction.

Identification of embedded derivatives

At each balance sheet date, the Group's management assesses whether under the contracts, there are economic characteristics and risk specific to the embedded derivative in a foreign currency, which are not closely related to the economic characteristics and risk of the host agreement.

5.2. Uncertainty of estimates

Basic assumptions concerning the future and other key sources of uncertainty occurring at the balance sheet date, to which vital risk of the significant adjustment of balance sheet value of assets and liabilities in the next financial year are related, are discussed below. The Group adopted assumptions and estimates concerning the future on the basis of the knowledge possessed during development of the financial statement. Occurring assumptions and estimates may be subject to change due to future events resulting from market fluctuations or fluctuation not controlled by the Group. Such fluctuations are reflected in estimates or assumptions at the moment of occurrence.

Loss in fixed assets

As a result of analyses conducted as of 31 December 2018, the Group identified the existence of circumstances, which would indicate possible loss in value of the asset components, in the form of the balance sheet net value of the Group's assets higher than the value of its market capitalisation. In relation to the above fact, the Group conducted value impairment tests of components of fixed assets. On the basis of the conducted tests, it was stated that there is no need to identify the Impairment write-downs against tangible fixed assets. Information about the conducted test is presented in note 19.1.

Evaluation of provisions for employee benefits

Provisions for employee benefits were estimated using actuarial methods. The assumptions adopted for that purpose were presented in the note 24.1.

Estimate was developed on the basis of following main assumptions:

- discount rate 3,0%
- estimated inflation rate 2,5%
- estimated salary increase rates depending on the company, in the range from 0% to 3%

Changes of the financial indexes, which are a basis of the estimation, would change the balance of the provisions by the amounts presented in the table below (in thousands zloty).

	(+) increase by 1 percentage point	*(-) decrease by 1 percentage point*
discount rate	(3 767)	3 317
salary increase rates	3 543	(3 709)

Component of deferred tax assets

The Group recognises the component of deferred tax assets on the basis of assumption that tax profit enabling to its use will be achieved. The deteriorations of the achieved tax results in the future, could lead to a situation, in which this assumption would become unjustified. Details concerning the deferred tax are described in note 15.3.

Fair value of financial instruments

The fair value of financial instruments, for which there is no active market, is determined using relevant measurement techniques. When selecting relevant methods and assumptions, the Group is guided by professional judgement. The way of determination of the fair value of particular financial instruments was presented in note 11.9.

Capitalisation of overburden stripping costs in the production phase

In cases justified by IFRIC 20, the Group capitalizes overburden stripping costs during the operation phase of an open pit mine. The basis for cost capitalisation is meeting the following conditions: the Group is likely to achieve future economic benefits associated with overburden stripping, the Group is able to identify the part of a coal seam, to which access was facilitated and the costs associated with overburden stripping regarding that part of the seam can be credibly appraised. The Group verifies the estimates regarding the above criteria on a regular basis, in order to ensure correct cost capitalisation.

Settlement period for assets related to overburden stripping and other mining assets

On a periodic basis, the Group verifies the settlement periods of assets related with overburden stripping and other mining assets, on the basis of current forecasts regarding the open pit exploitation. Data on assets related to overburden stripping and other mining assets are described in note 22.

Compensation for the termination of long-term contracts for sale of power and electricity

Note 34 presents the descriptions of essential contingent liabilities and essential law suits, including these concerning compensations for the termination of long-term contracts for the sale of power and electricity.

Revenue recognition

The Group applies the method of percentage progress of works in the settlement of long-term contracts carried out over time. The use of this method requires the Group to estimate the proportion of work done so far to all services to be performed. The revenue is recognized based on the transaction price, excluding the amounts that the Group, as part of the consortium, purchases on behalf of consortium members.

On every balance sheet date, the Group updates the budgeted estimates of total revenues and costs of realised projects. The projected contract-related loss is recognised as costs of the period, when it was recognised in accordance with IFRS 15.

Depreciation rates

The amount of depreciation rates is determined on the basis of the projected period of economic usability of tangible fixed asset components and intangible assets. The Group verifies accepted periods of economic usability on the basis of current estimates annually.

Uncertainty associated with tax settlement

Regulations regarding the goods and services tax, the corporate income tax and the burden associated with social insurance are subject to frequent changes. These frequent changes result in the lack of relevant benchmarks, incoherent interpretations and few established precedents, which could be applied. The binding legislation also contains ambiguities, which create differences in the opinions, in terms of legal interpretation of tax legislation, both, between state authorities, as well as state authorities and the enterprises.

Tax settlements and other areas of activity (for example customs or foreign currency issues) can subjected to inspection by the authorities, which are entitled to impose large penalties and fines, and all additional tax liabilities, resulting from the inspection, must be paid together with high interest. These circumstances cause the tax risk in Poland to be higher than in countries with a more mature tax system.

As a consequence, the amounts shown and disclosed in financial statements can be changed in the future, as a result of the ultimate decision by a tax audit authority.

Amendments to the Tax Code were introduced on 15 July 2016 in order to reflect the provisions of the General Anti-Abuse Regulation (GAAR). The GAAR is supposed to prevent the creation and abuse of artificial legal structures, formed in order to avoid paying taxes in Poland. The GAAR defines tax evasion as an activity conducted mainly with the aim to obtain a tax benefit, contradictory in current circumstances to the subject matter and goal of the tax law regulations. According to GAAR, such an activity does not result in obtaining a tax benefit, if the manner of activity was artificial. All events of (i) unjustified division of operations, (ii) involvement of intermediaries, despite a lack of economic or business justification, (iii) elements mutually cancelling or compensating each other and (iv) other activities of a similar effect to the previously mentioned, can be treated as a prerequisite for the existence of artificial activities subject to GAAR provisions. The new regulations will require a much wider judgement when assessing the tax implications of individual transactions.

The GAAR clause shall be applied in relation to transactions made after it came into effect and to transaction, which were conducted prior to the GAAR entering into force but for which the benefits were or still are achievable after the date of entry into force. The implementation of the above regulations will enable Polish tax audit authorities to question the legal agreements and arrangements executed by the taxpayers, such as group restructuring and reorganisation.

The Group recognizes and measures assets or liabilities for current and deferred income tax by applying the requirements of IAS 12 *Income tax*, on the basis of the profit (tax loss), taxation base, unsettled tax losses, unused tax relief and tax rates, taking into account the uncertainties associated with tax settlements.

In the case of uncertainty whether a tax authority would and to what extent accept tax settlement of a transaction, the Group recognises these settlements taking into account the uncertainty assessment.

Impairment write-downs on receivables

With respect to trade receivables, it is assumed that the repayment data can be used to estimate credit risk in the future, and therefore credit losses are estimated using historical data on the maturity dates of trade receivables and their fulfillment. Details regarding impairment losses on receivables are included in note 26.

Provision for the liquidation of tangible fixed assets components

The group creates provisions for the liquidation of tangible assets in the event of such an obligation or undertaking such a liability by the Group's management. The provision is created in the amount resulting from the received offers concerning liquidation of components of tangible fixed assets. The Group updates the value of the provision on every balance sheet date. The value of the provision due to liquidation of components of tangible fixed assets is discounted on every balance sheet date. Provisions for the disassembly of Adamów Power Plant assets are not created due to the lack of a legal obligation. The provision described in note 11.24.

Provision for liquidation of ash storage yards

The Group creates the provision for liquidation of ash dumps due to a legal obligation resulting from the integrated approval entries. The basis of estimation are developments, technical and economic analyses developed by the Group, as well as received external offerings for planned directions of reclamation. At the end of each reporting period, the Group updates the value of the provision. As at the balance sheet date, the Management Board of ZE PAK SA Group estimated the value of reclamation costs to be borne in the future based on knowledge about the area of ash landfills used and the currently incurred costs of reclamation for similar areas. When calculating the provision, the Group adopted the following assumptions: discount rate at 3.0%, inflation level at 2.5%.

The provision is described in note 31.3.2.

Reclamation and other provisions related to mining activity

The Group creates both, the provision for reclamation costs related to current extraction of coal on a given open pit, and the provision for costs of the final excavation. The provision is created on the basis of the estimates of future reclamation costs, as well as assumed start and finish dates of reclamation, on the basis of reports by independent experts estimating reclamation costs on the order of the Management Board, as well as internal estimates of the Group, and is discounted on every balance sheet date. The provisions are described in note 31.3.3.

Valuation of Energy certificates

The Group recognises the energy certificates of origin (green certificates) due to the energy production from renewable energy, gas, and peak load co-generation sources according to the fair value at the end of the month, in which they were produced. On the balance sheet date, the Group appraises certificates of origin to the net value possible to achieve – for green certificates on 31 December 2018 to the price of 135.20 PLN /MWh. Data on prices come from listings on Towarowa Giełda Energii SA. A write-down against the certificate value is created in case the sale price possible to achieve, diminished by the disposition costs, is lower than the historical production cost. The amount of the impairment loss is PLN 1,703 thousand. The value of the write-down decreases the value of stocks for certificates of origin and increases the cost of sales. The source of uncertainty are legal regulations regarding the RES market.

Provision for liabilities for the emission of greenhouse gases and provisions for the redemption of certified emission reductions (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 2017 amounted to 7 234 602 tons of CO_2.

In April 2018, the Group redeemed CO2 emissions for 2017 in the amount of 10 866 104 tons of CO_2.

As at December 31, 2018, the Group created a provision for allowances in respect of the actual volume of issue for the period from January 1, 2018 to December 31, 2018.

Details regarding the provision for liabilities for greenhouse gas emissions are presented in Note 31.3.1.

6. Basis for development of the interim condensed consolidated financial statement

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. Bearing in mind, in particular, the increased reporting standards of public interest entities and the protection of stakeholders, the Management Board of ZE PAK SA ("Management Board") draws attention to the following issues:

1. The Group closed 2018 with a net loss of PLN (464) million. The level of net loss was influenced by one-off events in the amount of PLN 347 million, including the results of tests for impairment of property, plant and equipment. Additionally, the loss suffered was affected by the situation on the energy market. Since the beginning of the year, the upward trend of CO2 emission allowances has become visible, which the Group is obliged to purchase for the purpose of submission for redemption. The allowances at the beginning of the year were at the level of about 8 euros, and ended the year at over 24 euros, causing a significant increase in the Group's operating costs in 2018. In addition, the deterioration in the operating result, both in the segment of generation and extraction, was also affected by the the Group's operations due to the completion, as of 1 January 2018, of electricity production by Adamów Power Plant, due to the end of the environmental exemption period for five units with a total capacity of 600 MW.
2. As at 31 December 2018, short-term liabilities, including bank loans, exceed the current assets of the Group by PLN 308 million.

The circumstances described above may affect the assessment of the Group's operations in the future, including the assessment of the Group's ability to continue as a going concern. Increasing operating costs, significant fluctuations in the level of CO2 emission allowances, the level of short-term indebtedness and uncertainty regarding market regulations determining prices of energy generated and certificates obtained, affect the uncertainty of the implementation of plans adopted by the Management Board. As a consequence, the Management Board draws attention to the existence of significant uncertainty, which may raise doubts as to the Group's ability to continue as a going concern. It should be emphasized, however, that the financial situation in 2018 was largely determined by the strategy of securing the prices of energy sold and purchased allowances for CO2 emissions. The maladjustments in this respect have already been corrected at the stage of contracting energy sales and purchasing allowances for 2019. A number of activities at the operational level aimed at improving the economic situation of the Group were also undertaken.

Currently, the Management Board focuses its activities on improving the liquidity of the Group in the short term. The Management Board made 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 during the next 12 months from the date of these financial statements. This analysis assumes the renewal of credit limits held for financing current operations of companies in the Group. There are talks with financial institutions aimed at renewing loans. In the opinion of the Management Board, the risk of not renewing credit limits is limited.

As a result, in the opinion of the Management Board, the situation described above will not adversely affect the Group's ability to pay its liabilities, finance necessary investments or cooperate with key clients.

6.1. Statement of compliance

This consolidated financial statement was developed in conformity with the International Financial Reporting Standards (“IFRS”), approved by the EU (“EU IFRS”).

EU IFRS covers standards and interpretations adopted by the International Accounting Standards Board (“IASB”) and The International Financial Reporting Interpretation Committee ("IFRIC").

The Group’s companies keep their accounting books in accordance with the policy (rules) specified in the Act of 29 September 1994 on accounting (“the Act”), as amended, and the regulations issued therein (“Polish accounting standards”). The consolidated financial statement includes adjustments, which are not included in the accounting books of the Group’s units, introduced in order to make their financial statements comply with IFRS.

6.2. Functional currency and financial statements currency

The functional currency of the parent company and other companies included in this consolidated financial statement and the presentation currency of this consolidated financial statement is the Polish zloty (zloty).

(in thousand PLN)

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

As at December 31, 2018, the Management Board of the Parent Company made a detailed re-analysis of the legal regulations relating to land reclamation in terms of the need to establish a provision for future costs of damage removal.

As at the day of adjusting the error described in note 7, i.e. January 1, 2017, the Group adopted the following accounting policy in this respect.

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

As a result of the analysis, it was considered that on December 31, 2018 and in previous years, the Group was under a legal obligation consisting in the necessity of removing damage and reclamation of land used as ash landfills. In the opinion of the Management Board, the fact of creating a given ash storage facility, including incurring necessary expenses for its establishment, causes an obligating event that creates the Group's obligation to remove it in the future, because legal requirements cause that there is an obligation from which the Group cannot withdraw or avoid meeting it. The failure to adopt a provision for restoration of primary status in previous years, despite the existence of such an obligation, meets the definition of error in accordance with IAS 8 para. 43, and its adjustment affects the financial data presented for comparable periods.

As a result, as at December 31, 2017 and December 31, 2016, the Company recognized a provision for liquidation of damage and reclamation of ash storages used by the Group in the amount of discounted reclamation costs to be incurred in the future in the amount of PLN 40,451 thousand, respectively, in correspondence with profits. from previous years and the item of property, plant and equipment to the extent that the obligation to remove and restore the original state concerns an unamortized part of property, plant and equipment. As at 31 December 2018, the provision was updated and its increase by PLN 16,442 thousand. This necessitated a re-correction of the comparative data. The total value of the adjustment is PLN 61 278 thousand (accounting policy regarding the creation of provisions for reclamation have been included in note 11.24 of this report).

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

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

The total impact of the adjustment on the Group's equity amounted originally to PLN (36 783) thousand and after the second adjustment PLN (53 225) thousand as at December 31, 2018.

The impact of adjustment on the comparative data:

As at 30 June 2018

	30 June 2018		
	Published data	*Transformed data*	*Adjustment amount*
ASSETS			
Fixed assets			
Property, plant and equipment	3 240 762	3 240 762	-
Investment estates	2 365	2 365	-
Intangible assets	6 063	6 063	-
Assets of removing overburden and other mining assets (long-term)	68 915	68 915	-
Other long-term financial assets	33 558	33 558	-

(in thousand PLN)

Other long-term non-financial assets	1 288	1 288	-
Deferred tax assets	72 729	72 729	-
Total fixed assets	**3 425 680**	**3 425 680**	-
Current assets			
Short-term intangible assets	8 729	8 729	-
Inventories	105 183	105 183	-
Trade and other receivables	301 771	301 771	-
Income tax receivables	1 284	1 284	-
Short-term financial derivatives (assets)	1 636	1 636	-
Other short-term financial assets	12 321	12 321	-
Other short-term non-financial assets	31 025	31 025	-
Amounts due from customers under long-term construction contracts	5 692	5 692	-
Cash and cash equivalents	240 035	240 035	-
Total current assets	**707 676**	**707 676**	-
Assets classified as held for sale	1 024	1 024	-
TOTAL ASSETS	**4 134 380**	**4 134 380**	-

		30 June 2018	
	Published data	*Transformed data*	*Adjustment amount*
LIABILITIES AND EQUITY			
Equity			
Share capital	101 647	101 647	-
Reserve capital	1 124 142	1 124 142	-
Revaluation reserve from valuation of hedging instruments	(1 415)	(1 415)	-
Other reserve capital	3 472	3 472	-
Retained earnings / Accumulated losses	934 360	917 918	(16 442)
Net profit / (loss)	(51 257)	(51 257)	-
Equity attributable to equity holders of the parent	**2 110 949**	**2 094 507**	**(16 442)**
Equity attributable to non-controlling interests	-	-	-
Total equity	**2 110 949**	**2 094 507**	**(16 442)**
Long-term liabilities			
Interest-bearing loans and borrowings	167 575	167 575	-
Long-term employee benefits	48 113	48 113	-
Trade liabilities and other long-term financial liabilities	4 518	4 518	-
Long-term financial derivatives (liabilities)	155	155	-
Subsidies and accruals of long-term income	43 758	43 758	-
Other long-term provisions and accruals	398 309	414 751	16 442
Deferred tax liability	433 068	433 068	-
Total long-term liabilities	**1 095 496**	**1 111 938**	**16 442**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities	209 927	209 927	-
Current portion of interest-bearing loans and borrowings	384 078	384 078	-
Short-term financial derivatives (liabilities)	2 192	2 192	-

(in thousand PLN)

Other non-financial liabilities	66 811	66 811	-
Current income tax liability	164	164	-
Short-term employee benefits	6 033	6 033	-
Short-term subsidies	1 508	1 508	-
Amounts due to customers under long-term construction contracts	2 284	2 284	-
Other short-term provisions and accruals	254 938	254 938	-
Total short-term liabilities	**927 935**	**927 935**	-
Total liabilities	**2 023 431**	**2 039 873**	**16 442**
TOTAL LIABILITIES AND EQUITY	**4 134 380**	**4 134 380**	**-**

As at 31 December 2017

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

	31 December 2017		
	Published transformed data	*Transformed data*	*Adjustment amount*
LIABILITIES AND EQUITY			

Equity			
Share capital	101 647	101 647	-
Reserve capital	1 094 493	1 094 493	-
Revaluation reserve from valuation of hedging instruments	(2 678)	(2 678)	-
Other reserve capital	3 472	3 472	-
Retained earnings / Accumulated losses	847 312	830 870	(16 442)
Net profit / (loss)	183 243	183 243	-
Equity attributable to equity holders of the parent	**2 227 489**	**2 211 047**	**(16 442)**
Equity attributable to non-controlling interests	-	-	-
Total equity	**2 227 489**	**2 211 047**	**(16 442)**
Long-term liabilities			
Interest-bearing loans and borrowings	302 465	302 465	-
Long-term employee benefits	48 166	48 166	-
Trade liabilities and other long-term financial liabilities	5 146	5 146	-
Long-term financial derivatives (liabilities)	870	870	-
Long-term subsidies	44 509	44 509	-
Other long-term provisions and accruals	398 353	414 795	16 442
Deferred tax liability	432 900	432 900	-
Total long-term liabilities	**1 232 409**	**1 248 851**	**16 442**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities	146 416	146 416	-
Current portion of interest-bearing loans and borrowings	349 573	349 573	-
Short-term financial derivatives (liabilities)	4 139	4 139	-
Other non-financial liabilities	107 387	107 387	-
Current income tax liability	1 092	1 092	-
Short-term employee benefits	5 457	5 457	-
Short-term subsidies	1 507	1 507	-
Amounts due to customers under long-term construction contracts	5 626	5 626	-
Other short-term provisions and accruals	378 285	378 285	-
Total short-term liabilities	**999 482**	**999 482**	**-**
Total long-term liabilities	**2 231 891**	**2 248 333**	**16 442**
Short-term liabilities	**4 459 380**	**4 459 380**	**-**

As at 30 June 2017

	30 June 2017		
	Published data	*Transformed data*	*Adjustment amount*
ASSETS			
Fixed assets			
Property, plant and equipment	3 314 933	3 318 601	3 668
Investments estates	2 323	2 323	-
Investment property	4 177	4 177	-
Assets of removing overburden and other mining assets (long-term)	76 609	76 609	-

(in thousand PLN)

Other long-term financial assets	11 979	11 979	-
Other long-term non-financial assets	5 605	5 605	-
Deferred tax assets	87 161	87 161	-
Total fixed assets	**3 502 787**	**3 506 455**	**3 668**
Current assets			
Short-term intangible assets	145 777	145 777	-
Inventories	96 720	96 720	-
Trade and other receivables	300 559	300 559	-
Income tax receivables	1 330	1 330	-
Short-term financial derivatives (assets)	-	-	-
Other short-term financial assets	74 294	74 294	-
Other short-term non-financial assets	20 696	20 696	-
Amounts due from customers under long-term construction contracts	13 838	13 838	-
Cash and cash equivalents	255 389	255 389	-
Total current assets	**908 603**	**908 603**	-
Assets classified as held for sale	-	-	-
TOTAL ASSETS	**4 411 390**	**4 415 058**	**3 668**

	30 June 2017		
	Published data	*Transformed data*	*Adjustment amount*
LIABILITIES AND EQUITY			
Equity			
Share capital	101 647	101 647	-
Reserve capital	1 094 492	1 094 492	-
Revaluation reserve from valuation of hedging instruments	(4 498)	(4 498)	-
Other reserve capital	3 472	3 472	-
Retained earnings / Accumulated losses	886 268	833 043	(53 225)
Net profit / (loss)	103 372	103 372	-
Equity attributable to equity holders of the parent	**2 184 753**	**2 131 528**	**(53 225)**
Equity attributable to non-controlling interests	-	-	-
Total equity	**2 184 753**	**2 131 528**	**(53 225)**
Long-term liabilities			
Interest-bearing loans and borrowings	440 875	440 875	-
Long-term employee benefits	47 867	47 867	-
Trade liabilities and other long-term financial liabilities	4 085	4 085	-
Long-term financial derivatives (liabilities)	2 169	2 169	-
Long-term subsidies	42 548	42 548	-
Other long-term provisions and accruals	326 661	383 554	56 893
Deferred tax liability	410 776	410 776	-
Total long-term liabilities	**1 274 981**	**1 331 874**	**56 893**
Short-term liabilities			

Trade liabilities and other short-term financial liabilities	211 830	211 830	-
Current portion of interest-bearing loans and borrowings	392 365	392 365	-
Short-term financial derivatives (liabilities)	4 965	4 965	-
Other non-financial liabilities	64 035	64 035	-
Current income tax liability	204	204	-
Short-term employee benefits	6 936	6 936	-
Short-term subsidies	1 504	1 504	-
Amounts due to customers under long-term construction contracts	3 151	3 151	-
Other short-term provisions and accruals	266 666	266 666	-
Total short-term liabilities	**951 656**	**951 656**	**-**
Total liabilities	**2 226 637**	**2 283 530**	**56 893**
TOTAL LIABILITIES AND EQUITY	**4 411 390**	**4 415 058**	**3 668**

As at 31 December 2016

	31 December 2016		
	Published transformed data	*Transformed data*	*Adjustment amount*
ASSETS			
Fixed assets			
Property, plant and equipment	3 394 914	3 394 914	-
Investments estates	2 337	2 337	-
Investment property	119 282	119 282	-
Assets of removing overburden and other mining assets (long-term)	80 524	80 524	-
Other long-term financial assets	11 945	11 945	-
Other long-term non-financial assets	5 726	5 726	-
Deferred tax assets	90 998	90 998	-
Total fixed assets	**3 705 726**	**3 705 726**	**-**
Current assets			
Short-term intangible assets	273 036	273 036	-
Inventories	105 296	105 296	-
Trade and other receivables	246 025	246 025	-
Income tax receivables	10 227	10 227	-
Short-term financial derivatives (assets)	296	296	-
Other short-term financial assets	77 317	77 317	-
Other short-term non-financial assets	28 776	28 776	-
Amounts due from customers under long-term construction contracts	8 168	8 168	-
Cash and cash equivalents	350 101	350 101	-
Total current assets	**1 099 242**	**1 099 242**	**-**
Assets classified as held for sale	-	-	-
TOTAL ASSETS	**4 804 968**	**4 804 968**	**-**

(in thousand PLN)

	31 December 2016		
	Published data	*Transformed data*	*Adjustment amount*
LIABILITIES AND EQUITY			
Equity			
Share capital	101 647	101 647	-
Reserve capital	1 028 647	1 028 647	-
Revaluation reserve from valuation of hedging instruments	(7 084)	(7 084)	-
Other reserve capital	3 472	3 472	-
Retained earnings / Accumulated losses	732 519	716 077	(16 442)
Net profit / (loss)	247 674	247 674	-
Equity attributable to equity holders of the parent	**2 106 875**	**2 090 433**	**(16 442)**
Equity attributable to non-controlling interests	-	-	-
Total equity	**2 106 875**	**2 090 433**	**(16 442)**
Long-term liabilities			
Interest-bearing loans and borrowings	587 851	587 851	-
Long-term employee benefits	48 587	48 587	-
Trade liabilities and other long-term financial liabilities	5 069	5 069	-
Long-term financial derivatives (liabilities)	4 294	4 294	-
Long-term subsidies	43 302	43 302	-
Other long-term provisions and accruals	352 704	369 146	16 442
Deferred tax liability	388 359	388 359	-
Total long-term liabilities	**1 430 166**	**1 446 608**	**16 442**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities	302 662	302 662	-
Current portion of interest-bearing loans and borrowings	421 958	421 958	-
Short-term financial derivatives (liabilities)	5 759	5 759	-
Other non-financial liabilities	116 431	116 431	-
Current income tax liability	166	166	-
Short-term employee benefits	6 503	6 503	-
Short-term subsidies	6 670	6 670	-
Amounts due to customers under long-term construction contracts	3 990	3 990	-
Other short-term provisions and accruals	403 788	403 788	-
Total short-term liabilities	**1 267 927**	**1 267 927**	-
Total liabilities	**2 698 093**	**2 714 535**	**16 442**
TOTAL LIABILITIES AND EQUITY	**4 801 300**	**4 804 968**	**-**

(in thousand PLN)

As at 30 June 2016

	30 June 2016		
	Published data	*Transformed data*	*Adjustment amount*
ASSETS			
Fixed assets			
Property, plant and equipment	3 399 827	3 403 495	3 668
Investments estates	2 349	2 349	-
Investment property	6 561	6 561	-
Assets of removing overburden and other mining assets (long-term)	85 085	85 085	-
Other long-term financial assets	9 455	9 455	-
Other long-term non-financial assets	5 755	5 755	-
Deferred tax assets	98 089	98 089	-
Total fixed assets	**3 607 121**	**3 610 789**	**3 668**
Current assets			
Short-term intangible assets	200 197	200 197	-
Inventories	143 149	143 149	-
Trade and other receivables	295 282	295 282	-
Income tax receivables	3 995	3 995	-
Short-term financial derivatives (assets)	-	-	-
Other short-term financial assets	80 784	80 784	-
Other short-term non-financial assets	18 733	18 733	-
Amounts due from customers under long-term construction contracts	3 500	3 500	-
Cash and cash equivalents	325 316	325 316	-
Total current assets	**1 070 956**	**1 070 956**	**-**
Assets classified as held for sale	-	-	-
TOTAL ASSETS	**4 678 077**	**4 681 745**	**3 668**

	30 June 2016		
	Published data	*Transformed data*	*Adjustment amount*
LIABILITIES AND EQUITY			
Equity			
Share capital	101 647	101 647	-
Reserve capital	1 028 639	1 028 639	-
Revaluation reserve from valuation of hedging instruments	(10 154)	(10 154)	-
Other reserve capital	3 472	3 472	-
Retained earnings / Accumulated losses	763 698	710 473	(53 225)
Net profit / (loss)	138 404	138 404	-
Equity attributable to equity holders of the parent	**2 025 706**	**1 972 481**	**(53 225)**
Equity attributable to non-controlling interests	-	-	-

Total equity	**2 025 706**	**1 972 481**	**(53 225)**
Long-term liabilities			
Interest-bearing loans and borrowings	739 710	739 710	-
Long-term employee benefits	76 287	76 287	-
Trade liabilities and other long-term financial liabilities	32 245	32 245	-
Long-term financial derivatives (liabilities)	7 098	7 098	-
Long-term subsidies	45 011	45 011	-
Other long-term provisions and accruals	331 146	388 039	56 893
Deferred tax liability	377 553	377 553	-
Total long-term liabilities	**1 609 050**	**1 665 943**	**56 893**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities	204 822	204 822	-
Current portion of interest-bearing loans and borrowings	450 301	450 301	-
Short-term financial derivatives (liabilities)	6 917	6 917	-
Other non-financial liabilities	68 664	68 664	-
Current income tax liability	1 202	1 202	-
Short-term employee benefits	9 925	9 925	-
Short-term subsidies	12 443	12 443	-
Amounts due to customers under long-term construction contracts	5 809	5 809	-
Other short-term provisions and accruals	283 238	283 238	-
Total short-term liabilities	**1 043 321**	**1 043 321**	**-**
Total liabilities	**2 652 371**	**2 709 264**	**56 893**
TOTAL LIABILITIES AND EQUITY	**4 678 077**	**4 681 745**	**3 668**

8. Changes in applied accounting principles and data changes comparative

The accounting (policy) rules applied for the development of this consolidated financial statement are coherent with the ones used for the development of the Company's consolidated financial statement for the year concluded on 31 December 2017, except the one shown below. The following amendments to the IFRS were applied in this consolidated financial statement according to their date of entry into force. Changes regarding the effective date of IFRS 9 and IFRS 15 are described in note 11. Other changes did not apply or have material impact on the Group's financial information.

- Amendments to IFRS 2 Classification and valuation of share-based payment transactions
- Amendments to IFRS 4 Applying IFRS 9 Financial instruments, including IFRS 4 Insurance Contracts
- Changes resulting from the review of IFRS 2014-2016 - amendments to IFRS 1 and IAS 28
- Amendments to IAS 40 Real estate qualification; moving investment properties to other groups of assets
- Amendments to IFRIC 22 Changes in the method of determining the date of the transaction, and therefore the SPOT exchange rate, which should be used when making or receiving advance payment in a foreign currency.

The Group did not decide on the earlier application of any other standard, interpretation, or amendment, which were issued but are not yet effective in light of the European Union regulations.

(in thousand PLN)

IFRS 9 Financial instruments

IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement. Valid for annual periods beginning on January 1, 2018 or later. IFRS 9 covers three areas related to financial instruments:

- Classification and valuation
- Loss of value
- Hedge accounting

The Group did not take advantage of the possibility to implement the changes resulting from IFRS 9 in the area of hedge accounting from January 1, 2018.

The Group applied IFRS 9 from January 1, 2018, without transforming the comparative data.

Due to the impact of the application of IFRS 9, the effects of its application were referred to the retained earnings on January 1, 2018. The impact is presented in note 11.12.

The following table presents changes in the names of items from the statement of financial position resulting from changes in the classification of financial instruments.

Financial instruments	***Classification of instruments acc. to IAS 39***	***Classification of instruments acc. to IAS 9***
ASSETS		
Receivables due to deliveries and services and other financial receivables	Loans and receivables	Valued at amortized cost
Cash and cash equivalents	Cash and cash equivalents	Valued at amortized cost
Derivatives and other receivables at fair value through profit or loss	Financial assets at fair value through profit or loss	Valued at fair value through profit or loss
Derivative financial instruments	Derivative hedging instruments	Derivative hedging instruments
LIABILITIES AND EQUITY		
Bank loans, loans, bonds and leasing	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost
Liabilities due to deliveries and other financial liabilities	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost
Derivative financial instruments	Financial liabilities at fair value through profit or loss	Valued at fair value through profit or loss
Derivative financial instruments	Derivative hedging instruments	Derivative hedging instruments

IFRS 15 Revenue from contracts with clients

IFRS 15 repeals IAS 11 Construction Contracts and IAS 18 Revenues. It applies to all customer contracts except those falling within the scope of other standards. IFRS 15 establishes the "Five Steps Model" for recognizing revenues arising from contracts with clients. According to the standard, revenues are recognized in the amount of remuneration which, according to the entity's expectation, is due in exchange for the transfer of promised goods or services to the client.

The Group applied IFRS 15 from January 1, 2018 without converting comparative data.

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

- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – as per the decision of the European Committee, the approval process for the standard in the preliminary version will not be initiated prior to the standard being issued in the final version – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2016 or later,

- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014) – works leading to the approval of these changes were delayed indefinitely by the EU - the effective date was delayed indefinitely by IASB,
- IFRS 16 Leasing (published on January 13, 2016) - applicable to annual periods beginning on January 1, 2019 or later. The standard eliminates the division into operational and financial leasing from the point of view of the lessee. Contracts meeting the definition of a lease will be recognized as current financial leasing.
- IFRS 17 Insurance Contracts (published on May 18, 2017) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2021 or later,
- IFRIC 23 Uncertainty related to the recognition of income tax (published on June 7, 2017) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2019 or later,
- Amendments to IFRS 9 Early repayments with negative compensation (published on October 12, 2017) - applicable to annual periods beginning on January 1, 2019 or later,
- Amendments to IAS 28 Long-term shares in associates and joint ventures (published on 12 October 2017) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2019 or later,
- Changes resulting from the review of IFRS 2015-2017 (published on December 12, 2017) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2019 or later,
- Amendments to IAS 19 Change, limitation or settlement of the program (published on February 7, 2018) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2019 or later.
- Amendments to References to the Conceptual Assumptions contained in International Financial Reporting Standards (published on March 29, 2018) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2020 or later.

The dates of entry into force are dates resulting from the content of standards announced by the International Financial Reporting Council. The dates of application of standards in the European Union may differ from the dates of application resulting from the content of standards and are announced at the time of approval for application by the European Union. The Group did not decide to apply earlier any standard, interpretation or amendment that was published but has not yet entered into force in the light of European Union regulations.

9.1. Implementation of IFRS 16

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

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

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

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

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

The lessee has the right to choose a full or modified retrospective approach, and the transitional provisions provide for some practical solutions. IFRS 16 is effective for annual periods beginning on January 1, 2019 and later. Earlier application is permitted for entities that use IFRS 15 from or before the first application of IFRS 16. The group has not decided to apply IFRS 16 earlier.

The Group plans to implement IFRS 16 from January 1, 2019 using the modified retrospective method. According to this approach, the Group will not restate comparative data. The cumulative effect of the initial application of IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as of the date of initial application of IFRS 16.

The Group carried out a comprehensive analysis of the impact of IFRS 16 on its financial statements. The Group analyzed its agreements with a view to identifying contracts that, in accordance with IFRS 16, include a lease or leasing component.

The Group has determined that it is a lessee in the case of agreements for the use of land, including perpetual usufruct of land, lease and leasing of cars and machinery leasing.

The Group plans to take advantage 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 agreements regarding low-value assets.

For leases classified in accordance with IAS 17 as finance leases, the value of assets under the right of use and leasing liabilities as at January 1, 2019 will be determined in the carrying amount of the assets under lease and lease liabilities as at December 31, 2018, respectively. There is no operating lease in the Group recognized under IAS 17.

The Group adopted the following assumptions regarding the designation of the lease period:

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

The Group applied the following assumptions regarding the discount rate:

- The Group will apply the interest rate on leasing in the case of contracts for which it can be easily determined (car leasing),
- In the case of other lease agreements, the Group will apply the marginal interest rate of the lessee,
- The current financing sources of the Group have too short a time horizon to use them when estimating the marginal interest rate of the lessee,
- The refinancing strategy is not specified yet. The group will determine the rate by estimating:

o Risk-free rate,
o Credit margin,

- Discount rates will vary depending on the lease period,
- For practical reasons, it is planned to unify discount rates in the Group - the creditworthiness of Group companies is assessed by financial institutions through the prism of the Group's financial situation.

The estimated impact of the implementation of IFRS 16 on the balance sheet total as at January 1, 2019 is approximately PLN 54.657 thousand and results from the recognition of assets due to the right of use in correspondence with the leasing liability. According to estimates, as of 1 January 2019, the value of assets components due to the right of use and the value of leasing liabilities are equal to each other, except when the value of assets components due to the right of use includes prepayments recognized in the statement of financial position as at 31 December 2018 (applies to the unamortised purchase price of perpetual usufruct rights to land) and outside of contracts classified in accordance with IAS 17 as financial leases.

10. Change of estimates

During the period covered by the financial statement, the following changes of estimates, affecting the values shown in the financial statements, occurred:

- estimates in the assumptions for the valuation of actuarial provisions,
- estimates in the scope of assumptions regarding the valuation of derivative instruments,
- estimates in the assumptions regarding the calculation of the revenue for compensation of LTC,
- estimates in the assumptions regarding the periods of economic usability of the capital work,
- estimates related to realisation of the deferred tax assets,
- estimates in the scope of assumptions regarding the valuation of provisions for ash storage reclamation,
- estimates in the assumptions for the valuation of the provision for the liquidation of components of tangible fixed assets,
- estimates regarding the valuation of long-term contracts,
- estimates in the scope of assumptions regarding the valuation of the reclamation provisions associated with mining activity
- estimates in the scope of fixed asset impairment.

The impact of changes in estimates on the value of the recoverable amount of property, plant and equipment was presented in Note 19.1.

The impact of estimate changes on the value of actuarial provisions was presented in note 5.2.

In case of the valuation of derivatives (IRS, options), the change in estimates is due to the market changes of risk factors on the interbank market, i.e. the exchange rate and market interest rates. The description of the used protections was included in note 40.3.1.

In the calculation of the revenue due to compensation, the change of estimates relates primarily to changes in the sale prices and purchase of energy on the Commodity Power Exchange and balancing market, the volume of energy production and purchase of energy in order to meet sale plans as well as the interest rate of the 5-year government bonds and the NBP deposit rate, affecting the discount rate. The value of the yearly impairment due to compensations for 2018 is (+) zloty 56.7 million. The principles of recognition of revenue for compensations to cover stranded costs are described in note 11.26.4.

The period of economic usability of the fixed assets is subject to verification at the end of each reporting period based on the expected functionality period, verified against the Management Board’s plans related to the modernisation, sale, and liquidation of the main components of assets. The effect of the changes is recognised in the year in which the verification was performed.

With reference to the deferred tax asset, for each balance sheet day an analysis is carried out and, if necessary, a revaluation write-down is created, which is described in more detail in note 15.3.

The description of the titles of the main recognised provisions and changes of provision items in the current and previous fiscal year was described in note 31.

Note 13.8 shows the values of revenues for construction contracts, taking into account the balance sheet measurement and the expected losses due to these contracts.

11. Significant accounting rules

11.1. Consolidation rules

This consolidated financial statement includes the financial statement of Zespół Elektrowni Pątnów – Adamów – Konin SA as well as financial statements of its subsidiaries, developed each time for the year concluded on 31 December 2018. The financial statements of the entities controlled by it (subsidiaries), after the taking into account the adjustments to ensure compliance with IFRS, are prepared for the same reporting period as the parent company’s statement, using consistent accounting rules, based on uniform accounting policies applied for transactions and economic events of a similar nature. In order to eliminate any differences in the applied accounting methods, adjustments are implemented.

(in thousand PLN)

All significant balances and transactions between the Group's entities, including unrealised profits arising from transactions within the Group, were entirely eliminated. Unrealised losses are eliminated, unless they prove the impairment.

Subsidiaries are subject to consolidation from the date on which they are controlled by the Group and cease to be consolidated from the date on which such control ends. The control of the parent company over an entity takes place when:

- it has power over a given entity,
- it is exposed to variable returns or has rights to variable returns due to its commitment in a given entity,
- it has the possibility to use the power to shape the level of the generated returns.

The Company verifies the fact of having control over other entities, if the situation, which indicates a change of one or more of the above-mentioned control conditions, occurred.

If the company has less than a majority of the voting rights of the entity, but the held voting rights are sufficient to unilaterally manage the relevant activities of the entity, it means that it holds power over the entity. When assessing whether the voting rights in a given entity are sufficient to ensure power, the Company analyses all significant circumstances, including:

- the size of the held voting rights block in comparison to the scale of shares and the degree of dispersion of the voting rights held by other shareholders;
- potential voting rights held by the Company, other shareholders, or other parties;
- rights under other contractual arrangements; and
- additional circumstances that may demonstrate that the Company has or does not have the possibility to manage relevant activities in the decision-making moments, including voting schemes observed during previous meetings of the shareholders.

Changes in the parent company's ownership that do not result in the loss of control of the subsidiary are recognised as equity transactions. In such cases, in order to reflect changes in relative shares in the subsidiary, the Group adjusts the balance value of the controlling and non-controlling shares. Any differences between the amount of the adjustment of non-controlling shares and the fair value of the paid or received amount are recognised in the equity and attributed to owners of the parent company.

11.2. Calculation of items denominated in foreign currency

Transactions denominated in currencies other than zloty are calculated into Polish zloty using the exchange rate applicable on the date of conclusion of the transaction.

At the balance sheet date, assets and liabilities denominated in currencies other than zloty are calculated into Polish zloty using the average exchange rate determined for a given currency by the Polish National Bank at the end of the reporting period. The foreign exchange differences, which arise from the calculation, are respectively recognised in the financial revenue item (costs), or in cases of the rules (policy) of accounting, capitalised in the value of assets. Assets and non-monetary liabilities recognised at historical cost in a foreign currency are disclosed at the historical exchange rate of the transaction date. Assets and non-monetary liabilities recognised as per the fair value expressed in a foreign currency are converted to the fair value at the rate of the evaluation date. Profits or losses arising from the recalculation of assets and non-monetary liabilities recognised within the fair value are recognised in accordance with the recognition of profit or loss, which arises from changes in the fair value (i.e., in other comprehensive income or profit or loss, respectively, depending on where the change in the fair value is recognised).

The following exchange rates were adopted for the purposes of the balance sheet valuation:

	31 December 2018	*31 December 2017*
EUR	4,3000	4,1709
GBP	4,7895	4,7001
USD	3,7597	3,4813

11.3. Tangible fixed assets

Tangible fixed assets are stated according to the acquisition price / production cost reduced by the redemption and impairment write-downs for the loss in value. The initial value of fixed assets includes the acquisition price increased by all costs directly related to the acquisition and adaptation of the asset components to a condition for its intended use. The cost also includes the cost of replacing the individual components of machinery and devices when incurred, if the recognition criteria are met. Any costs incurred after the date when a fixed asset is put into operation, such as the maintenance and repair costs, encumber the profit or loss when incurred.

Fixed assets, at the time of their acquisition, are divided into components with a significant value, to which a separate period of the economic usability can be attributed. The costs of general overhauls are also classified as components. The Group capitalizes only compulsory repairs resulting from legal provisions, guarantees and the like. The period of amortization of renovation components is the time planned for the next major overhaul of a given facility. Lands classified as fossil are subject to depreciation until they are reclassified for another type of use.

The redemption is calculated on a straight-line basis for an estimated useful life of a given component of assets, amounting to:

Type	Period
Lands	2 - 18 years
Buildings and structures	2 - 40 years
Machinery and technical devices	2 - 32 years
Means of transport	2 - 30 years
Other fixed assets	2 - 31 years
General renovations	3 – 8 years

The final value, useful life and a depreciation method for the asset components are annually verified and, if necessary, adjusted with effect from the beginning of the just ended financial year. Any changes resulting from the conducted review are recognised as a change in estimates.

A given item of the tangible fixed assets may be removed from the balance sheet after its sale, or if any economic benefits, arising from the further use of such a component of assets, are expected. Any profits or losses resulting from removal of a given component of assets from the balance sheet (calculated as the difference between potential net income from the net sale and the balance sheet value of a given item) are recognised in the profit and loss of the period, in which such removal was made.

Commenced investments relate to fixed assets under construction or assembly and are reported in accordance with the acquisition or production costs reduced by potential impairment write-downs for the loss in value. The fixed assets under construction are not subject to redemption until the completion of their construction and putting the fixed asset into operation. Financing costs subject to capitalisation are also a value element of fixed assets under construction. The question of their capitalisation is described in more detail in note 11.11.

11.3.1. Fixed assets intended for sale

Fixed assets and their groups are deemed as held for sale when their balance sheet value is recovered rather by means of a sale transaction than through their further use. This condition can be met only when the sale transaction is highly probable and the assets' component is available for immediate sale in its present condition. The classification of the assets' component as intended for sale assumes the intention of the company's management board to conduct the sale transaction within one year from the date of classification. The fixed assets classified as held for sale are measured at the lower of two values:

the balance sheet value or fair value reduced by costs related to the sale.

If the Group wants to make a sale transaction, which would result in losing control over its subsidiary, all assets and liabilities of this entity are classified as held for sale, regardless of whether the Group keeps non-controlling interests after this transaction.

11.4. Investment properties

The initial recognition of the investment properties takes place according to the acquisition price or production cost, taking into account the transaction costs. The balance sheet value of the investment properties includes the cost of replacing the individual components of the investment property at the time of its incurrence, if the recognition criteria are met, and it does not include costs of the current maintenance of these properties. After the initial recognition, the value of investment properties is reduced by redemption and impairment write-downs for the loss in value.

Investment properties are removed from the balance sheet upon their sale or permanent withdrawal of the given investment property from use, when no future benefits of its sale are expected. Any profits or losses arising from removal of the investment property from the balance sheet are recognised in the income statement of the period in which the aforementioned removal took place.

The transfer of assets to investment properties is made when there is a change in their use confirmed by the owner ceasing to use the assets' component or the conclusion of an operating leasing agreement.

The Group as investment properties presents post-mining lands for which the reclamation process was completed. Such lands, in accordance with the plans of companies executing extraction activities, will be sold in the future.

11.5. Assets concerning stripping off and other mining assets

Assets related to stripping off and other mining assets include capitalized costs incurred in the mine's pre-production phase, in particular outlays related to the creation of an accessing site.

The initial value of the asset includes the discounted costs of liquidation, i.e. reclamation, in part in which it relies on the removed overburden as part of works related to the establishment of the primary lump, which, pursuant to the applicable law, are subject to liquidation after the end of activity. The principles for recognizing and measuring the costs of liquidation are presented in Note 31.3.2

The initial value of the asset also includes costs related to the creation of provisions for significant, one-off costs related to the areas on which open-cast construction works, for example liquidation and reconstruction of roads, liquidation of cemeteries, transfer of public construction objects.

In any case, the Group settles activated costs on a straight-line basis in the period of the economic usability of the duration of particular open pits (the exploitation period adopted for particular open pits). The adopted depreciation periods and depreciation methods are periodically reviewed, at least at the end of each financial year. The assets related to the removal of overburden and other mining assets with the economic usability of less than 12 months are classified within short-term assets. The periods of economic utility of individual outcrops are as follows:

Drzewce open pit till 2021, Tomisławice open pit till 2030, Jóźwin open pit till 2021.

The write-down against settlement of mining assets is recognised as operating costs within the depreciation costs.

11.6. Expenses related to exploration and evaluation of mineral resources

Within the assets related to stripping off and other mining assets item, the Group also shows expenses related to the exploration and evaluation of mineral resources.

The Group activates the expenses related to the exploration and evaluation of mineral resources until the end of the exploration works. The next step is to verify if the identified resources demonstrate the technical feasibility and economic viability of extracting. In the absence of viability of extracting, all the incurred expenses are written off in other operating costs.

Within the costs associated with the exploration and evaluation of mineral resources, the following element can be distinguished, among other things:

- topographical, geological, geochemical, and geophysical analyses,
- drilling,
- open-pit mining works,
- sampling,
- acquisition of extraction rights.

Assets related to the exploration for and evaluation of mineral resources are measured at cost less accumulated impairment losses.

Impairment tests on a single unit (project), the Group obligatorily performs when it demonstrates the technical feasibility and commercial viability of extracting mineral resources when facts and circumstances indicate that the carrying amount of assets from exploration and evaluation of mineral resources may exceed their recoverable amount. Any write-downs are recognized prior to the reclassification resulting from the demonstration of technical feasibility and economic viability of extracting mineral resources.

11.7. Intangible assets

Intangible assets acquired in a separate transaction or created (if they meet the recognition criteria for development costs) are measured at initial recognition, at their acquisition price or production cost, respectively. The acquisition price of intangible assets acquired in a business combination transaction is equal to their fair value at the date of the combination. Following the initial recognition, intangible assets are stated at their acquisition price or production cost reduced by the redemption and value impairment write-downs. The expenses incurred on the intangible assets produced internally, except for the activated assets incurred on the development works, are not activated and are recognised in the costs for the period, in which they were incurred.

Intangible assets are depreciated over the period of use and are subjected to the value impairment tests whenever there are premises indicating their value loss. The depreciation period and method of intangible assets with a definite useful life are verified at least at the end of each fiscal year. Changes in the expected useful life or the expected method of consuming the economic benefits from a given component of assets are recognised through a change of the period or depreciation method, and treated as changes in estimates. Depreciation write-downs for components of intangible assets with a definite useful life are recognised in the profit or loss in the expense of the category, which corresponds to the function of a given component of intangible assets.

Usufruct periods are verified annually and, if necessary, adjusted with effect from the beginning of the just ended financial year. Any changes resulting from the conducted review are recognised as a change in estimates.

A summary of the policies applied in relation to the Group's intangible assets is as follows:

	Concessions, patents and licenses	*Computer software*	*Other*
Periods of use	5 years	2 years	5 years
Applied depreciation method	Straight-line method	Straight-line method	Straight-line method
Internally produced or acquired	Acquired	Acquired	Acquired
The value impairment test	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.

Profits or losses resulting from removal of intangible assets from the balance sheet are valued according to the difference between the income from the net sales and the balance sheet value of a given asset component and are recognised in the profit or loss, when they are removed from the balance sheet.

The company also shows the CO_2 emission allowances received or acquired for own needs, as intangible assets. A detailed description of the accounting policy in respect of CO_2 emission allowances was included in note 11.25.

11.8. Leasing

The Group as a lessee

Financial lease agreements, which substantially transfer all risks and benefits related to holding a leased asset onto the Group, are recognised in the financial situation statement on the lease commencement date according to the lower of the two following values: the fair value of the fixed asset constituting a subject of the lease or the current value of minimal lease payments. Lease payments are allocated between the financial costs and reduction of the balance of the lease liabilities in a way that allows the obtaining of a constant interest rate on the remaining unpaid liability. Financial costs are recognised in profit or loss, unless the capitalisation requirements are met.

The principles of depreciation of fixed assets used under financial leasing should be coherent with the principles used for depreciation of the Group's own assets subject to depreciation. In the event of a lack of sufficient certainty that the lessor will obtain a tenure prior to the end of the lease period, fixed assets used under financial lease agreements are depreciated over the shorter of the two periods: the estimated useful life of a fixed asset or the lease term. The lease agreements, under which the lessor substantially retains all the risks and benefits of ownership of the leased asset, are classified as operating lease agreements. Lease payments under the operating lease agreement and subsequent lease instalments are recognised as operating costs in profit or loss on a straight-line basis over the lease term.

Conditional lease payments are recognised as a cost in the period in which they become due.

11.9. Fair value measurement

The Group measures financial instruments such as instruments available for sale (2017 – according to IAS 39) and derivative instruments at the fair value, at each balance sheet date (2017 – according to IAS 39; 2018 – IFRS 9) . In addition, the fair value of financial instruments measured in accordance with the depreciated cost was included in note 40.

The fair value is defined as the price that would be received from the sale of an asset or paid in order to transfer a liability in the transaction conducted on normal sale conditions of a component of assets between market participants at the valuation date in the current market conditions. The valuation of fair value is based on the assumption that the sale transaction of a component of assets or the transfer of a liability occurs either:

- on the main market for a given component of assets or liability,
- in the event of absence of a principal market, in the market, this is most advantageous for the asset or liability.

Both, the main and the most advantageous markets must be available to the Group.

The fair value of a component of assets or liability is measured at the assumption that market participants, when determining the price of a component of assets or liability, act in their best economic interest.

The fair value of a component of non-financial assets takes into account the market participant's ability to generate economic benefits by making the greatest and the best use of the component of assets or its sale to another market participant that would provide the greatest and the best use of this component of assets.

The Group uses measurement techniques that are relevant to the circumstances and for which sufficient data to determine the fair value, with maximum use of relevant observable input data and minimal use of unobservable input data, are available.

All assets and liabilities that are measured at the fair value, or their fair value is disclosed in the financial statement, are classified in the fair value hierarchy as described below on the basis of the lowest level of input that is significant to the valuation of fair value treated as a whole:

- Level 1 – Quoted (unadjusted) market prices on the active market for identical assets and liabilities,
- Level 2 – Valuation techniques, for which the lowest level of input data, which is significant for the fair value measurement as a whole, is directly or indirectly observable,
- Level 3 – Valuation techniques, for which the lowest level of input data, which is significant for the valuation of the fair value as a whole, is unobservable.

At each balance sheet date, in the event of assets and liabilities existing per each balance sheet date in the financial statement, the Group evaluates whether there were transfers between levels of the hierarchy through a re-assessment of the classification into different levels, following the materiality of input data from the lowest level, which is essential for the valuation to the fair value treated as a whole.

Summary of essential procedures for the fair value measurement

The Management Board of the Group determines the rules and procedures for both, the systematic valuation of non-listed financial assets at the fair value, as well as one-time valuations, e.g. in case of assets intended for sale within a discontinued activity.

In order to determine the fair value, independent experts are engaged to perform the valuation of significant assets and financial liabilities, measured at the fair value. Internal valuation models are also used.

In order to perform the above valuations, independent experts, unrelated to the Group and with qualifications appropriate to conduct such valuations, as well as having current experience in such valuations in locations, where there are assets of the Group are appointed.

For the purposes of disclosure of the fair value measurement, the Group established classes of assets and liabilities based on the type, characteristics, and risks of the various components of assets and liabilities and the level in the fair value hierarchy, as described above.

11.10. Loss in value of non-financial fixed assets

At the balance sheet date, the Group evaluates whether there are any prerequisites indicating that loss in value of the component of non-financial fixed assets may have occurred. In the event when there are such prerequisites, or in case of the necessity to conduct an annual impairment test, the Group estimates the recoverable value of a given component of assets or a cash generating unit, which the component of assets belongs to.

The recoverable value of a component of assets or a cash generating unit corresponds to the fair value reduced of effecting the sale of the given component of assets or respectively the cash generating unit, or its value in use, depending on which one is higher. The recoverable value is determined for an individual asset, unless a given asset component does not independently generate cash inflows that are largely independent of those generated by other assets or groups of assets. If the balance sheet value of a component of assets is higher than its recoverable value, the loss in value occurs, and the write-down to the determined recoverable value is made.

In assessing the value in use, the projected cash flows are discounted to their current value using a discount rate prior to entailing the effects of taxation reflecting the current estimated value of money in time as well as the risk typical for a given component of assets. Impairment write-downs for the loss in value of assets used in the continued activity are recognised in the category of costs, which are consistent with the function of the asset component, in case of which the loss in value was identified.

At each balance sheet date, the Group assesses whether there are any prerequisites indicating that the value impairment write-down, which was recognised in previous periods, in relation to a given asset component, is unnecessary or whether it should be reduced. If such prerequisites exist, the Group estimates the recoverable value of the component of assets. The previously recognised impairment write-down for the loss in value is reversed only if, from the time of recognition of the impairment write-down, a change of the estimated values applied to determine the recoverable value of a given component of assets occurred and there was a cessation of premises indicating impairment. In this case, the balance sheet value of the component of assets is increased to its recoverable value. The increased amount cannot exceed the balance sheet value of the component of assets that would have been determined (after taking into account redemption) if, in the previous years, the impairment write-down for the loss in value, in relation to this component of assets, was not recognised. A reversal of the impairment write-down for the loss in value of the component of assets is immediately recognised as income. After the reversal of the impairment write-down, in the following periods, the depreciation write-down related to a given component is adjusted in a way, which within the remaining period of use of this component of assets allows systematically writing down the verified balance sheet value of the component of assets reduced by the final value.

11.11. Borrowing costs

Borrowing costs are capitalised as part of the fixed assets production cost. Borrowing costs consist of interests calculated using the effective interest rate method, financial encumbrances due to financial lease agreements and foreign exchange differences resulting from the external financing up to the amount corresponding to the adjustment of the interest cost. In terms of foreign exchange differences, the cumulative approach is applied.

11.12. Financial assets

Accounting policy for comparable data according to IAS 39

Financial assets are classified into the following categories:

- financial assets maintained to the maturity date,
- financial assets measured at the fair value by the financial result,
- loans and receivables,

- available-for-sale financial assets

Financial assets maintained until the maturity date

Financial assets maintained to the maturity date are the financial assets quoted in the active market, and which are not derivative instruments with definite or possible to define payments as well as with the fixed maturity date, which the Group intends and has the possibility to hold to that time, other than:

- determined at the initial recognition as measured at the fair value by the financial result,
- determined as available-for-sale,
- meeting the definition of loans and receivables.

Financial assets maintained to the maturity date are measured at the depreciated cost using the effective interest rate method. Financial assets held to the maturity date are classified as long-term assets if their maturity exceeds 12 months from the balance sheet date.

Financial assets measured at the fair value by the financial result

The component of financial assets measured at the fair value by the financial result is a component that meets one of the following conditions:

a) it is classified as held for trading. The components of financial assets are classified as held for trading, if they are:
   - principally acquired for the purpose of selling in a short period of time,
   - part of the portfolio of identified financial instruments that are managed together and for which there is a probability to generate profit in a short period of time,
   - derivatives, except for the derivatives that are part of hedge accounting and financial guarantee contracts,

b) in accordance with IAS 39, classified into this category upon the initial recognition.

The financial assets measured at the fair value by the financial result are measured at the fair value taking into account their market value at the balance sheet date without the sale transaction costs. Changes in the value of these financial instruments are recognised in the income statement as financial revenues or costs. If the contract contains one or more embedded derivatives, the whole contract can be classified as financial assets measured at the fair value by the financial result. It does not apply to cases where the embedded derivative does not significantly influence the cash flows of the contract or it is clear without conducting or after a superficial analysis that if a similar hybrid instrument was firstly considered then separating the embedded derivative would be prohibited. Financial assets at the initial recognition can be classified to the category measured at the fair value by the financial result if the following criteria are met: (i) such classification eliminates or significantly reduces inconsistency in terms of recognition or valuation (accounting mismatch); or (ii) assets are a part of a group of financial assets, which are managed and measured on the basis of the fair value, in accordance with a documented risk management strategy; or (iii) financial assets contain embedded derivatives that should be recognised separately.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. They are included in current assets, if their maturity date does not exceed 12 months from the balance sheet date. The granted loans and receivables with the maturity date exceeding 12 months from the balance sheet date are classified as fixed assets.

Assets available for sale

The available-for-sale financial assets are the financial assets which are not derivatives, and which were classified as available for sale or those that do not belong to any of the three previously mentioned categories. Financial assets available for sale are recognised in accordance with the fair value increased with the transaction costs that can be directly attributed to the acquisition or issue of the component of financial assets. In the event of a lack of exchange quotations on the active market and if it is not possible to reliably determine their fair value using alternative methods, the available-for-sale financial assets are measured at the acquisition price adjusted by the impairment writ-down for the loss in value. The positive and negative differences between the fair value of the available-for-sale assets (if there is a market price established on the active market or if their fair value can be determined by some other reliable method), and their acquisition price, after deduction of the deferred tax, are included in other comprehensive income. The decrease in value of the available-for-sale assets caused by the loss in value is recognised as a financial cost.

(in thousand PLN)

Accounting policy for data of the current period in accordance with IFRS 9

Financial assets are initially recognized at fair value.

After the initial recognition, the Company classifies financial assets into the following valuation categories:

- measured at amortized cost,

- measured at fair value through profit or loss,

- valued at fair value through other comprehensive income.

The classification depends on the financial asset management model adopted by the Company and the contractual terms of cash flows.

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

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

Financial assets	Category acc. to IAS 39	Category acc. to IFRS 9	*Value acc. to IAS 39*	*Value acc. to IFRS 9*
Other financial assets	PiN	AFwgZK	46 099	46 099
Trade receivables and other receivables	PiN	AFwgZK	253 261	252 624
Derivative financial instruments	WwWGpWF	WwWGpWF	-	-
Cash and cash equivalents	UdtW	AFwgZK	322 201	322 201
Financial liabilities				
Interest-bearing bank credits and loans, including:			652 038	656 756
long term	PZFwgZK	PZFwgZK	302 465	305 086
short term	PZFwgZK	PZFwgZK	349 573	351 670
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	PZFwgZK	151 562	151 562
Derivative financial instruments	WwWGpWF	WwWGpWF	5 009	5 009

Used abbreviations:

WwWGpWF – Financial assets/liabilities evaluated in the fair value by the financial result,
PZFwgZK – Other financial liabilities measured at amortized cost.
AFwgZK – Financial assets according to amortised costs
UdtW – Financial assets held to maturity
PiN – Loans and receivables

In July 2014, the International Accounting Standards Board published the International Financial Reporting Standard 9 Financial Instruments ("IFRS 9"). IFRS 9 covers three aspects related to financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 applies to annual periods beginning on January 1, 2018 and later, with the possibility of earlier application.

The Group has applied IFRS 9 from the effective date of the standard, without transforming the comparative data.

- **Classification and valuation**

All financial assets so-far measured at fair value will continue to be measured at fair value. Trade receivables are maintained to obtain cash flows arising from the contract. The Group has no trade receivables subject to factoring. The Group uses a practical exemption and for trade receivables under 12 months does not identify significant elements of financing.

Financial assets are recognized in the statement of financial position when the Group becomes a party to a binding contract. The acquisition and sale of the financial assets are recognised at the transaction date. At the time of the initial recognition, a component of financial assets is measured at the fair value, increased, in case of the component of assets not classified as the measured at the fair value by the financial result, with the transaction costs, which can be directly attributed to the acquisition.

The component of financial assets is removed from the balance sheet when the Group loses control over the contractual rights that comprise a given financial instrument; it usually occurs when the instrument is sold or when all the cash flows attributed to a given instrument are transferred to an independent third party

In a situation, in which the Group:

- has a legally enforceable right to compensate the recognised amounts, and
- intends to settle on a net basis, or at the same time to realise the component of assets and settle the liability

a financial asset component and financial liability are compensated and presented in the financial statement in the net amount.

The framework agreement described in IAS 32.50 does not constitute grounds for compensation, if both above described criteria are not met.

Liquidation Fund for the Mining Plant

In accordance with the Act of 9 June 2011 (Journal of Laws No. 163, item 981) Geological and Mining Law, the Company is obliged to create a liquidation fund. The purpose of the fund is to secure and cover the costs associated with the liquidation of the mining activities in the areas that were undergoing the mining process. The Company makes periodic write-offs in the amounts resulting from the Act and transfers funds in this respect to a separate bank account. Expenses from this fund may be used for areas of liquidated outcrops after prior approval of the Mining Office approving the plan for the liquidation of the mining plant. The write-off for the mining plant liquidation fund is 10% of the exploitation fee for the extracted mineral.

11.13. Loss in value of financial assets

Accounting policy for comparative data according to IAS 39

At the balance sheet date, the Group evaluates whether there are objective prerequisites of the loss in value of the component of financial assets or the group of financial assets.

11.13.1.Assets recognised in accordance with the depreciated costs

If there are objective prerequisites that a loss in value of the granted loans and receivables, measured in accordance with the depreciated cost, occurred, then the cost of the impairment write-down for the loss in value equals to the difference between the balance sheet value of the component of financial assets (excluding future credit losses that have not been incurred yet), discounted using the initial (i.e. determined at the initial recognition) effective interest rate method. The balance sheet value of the asset component is decreased using a write-down account. The amount of the loss is recognised in profit or loss.

The Group firstly evaluates whether there are objective prerequisites for the loss in value of the individual financial assets which are individually significant, as well as prerequisites of the loss in value of the financial assets that individually are not significant. If the conducted analysis shows that there are no objective prerequisites for the loss in value, regardless of whether it is significant or not, the Group includes this component to the group of financial assets with similar credit risk characteristics and jointly assesses in terms of the loss in value. The assets that are individually assessed for the loss in value, and for which the impairment write-down for the loss in value was recognised, or it was considered that the current write-down will not change, are not taken into account in the total assessment of the group of assets in terms of the loss in value.

If the impairment write-down for the loss in value decreased in the next period, and the decrease can be objectively associated with an event occurred after the impairment write-down recognition, then the previously recognised impairment write-down is reversed. The subsequent reversal of the impairment write-down for the loss in value is recognised in profit or loss to the extent, in which as of the date of reversal, the balance sheet value of the component of assets does not exceed its depreciated cost.

11.13.2.Financial assets stated at cost

If there are the objective prerequisites that the loss in value of the unquoted equity instrument, which is not stated in accordance with the fair value, because its fair value cannot be reliably determined, of the equity instrument, which is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment write-down for the loss in value is determined as the difference between the balance sheet value of the component of financial assets and the current value of the estimated future cash flows, which are discounted using the current market rate of return for similar financial assets.

11.13.3.Available-for-sale financial assets

If there are objective prerequisites that there was a value of a financial asset component available for sale was impaired, then the amount constituting the difference between the asset component acquisition price (decreased by any repayments of the capital and depreciation) and its fair value, decreased by any impairment write-downs against the component value loss, previously recognised in profit or loss, is derecognised from the equity and transferred to profit or loss. The reversal of the impairment write-down for the loss in value of the equity instruments classified as available for sale cannot be recognised in profit or loss. If the fair value of the debt instrument available for sale increases during the next period, and this increase can be objectively associated with an event occurred after recognition of the impairment write-down for the loss in value in profit or loss, then the amount of the reversible impairment write-down is recognised in profit or loss.

Accounting policy for data of the current period in accordance with IFRS 9

In accordance with IFRS 9, the entity measures the write-down for expected credit losses in the amount equal to the 12-month expected credit loss or expected credit losses over the life of the financial instrument. In the case of trade receivables, the Group applies a simplified approach and measures the write-off for expected credit losses in the amount equal to the expected credit losses throughout their life.

For the purpose of estimating the expected credit losses, IFRS 9 indicates the validity of using both historical data in the field of repayment as well as reliable data available at the balance sheet date that may increase the accuracy of estimating the expected credit losses in future periods.

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

- Trade receivables for deliveries and services,
- Other receivables, including those due to LTC settlement
- Sureties and bank deposits,
- Cash.

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

11.14. Other non-financial assets

The Group recognises prepayments as other non-financial assets, if the following conditions are met:

- they result from past events – expenses incurred for the operational purpose of entities,
- their extent can be reliably determined,
- they will result in the impact of economic benefits to the entities in the future,
- they apply to future reporting periods.

Write-offs of active prepayments of costs can occur appropriately to the passage of time and the amount of benefits. The time and method of settlement is justified by the nature of the settled costs, respecting the precautionary principle.

At the end of the reporting period, the Group verifies the active prepayments of costs in order to check whether the degree of certainty associated with the achievement of economic benefits by the entity, after the expiry of the current financial period, is sufficient to show a given item as a component of assets.

During the reporting period, the subjects of prepayments are, among others:

- costs of property insurance,
- costs of current charges for perpetual usufruct of lands,
- deductions for social insurance fund,
- subscriptions,
- other costs related to next reporting periods.

Other non-financial assets include, in particular, the public and legal settlement receivables (except for CIT settlements, which are presented in a separate item of the financial statement), as well as advance payments for future purchases of tangible fixed assets, intangible assets and inventories. The advance payments are presented according to the nature of the assets, to which they relate – respectively, as fixed or current assets. As non-monetary assets, the advance payments are not subject to discount.

11.15. Financial derivative instruments and securities

The derivatives used by the Group in order to secure against the risk related to the changes of interest rates and exchange rates are mainly the forward foreign exchange contracts and contracts for the interest rates change (interest rate swaps). Such derivatives are measured at the fair value. Derivatives are stated as assets when their fair value is positive, and as liabilities – when their value is negative.

Profits or losses for the fair value changes of derivatives, which do not comply with the hedge accounting principles are directly stated in the net financial result of the financial year.

The fair value of forward foreign exchange contracts is determined by the reference to the current forward rates for contracts with a similar maturity date. The fair value of contracts for the interest rate swaps is determined by the reference to the market value of similar instruments.

Within the hedge accounting, securities are classified as:

- cash flow hedges securing against the changes in cash flows, which can be attributed to a specific kind of risk related to a recognised component of assets, liability or forecasted transaction,

Securing the currency risk of the substantiated future liability is settled as the cash flow hedge.

At the inception of the hedge, the Group formally determines and documents the hedging relationship as well as the risk management objective and strategy for establishing the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the characteristics of the hedged risk as well as a method of assessing the hedge instrument effectiveness in the compensation for the risk of changes value of cash flows related to the hedged risk.

It is expected that the hedge will be highly effective in the compensation for changes of cash flows resulting from the hedged risk. The hedge effectiveness is constantly assessed to determine whether it is highly effective within all the reporting periods for which it was established.

In addition, the Group secures the cash flow associated with purchasing CO_2 emission allowances in the form of short-term forward contracts. In addition, the Group hedges cash flows related to the purchase of electricity. Due to the fact that contracts for the purchase of non-financial assets are concluded in order to secure own needs, they are excluded from the scope of IFRS9.

11.15.1. Cash flow security

The cash flow hedge is a hedge against the exposure to variability in cash flows, which can be attributed to a specific type of risk related to a recognised component of assets, liability, or highly probable planned transaction, and which could influence profit or loss. The part of profits or losses related to the hedge instrument, which constitutes an effective security is recognised in other comprehensive income, and an ineffective part is recognised in profit or loss.

If a hedged planned transaction subsequently results in the recognition of a component of financial assets or a financial liability, the associated profits, or losses, which were included in other comprehensive income and accumulated in equity, are transferred to the income statement within the same period, or in the periods, during which the acquired component of assets or liability affect the profit or loss.

If hedging the planned transaction subsequently results in the recognition of a component of non-financial assets or non-financial liability, or the planned transaction related to a component of non-financial assets or non-financial liability becomes a substantiated future liability, to which the fair value hedge will be applied, then, the profits or losses that were recognised in other comprehensive income are excluded from the equity and included in the acquisition price or other balance sheet value of the component of assets of liability.

The profits or losses resulting from changes of the fair value of derivatives, which do not meet the conditions for the application of hedge accounting principles are directly recognised in the net financial result for the current period.

The Group discontinues using the hedge accounting principles when the hedging instrument expires or was sold, its use terminated or it was executed, or the hedge no longer meets the conditions, which allow the application of hedge accounting principles to it. In such a case, the total profit or loss on a hedging instrument, which were recognised in other comprehensive income and accumulated in the equity are still stated in the equity until the forecast transaction takes place.

If the Group no longer expects that the forecast transaction will occur, then the total net profit or loss, accumulated in the equity, are charged to the net financial result for the current period.

11.16. Inventories

The production item includes production fuel, spare parts and other materials as well as certificates of energy origin. Spare parts presented in inventories are recognized annually with revaluation allowances that reflect the technological and economic consumption of these parts.

Inventories are measured at the lower of the two values: the acquisition price/production cost and the net sale price possible to achieve.

The Group uses the weighted average price method to determine the value of inventory turnover.

The net sale price, which is possible to achieve, is an estimated sale price in the ordinary course of business, decreased with costs of completion as well as the estimated costs necessary to complete the sale.

As at the balance sheet date, the Company measures these inventories at cost (i.e. the initial value) not higher than the net selling price by analyzing the value of inventories for impairment. Any impairment loss is presented in the cost of sales.

Certificates of Energy origin

As part of inventories, the Group presents certificates of origin of energy purchased for redemption, acquired for resale and manufactured on its own. These rights are transferable and constitute a commodity.

Certificates of origin obtained free of charge for production in renewable sources, gas and cogeneration (green, red certificates) are recognized at the time of first recognition at fair value at the time of probable receipt, ie at the end of the month in which they were produced. The fair value is a reflection of the market situation, i.e. quotations on the commodity energy exchange (TGE). Inventories are recognized in correspondence with sales revenues. The gratuitous acquisition of certificates is recognized in the revenues from the sale of products. The Group sells surplus certificates, which are presented in the inventory.

Purchased certificates of origin of energy are recognized as a reserve at purchase price.

The issue of certificates of energy origin is valued according to the FIFO method.

The Group is required to obtain and submit for redemption by June 30 of the year following the accounting year.

In the absence of a sufficient number of certificates required to fulfill the obligations imposed by the Energy Law and the Energy Efficiency Act as at the reporting date, the Group creates provisions for redemption of energy origin certificates and energy efficiency certificates or payment of substitution fees. See note 32.

11.17. Trade receivables and other receivables

Trade receivables

Accounting policy for comparative data in accordance with IAS 39

Należności z tytułu dostaw i usług są ujmowane i wykazywane według kwot pierwotnie zafakturowanych, The delivery and service receivables are recognised and stated according to initially invoiced amounts, including the write-down against doubtful receivables. The write-down against receivables is estimated when the recovery of the full number of receivables is no longer probable.

When the impact of the time value of money is significant, the value of the provision size is determined by discounting the predicted future cash flows to the current value, using the discount rate reflecting the current market estimates of the time value of money as well as the possible risk related to a given liability. If a method involving discounting was applied, then the increase in liabilities due to the passing time is recognised as financial revenues.

IFRS 9 Financial instruments – loss of value

Trade receivables

Trade receivables are measured at the initial moment at fair value. After initial recognition, trade receivables and other receivables of a financial nature are measured at amortized cost using the effective interest rate (all trade receivables meet the SPPI test and are maintained to collect contractual cash flows), including impairment write-downs. Trade receivables are maintained to obtain cash flows resulting from the agreement, and the Group does not sell trade receivables as part of factoring.

The Group uses a practical exemption and for trade receivables under 12 months does not identify significant elements of financing. Trade receivables with a maturity of less than 12 months from the date of creation (ie without element of financing), are not discounted and are valued at face value.

In accordance with IFRS 9, the entity measures the write-down for expected credit losses in the amount equal to the 12-month expected credit loss or expected credit losses over the life of the financial instrument. In the case of trade receivables, the Group applied a simplified approach and measures the write-off for expected credit losses in the amount equal to the expected credit losses over their entire life, using the reserve matrix counting non-fulfillment ratios on the historical data basis.

In order to estimate the expected loan losses, IFRS 9 used both historical data in the field of repayment as well as available data as of the balance sheet date, reliable data that may increase the accuracy of the estimation of expected credit losses in future periods. With respect to trade receivables, it is assumed that the repayment data can be used to estimate credit risk in the future, and therefore the credit losses were estimated using historical data on the maturity intervals of trade receivables and their fulfillment.

The Group classified trade receivables up to Level 2 of classification of financial assets in terms of their impairment provided for in IFRS 9, except for receivables for which impairment was recognized - these receivables were classified as Stage 2 of am. classification. For the moment of impairment, the Group recognizes the moment of transferring receivables to be recovered, however not later than on the 90th day of expiry. Irrecoverable receivables are written off as costs when they are found not to be recoverable, that is when there is no reasonable expectation that they will be recovered.

Other financial assets

They include deposits and shares in other entities that are not assessed for impairment.

Other receivables

Other receivable, which are not financial instruments in scope of IFRS 9, include, in particular, receivables for settlements with employees.

Advance payments for future purchases of tangible fixed assets, intangible assets and inventories are recognised in the item for other non-financial assets. The advance payments are shown according to the nature of the assets, to which they relate – as fixed or current assets, respectively. As non-monetary assets, the advance payments are not subject to discount.

Budgetary receivables are presented as other non-financial assets, except for the receivables due to corporate income tax, which constitute a separate item in the financial statement.

Other receivables that are not financial assets as at the last day of the reporting period are valued at the amount due.

11.18. Cash and cash equivalents

Cash and short-term deposits in the balance sheet include cash in bank and in hand as well as short-term deposits with the original maturity date that does not exceed three months.

The balance of cash and cash equivalents in the consolidated statement of cash flows consists of the above-mentioned cash and cash equivalents.

The Group classifies cash and cash equivalents as financial assets at amortized cost, taking into account from 1 January 2018 impairment losses determined in accordance with the expected loss model. To estimate the expected loss on cash, the risk of insolvency was determined based on other data, in particular the assessment of credibility made by credit rating agencies or given to counterparties as part of the internal credit risk assessment process, corrected for the purpose of assessing probability of default.

The analysis showed that these assets have a low credit risk as at the reporting date. The Group used the simplification allowed by the standard and the impairment loss was determined based on 12-month loan losses. Calculation of the write-off showed a negligible amount of the impairment loss.

11.19. Interest-bearing bank loans, borrowings and debt securities

At the time of the initial recognition, all bank credits, loans, and debt securities are recognised at the fair value, decreased by the transaction costs associated with obtaining a credit or loan.

After the initial recognition, the interest credits, loans and debt securities are measured in accordance with the depreciated cost using the effective interest rate method.

While determining the depreciated cost, the costs associated with obtaining a credit or loan as well as discounts or premiums achieved in connection with the liability are taken into account.

Revenues and costs are recognised in the profit or loss, when the liabilities are removed from the balance, and also as a result of the settlement with the effective interest rate method.

11.20. Trade liabilities and other financial liabilities

Short-term liabilities include trade liabilities and other liabilities that become due within 12 months from the end of the reporting period. Initially, the liabilities are carried at fair value, where the valuation corresponds to the amount due or liability, and subsequently financial liabilities are carried at amortized cost using the effective interest rate method (in the case of trade payables it corresponds to the amount due) while other non-financial liabilities - in the amount due.

The Group excludes a financial liability from its balance when the liability expires – i.e. when the contractual obligation is fulfilled, redeemed or terminated. Replacing the existing debt instrument with the instrument of essentially different conditions made between the same entities is recognised by the Group as termination of the original financial liability and recognition of a new financial liability. Similarly, significant modifications of the contractual provisions concerning an existing financial liability are recognised by the Group as termination of the original one and recognition of a new financial liability. The difference of reference balance sheet values arising due to the replacement is shown in the profit or loss.

11.21. Other non-financial liabilities

Other non-financial liabilities include, in particular, liabilities for the value added tax, other public-legal liabilities (except for liabilities due to the corporate income tax, which is recognised in a separate item of the financial statement), as well as liabilities for the received advance payments, which will be settled by the supply of goods, services or fixed assets. Other non-financial liabilities are recognised in the amount that requires payment.

11.22. Sharing profits for employee purposes and special funds

In accordance with the Polish economic practice, the stockholders/shareholders of entities can distribute the profits for employee purposes in the form of making a contribution to a social fund or other special funds. In the financial statement, in accordance with IFRS, this part of the profit distribution is recognised as operating costs of the period, in which the profit distribution was approved by a Shareholders Meeting, due to the fact that the Groups Companies are burdened with neither legal nor customary obligation to this type of the profit distribution.

11.23. Share-based payments

Share-based payments is a transfer of equity instruments of the entity or their equivalents made by the entity or its shareholders to the third parties (including employees), who provided goods and services to a given company, unless the transfer is made for the purpose that is other than paying for goods and services provided for the entity.

The Group includes goods and services received or acquired within the framework of the share-based payment transactions in the equity instruments as well as the corresponding increase in the equity when it obtains these goods and services. If the goods or services obtained or acquired within the framework of the share-based payment transactions are not classified to be recognised as assets, the entity includes them as the cost.

The Group evaluates the obtained goods or services and the corresponding increase in the equity at the fair value of the obtained goods or services, unless it is impossible to reliably estimate their fair value. If the group is unable to reliably estimate the fair value of the obtained goods or services, it indirectly determines their value and the corresponding increase in equity by the reference to the fair value of the granted equity instruments.

11.24. Provisions

Provisions are created when the Group is burdened with the existing liability (the legal or customary expected one) resulting from past events, and when it is probable that the fulfilment of this liability will result in the necessity of the economic benefits outflow, and the amount of this liability can be reliably estimated. If the Group expects the costs covered by the provision to be reimbursed, for example under an insurance contract, then the reimbursement is recognised as a separate component of assets, but only when it is virtually certain that the reimbursement of this will actually occur. The costs related to a given provision are stated in the income statement after the reduction by any reimbursement. In special cases, the Management Board may decide to create additional provisions in connection with the ongoing operations of the Group.

When the impact of the time value of money is significant, the value of the provision size is determined by discounting the forecast future cash flows to the current value, using the discount rate reflecting the current market estimates of the time value of money as well as the possible risk related to a given liability. If a method of discounting was applied, then the increase in liabilities due to the passage of time is recognised as financial costs.

In particular, the Group creates the following provisions:

- **provisions for post-employment benefits as well as jubilee awards**

In accordance with the remuneration systems, the Group's employees are entitled to the following benefits:

- retirement or disability benefits, payable at the time of retirement,
- death benefits for families of deceased employees,
- coal benefits for employees of PAK KWB Konin SA and PAK KWB Adamów SA

The amount of benefits depends on the number of years of employment and the average salary of the employee. The Group creates provisions for these future liabilities for the purpose of allocating the costs to the periods that they concern. The current value of these liabilities at each balance sheet date is calculated by an independent actuary. The accumulated liabilities are equal to the discounted payments, which will be made in the future, taking into account the rotation of employment and they relate to the balance sheet date. Demographic information and information about the rotation of employment are based on historical data. Profits and losses of actuarial calculations are recognised in other comprehensive income.

- **Provision for the liquidation of ash storage yards**

The Group creates a provision for liquidation of ash dumps due to a legal obligation resulting from the integrated approval entries. This provision is created on the basis of ash storage yard future reclamation cost estimates, resulting from the studies and technical-economic analyses, developed by external expert.

As at the day of adjusting the error described in note 7, ie January 1, 2017, the Group adopted the following accounting policy in this respect.

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

As at the balance sheet date, the Management Board of ZE PAK SA Group estimated the value of reclamation costs to be incurred in the future based on a study prepared by an external expert. When calculating the provision, the Group adopted the following assumptions: discount rate at 3.0%, inflation level at 2.5%.

- **Provision for the submission of redemption of Energy origin certificates**

The provision for the obligation to present the redemption of certificates of origin of energy produced from renewable energy sources or in peak load co-generation is recognised as follows:

- in a part covered by the certificates of origin held at the balance sheet date – in the value of the held certificates,
- in a part uncovered by the certificates of origin at the balance sheet date – at the lower value of the market value of the certificates required to fulfil the obligation at the balance sheet date, and a possible penalty.

- **Provisions for the liabilities due to the emission of greenhouse gasses and provisions for the redemption of certified emission reduction (EUA)**

The provision for liabilities due to the emission of greenhouse gases included in the system of emission allowances is created only when the actual production shows a shortage of emission allowances in respect of the allowances granted for the whole reporting period. The provision is created in correspondence with the cost of sales in the item taxes and fees.

The provision is created by net liabilities method, in the amount of:

- in a part covered by the allowances held at the balance sheet date – in the value of the held allowances, i.e. at the purchased prise (in case of purchased at the balance sheet value, received in the zero value.
- in the part uncovered by the allowances on the balance sheet date – at the lower of the market values of the allowances required to satisfy the obligation and a possible penalty.

- **Reclamation and other provisions associated with mining activity**

- the provision for liquidation of facilities and mining areas

On the basis of the Geological and Mining Law act, the companies conducting extraction activities are obliged to reclaim the areas of extraction works. Due to this, the Group creates a provision both, for the costs of area reclamation related to current coal extraction on a given open pit and for the costs of the final excavation reclamation in the state of advancement of coal extraction in particular open pits on every reporting date.

The provision for the final excavation reclamation is created in correspondence with the assets' component (in the part in which it relates to the initial excavation, on the basis of the volume of the final excavation), and in correspondence with the income statement (in the remaining part, taking into account the state of advancement of coal extraction in particular open pits on a given reporting date). In correspondence with the assets' component, the Group also creates a provision for the external dump reclamation. The provision for reclamation costs associated with current coal mining is created in correspondence with the income statement.

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 company's management boards executing extraction activities. Estimates concerning projected reclamation costs are analysed periodically; on every reporting date, the size of provision is verified in accordance with current assumptions within discount rate, inflation, and the size of extraction. Write-down for the provision related to extraction of a given year charges operating costs (other costs by type), and the difference resulting from the provision discount from previous years influences financial costs. The use of the provision is settled in correspondence with financial costs at the end of every reporting period.

- The provision for the costs related to the preparation of exploitation areas

The Group, within run activities, is 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 projected costs related to the mine operations are updated on every reporting date. The creation of the provision is recognised, on the other side, within the framework of mining assets.

11.25. CO_2 emission allowances

The CO_2 emission allowances obtained free of charge are recognised in the financial statement as allowances intended for own needs at a zero value in the intangible assets item. The emission allowances and their equivalents purchased by the Group for own needs are recognised as intangible assets. These allowances are measured at the acquisition price. The provision for liabilities due to the emission of greenhouse gases included in the system of emission allowances is created only when the actual production emission shows a shortage of emission allowances in respect of the allowances granted for the entire reporting period. This provision is created according to the FIFO principle.

The cost of the created provision is presented in the income statement, in the cost of sales.

11.26. Revenues

Accounting policy for comparable data according to IAS 18

Revenues are recognised to the extent that it is probable that the Group will achieve economic benefits associated with the transaction, and the amount of revenues can be reliably measured. Revenues are recognised at the fair value of the received or receivable payment, after deduction of the value added tax (VAT), as well as excise tax and discounts. Revenues are also recognised according to the below criteria.

11.26.1.Sale of goods and products

Revenues are recognised if the significant risk and benefits of the equity related to goods and products were transferred to the buyer and the amount of revenues can be reliably measured.

Sales revenues also include the sales revenues of green and red certificates. At the time of production, the certificates of origin held for sale are included in the sales revenues, and therefore, in order to avoid inflating revenues at the time of selling, the costs of selling certificates are recognised as an adjustment of the sales revenues.

11.26.2.Provision of Services

Revenues from services are recognised on the basis of the extent of their completion.

The percentage progress status for the services completion is determined as a relation between the incurred costs and estimated costs, which are necessary to complete the order.

If it is impossible to reliably estimate the contract results, then the revenues generated due to this contract are recognised only to the amount of incurred costs which the Group expects to recover.

11.26.3.Contracts for construction services

The construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use.

If it is possible to reliably estimate the outcome of the contract for a construction service, the revenues and costs related to the contract for a construction service are recognised as the revenues and costs according to the extent of the contract execution at the end of the reporting period.

The contract performance progress is obtained by determining the share of contract costs, incurred due to the works executed until the valuation date, in the estimated total contract costs.

When the outcome of a contract cannot be estimated reliably:

a) negative revenues should be recognised only to the extent of incurred contract costs, which have a probability of being recovered; and

b) the contract costs are recognised as a cost for the period, in which they were incurred.

When it is probable that the total contract costs will exceed the total contract revenue, the expected loss shall be immediately recognised as an expense.

The gross payable amount from the employers for the works under the contract is recognised in the financial situation statement as assets and the gross amount payable to the employers for the works under the contract - as liabilities.

Accounting policy for current year data according to IFRS 15

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

1: Identification of contracts with the client;

2: Identification of obligations to perform the benefit contained in the contract;

3: Determining the transaction price;

4: Assigning the transaction price to the obligations to perform the service contained in the contract;

5: Recognition of revenue when the entity complies with its obligations.

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

The Group's companies operate in the area of generation and sale of electricity, production and sale of heat, lignite mining as well as maintenance and repair-construction services.

The generic structure of sales revenues and the way they are recognized in the Group are as follows:

Revenues from the sale of goods:

- Revenues from the sale of electricity of own production,
- Revenues from the sale of electricity from trade,
- Revenues from the sale of heat,
- revenues from the sale of other goods, products and materials are recognized at the time of the sale / transfer transaction.

Revenues from the sale of electricity and heat are recognized by the Company at the end of each settlement period, which is no longer than one month, according to the amount of electricity and heat delivered to the customer in a given settlement period. The Company recognizes revenue over a period of time and benefits from simplification regarding the recognition of revenues as invoiced, because it reflects the level of performance of the obligation to perform the service as at the reporting date. Sales prices result from signed contracts, tariffs or their amount on the stock exchange.

Revenues from the sale of services:

The Group's business is also service activities aimed in particular at satisfying the needs and comprehensive service of the energy industry. The recipients of services are primarily entities dealing in the generation and transmission of electricity. The services performed under these agreements are provided over time. The contract implementation period varies from 2 months to 6 years, although they are often 1-2 year contracts. The contracts do not include obligations to perform more than one benefit under each contract. Extensions of the scope of work do not create a new obligation. The entity recognizes revenue over time by measuring the level of total fulfillment of its obligation to provide performance-based method, comparing expenditures incurred so far with the total expected expenditures necessary to perform the contract.

The contracts executed by the Group are characterized by a fixed price. If the scope of works is extended, this does not create a separate obligation - the work carried out additionally constitutes an integral part of the Company's liability.

The Group does not have unfulfilled obligations to perform services with a period of implementation exceeding 12 months.

Other revenues:

Other revenues include:

- compensation for termination of LTCs is recognized as revenues from the sale of electricity, revenues from compensations are recognized successively to the rights to compensation developed at the end of each financial year until the end of their validity. For each moment of revenue recognition, the Company determines the ratio of estimated stranded costs to the total amount of received, returned and expected discounted annual advances (including annual advances received so far). The amount of revenue for a given financial year is the product of the ratio and the amounts of advances received so far adjusted for annual adjustments, less the revenues from compensations recognized in previous years. See also the policies described below in note 11.26.4.

(in thousand PLN)

- revenues from property rights from certificates of origin are recognized at the moment of their production, certificates of origin intended for sale are recognized in revenues at the time of the sale transaction. At the time of their subsequent sale through the Polish Power Exchange (TGE), the sales invoice is included in sales revenue, while the costs of sold certificates are recognized as an adjustment to sales revenues,
- donations.

In connection with the entry into force of IFRS 15 as at January 1, 2018, the Group did not identify revenues that would affect the results presented in the financial statements except for a change in the presentation of revenues from a part of construction contracts carried out in a consortium of contractors that were previously presented in full the subject of the agreement and from January 1, 2018 are included in the part of the realization falling on the Group companies. As at December 31, 2018, revenues from sales and operating costs on this account are lower by PLN 6 058 thousand.

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

Below we present the impact of applying IFRS 15 as at December 31, 2018.

	31 December 2018 (published data/IFRS 15)	*Impact of IFRS 15*	*31 Decenber 2018 (data acc. to IAS 18/IAS 11)*
Sales revenue	2 304 824	6 058	2 310 882
Cost of goods sold	(2 627 910)	(6 058)	(2 633 968)
Gross profit /(loss)	**(323 086)**	**0**	**(323 086)**
Other operating revenues	10 964	0	10 964
Selling and distribution expenses	(4 001)	0	(4 001)
Administrative expenses	(123 779)	0	(123 779)
Other operating expenses	(37 360)	0	(37 360)
Gross profit / (loss) from operations	**(477 262)**	**0**	**(477 262)**
Finance income	7 201	0	7 201
Finance costs	(45 387)	0	(45 387)
Profit / (loss) before tax	**(515 448)**	**0**	**(515 448)**
Income tax expense (taxation)	51 775	0	51 775
Net profit / (loss) for the period from continuing operations	**(463 673)**	**0**	**(463 673)**
Net profit / (loss) for the period	**(463 673)**	**0**	**(463 673)**

11.26.4. Revenues from compensation for stranded costs

The Group receives compensation for the coverage of the stranded costs pursuant to the Act of 29 June 2007 on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity. Revenue from compensation is recognised successively with the earned compensation rights at the end of each fiscal year, until the end of their validity period.

Per each revenue recognition moment, the Group determines a factor for estimated stranded costs to the total amount of received, returned, and expected discounted annual advance payments (including the previously received advance payments). The revenue amount for a given fiscal year is the product of the indicator and previously received amounts of advance payments adjusted with annual impairments, decreased by the revenues for compensation recognised in the previous years.

The difference between the total amount of the recognised revenue and the total amount of the received advance payments to the total amount of the stranded costs are recognised by the Group as:

- receivables, in the event of a negative difference between the total amount of received advance payments and the revenue recognised in relation to compensation,
- liabilities, in the event of a positive difference between the total amount of received advance payments and the revenue recognised in relation to compensation.

11.27. Costs

Costs of goods sold

The cost of goods sold includes:

- the production cost incurred during the reporting period, adjusted for the change in the level of products (finished products, semi-finished products and production in progress), as well as adjusted for the cost of manufacturing products for own needs,
- the value of sold goods and materials according to the acquisition cost,
- the creation of the impairment write-downs against the value of tangible fixed assets, intangible assets and inventories,

The production costs, which can be directly allocated to the revenues achieved by the entities, influence the financial result of the entities for the reporting period, in which the revenues occurred.

The production costs, which can be only indirectly allocated to the revenues and other benefits achieved by the entities, influence the financial result of the entities in the part, in which they relate to a given reporting period, providing their adequacy to the revenues and other economic benefits, including the valuation of fixed assets and inventories.

11.28. Other operating revenues and costs

Other operating income and costs include items mainly related to:

- the disposal of tangible fixed assets, intangible assets,
- the creation and reversal of provisions, except for the provisions related to the financial operations or included in operating expenses,
- free transfer or receiving, including the way of donation of assets, as well as cash.
- the compensation, penalties, and fines, as well as other costs not related to the usual business activity.

11.29. Government subsidies

If there is reasonable certainty that the subsidy will be obtained and all related conditions will be met, government subsidies are recognized at their fair value.

If the subsidy concerns a given cost item, then it is recognized as income in a manner commensurate with the costs, the grants is intended to compensate. If the grant relates to an asset component, then its fair value is recognised on the revenue account for future periods and then, gradually, through equal yearly write-downs, recognised in the profit or loss over the estimated period of use of the associated asset component.

If the Group receives non-monetary grants, both the component of the assets and the grant are recognised at nominal value and gradually, by equal annual write-offs, are included in profit or loss during the estimated useful life of the received component of assets.

11.30. Revenues and financial costs

Revenues and financial costs especially include the revenues and costs related to:

- the sale of financial assets,

- the revaluation of financial instruments, except for the financial assets available for sale, the revaluation effects of which are included in the revaluation capital,
- the revenues due to the share in profits of other entities,
- the interest (including the valuation effect with a depreciated cost),
- the changes in the value of the provision resulting from the fact of approaching the date of incurring the cost (the unwinding of the discount effect),
- the foreign exchange differences which are a result of the operations performed during the reporting period and the balance sheet valuation of assets and liabilities at the end of the reporting period, except for the foreign exchange differences recognised in the initial value of the fixed asset, to the extent in which they are considered as an adjustment of the interest costs and foreign exchange differences,
- other items connected with the financial activity of the company.

Revenues and costs for the foreign exchange rates are presented after compensation.

The revenues and costs due to the interest are successively presented as they grow, including the effective interest rate method in relation to the net balance sheet value of a given financial instrument, based on the concept of materiality.

Dividends are recognised at the time of establishment of the shareholders' rights to these dividends.

11.31. Taxes

Income tax for the reporting period includes current and deferred tax. The tax is recognized in profit or loss, except for the extent to which it relates directly to items recognized in other comprehensive income or equity. In this case, the tax is also recognized in other comprehensive income or equity, respectively.

11.31.1.Current tax

The liabilities and receivables for the current tax for the current period and previous periods are measured in the amount of the expected payment to the tax authorities (subject to return from tax authorities), using the tax rates and regulations, which were legally or actually applicable as at the balance sheet date.

11.31.2.Deferred tax

Deferred income tax liability and assets resulting from temporary differences between the tax value of assets and liabilities and their book value in the consolidated financial statements - are recognized in full, using the balance sheet method.

The provision for the deferred tax is recognised in reference to all positive temporary differences:

- except for the situation when the provision for the deferred tax arises from the initial recognition of the company's value or of the assets' component or liability on a transaction other than a combination of the entities, and at the time of its conclusion have no influence on the gross financial result, as well as on the taxable income or tax loss, and
- in case of positive temporary differences resulting from the investment in subsidiaries or associates and shares in joint ventures – except for the situations where dates of the reversal of temporary differences are subject to the investor's control and it is probable that in the predictable future, temporary differences shall not be reversed.

The assets for the deferred tax are recognised in relation to all negative temporary differences, as well as unused tax credits and unused tax losses transferred to future years, to the extent that it is probable that the taxable income, which allows using the above-mentioned differences, assets, and losses, will be achieved:

- except for a situation when the assets for the deferred tax associated with negative transition differences as a result from the initial recognition of the assets or liability component for a transaction other than a combination of the entities, and at the time of its conclusion, have no influence on the gross financial result, nor on the taxable income or tax loss, and

- in case of negative temporary differences resulted from the investment in subsidiaries or associates and shares in joint ventures, the assets' component for the deferred tax is recognised in the balance sheet only to the extent that it is probable that in the predictable future, the above mentioned temporary differences will be reversed and the taxable income, which enables the negative temporary differences to be deducted, will be achieved.

The balance sheet value of the asset component for the deferred tax is reviewed on every balance sheet date and reduced to the extent that it is no longer probable that the taxable income sufficient for a partial or complete realisation of the assets' component for the deferred tax will be achieved.

An unrecognised deferred tax asset is re-assessed as at each balance sheet date, and is recognised at the amount reflecting the likelihood of achieving the future taxable income allows the recovery of this asset component.

The deferred tax assets and provisions for the deferred tax are evaluated with the use of the tax rates that are expected to be applicable in the period, in which the assets component is realised or the provision is reversed, the basis for which will be tax rates (and tax regulations) applicable at the balance sheet date, or those which will certainly be effective as at the balance sheet date in the future.

The income tax on items recognised outside of the profit or loss is recognised outside of the profit or loss: other total income related to the items recognised in other comprehensive income or directly in the equity, relating to the items recognised directly in the equity.

The companies of the Group compensate the deferred income tax assets with the provisions for the deferred income tax provisions only and solely if it has an executable legal right to compensate receivables with current tax liabilities, and the deferred income tax is related to the same taxpayer and the same tax authority.

11.31.3. Value added tax and excise tax

Revenues, costs, assets and liabilities are recognised after deducting the value added tax, with the exception of:

- the situation when the value added tax paid at the time of the assets or service purchase is impossible to be recovered from the tax authorities; it is then recognised as part of the acquisition price of the assets' component or as a cost item part, and
- receivables and liabilities, which are stated with the amount of the value added tax.

The net amount of the value added tax, which is recoverable or payable to the tax authorities, is included in the financial statement as part of receivables or liabilities.

The net amount of the value added tax and excise tax, which are recoverable or payable to tax authorities are included in the financial statement as parts of receivables or liabilities.

11.32. Net profit per one share

The net profit per share for each period is calculated by dividing the net profit for a given period by the weighted average number of shares in a given reporting period.

11.33. Acquisition under joint control

The situation, in which a particular transaction or economic phenomenon, requiring inclusion in the statement drawn up in accordance with IFRS, is not regulated by the provisions of the various standards, was settled by IAS 8 point 10–12. These provisions impose on the entity, which draws up the statement in accordance with IFRS, the obligation to create its own list of accounting rules, indicating the characteristics of the following accounting principles: a faithful presentation of the financial position, results of operations and cash flows, reflection of the substance of the transaction, neutrality, caution and completeness in all aspects.

According to the analyses conducted by the Company, the commonly used method for the settlement of such transactions is pooling of interests, and such a method was applied by the Company. At the bottom of this method, there is an assumption that merging entities, both before and after the transaction, were controlled by the same shareholder, and therefore the consolidated financial statement reflects the continuity of joint control and does not reflect any changes in the value of net assets to fair values (or recognition of new assets), or the valuation of the company's value, since none of the merging entities is not actually acquired. The settlement takes place on the day of the merger and the previous data is not adjusted.

12. Acquisition of ventures

In the period between 1 January 2018 and 31 December 2018, there were no new acquisitions of ventures.

13. Operating segments

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

Therefore, there are following operating segments:

- The Generation Segment covering production of electricity both from conventional sources (including cogeneration) and by combustion and co-combustion of biomass. Basic fuels used by the Generation Segment are lignite and biomass. The Generation Segment covers following entities:
    - Zespół Elektrowni „Pątnów – Adamów – Konin” SA
    - „Elektrownia Pątnów II” sp. z o.o.
    - „PAK Infrastruktura” sp. z o.o.
- The Mining Segment covering the extraction of lignite. In the Mining Segment, within the Capital Group ZE PAK SA:
    - „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 the “PAK – Volt” SA company.

ZE PAK SA Group operates also in other kinds of activities, included in the ‘Other’ column. In 2018 there is included the activity of the following companies: Aquakon sp. z o.o. in liquidation, PAK Adamów sp. z o.o. and PAK Górnictwo sp. z o.o. On 1 August 2018 there was a merger of the companies Zespół Elektrowni Pątnów – Adamów – Konin” SA (acquiring company) and PAK – Holdco sp. z o.o. (acquired company) and PAK Górnictwo sp. z o.o. (acquiring company) i Energoinwest Serwis sp. z o.o. in liquidation (acquired company), EL PAK Serwis sp. z o.o. in liquidation (acquired company), Eko-Surowce sp. z o.o. in liquidation (acquired company).

Transaction prices used in transactions between operating segments are determined on the basis of commercial principles, like in transactions with non-related entities. None of the Group's operating segments has been combined with another segment to create the above reporting operating segments.

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

The Management Board of ZE PAK SA is the body making key decisions in the Group. The Management monitors the operating results of the segments separately in order to make decisions regarding the allocation of resources, the assessment of the effects of this allocation and results of operations. The basis for the assessment of operating results is profit or loss on operating activities and EBITDA. EBITDA should be seen as an add-on and not a substitute for operating results presented in accordance with IFRS. EBITDA is a useful indicator of the ability to incur and service debt. The level of EBITDA is not defined by IFRS and can be calculated differently by other entities. The following is the reconciliation and definitions used by the ZE PAK Group when determining these measures.

The Group defines EBITDA as a net profit excluding financial revenues and costs, income tax and depreciation and impairment losses.

(in thousand PLN)

Total EBITDA for the entire Capital Group of ZE PAK SA:

	Year ended 31 December 2018	*Year ended 31 December 2017*
Net profit / (loss)	(463 673)	183 544
Financial revenues	- 7 201	-16 193
Financial costs	+ 45 387	+47 652
Income tax	- 51 775	+75 089
Depreciation and impairment write-down	+ 567 054	+221 813
EBITDA	89 792	511 905

The segment results for the years ended December 31, 2018 and December 31, 2017 are shown below

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(in thousand PLN)

12 months period ended 31 December 2018	Generation	Mining	Renovation	Sale	Other	Consolidation adjustment	Total
Sales revenue to external customers	1 679 103	5 743	82 567	532 987	4 424	-	2 304 824
Sales revenue between segments	305 864	564 866	78 194	4	241 016	(1 189 944)	-
Sales revenue	**1 984 967**	**570 609**	**160 761**	**532 991**	**245 440**	**(1 189 944)**	**2 304 824**
Cost of goods sold	(2 137 301)	(766 226)	(148 842)	(540 015)	(228 936)	1 193 410	(2 627 910)
Gross profit / (loss)	**(152 334)**	**(195 617)**	**11 919**	**(7 024)**	**16 504**	**3 466**	**(323 086)**
Other operating income	4 557	3 885	1 459	1 034	612	(583)	10 964
Selling and distribution expenses	(1 921)	-	-	(1 064)	(1 016)	-	(4 001)
Administrative expenses	(56 686)	(43 839)	(11 460)	(3 898)	(7 896)	-	(123 779)
Other operating expenses	(32 029)	(3 518)	(1 400)	(1)	(412)	-	(37 360)
Finance income	7 616	226	32	272	56	(1 001)	7 201
Finance costs	(22 604)	(16 406)	(379)	(6 770)	(229)	1 001	(45 387)
Profit before tax	**(253 401)**	**(255 269)**	**171**	**(17 451)**	**7 619**	**2 883**	**(515 448)**
Income tax expense	45 271	6 366	(497)	3 211	(2 027)	(549)	51 775
Net profit/loss for the period from continuing operations	**(208 130)**	**(248 903)**	**(326)**	**(14 240)**	**5 592**	**2 334**	**(463 673)**
Profit / (loss) from operating activities, without financial operations and income tax	**(238 413)**	**(239 089)**	**518**	**(10 953)**	**7 792**	**2 883**	**(477 262)**
Depreciation / Amortization	120 884	67 043	3 585	67	5 884	(2 949)	194 514
Change in impairment	226 584	145 956	-	-	-	-	372 540
EBITDA	**109 055**	**(26 090)**	**4 103**	**(10 886)**	**13 676**	**(66)**	**89 792**

(in thousand PLN)

12 months period ended 31 December 2017	Generation	Mining	Renovation	Sale	Other	Consolidation adjustment	Total
Sales revenue to external customers	1 757 534	6 481	95 886	575 826	7 348	-	2 443 075
Sales revenue between segments	338 848	808 025	180 441	5	161 371	(1 488 690)	-
Sales revenue	**2 096 382**	**814 506**	**276 327**	**575 831**	**168 719**	**(1 488 690)**	**2 443 075**
Cost of goods sold	(1 795 567)	(760 653)	(244 485)	(566 903)	(159 569)	1 491 781	(2 035 396)
Gross profit / (loss)	**300 815**	**53 853**	**31 842**	**8 928**	**9 150**	**3 091**	**407 679**
Other operating income	4 481	5 878	714	501	239	(489)	11 324
Selling and distribution expenses	(2 568)	(4)	-	(534)	(1 152)	-	(4 258)
Administrative expenses	(42 709)	(48 336)	(17 328)	(4 431)	(6 663)	-	(119 467)
Other operating expenses	(2 322)	(1 667)	(836)	(343)	(273)	255	(5 186)
Finance income	18 611	1 542	468	127	28	(4 583)	16 193
Finance costs	(34 473)	(15 279)	(920)	(94)	(67)	3 181	(47 652)
Profit before tax	**241 835**	**(4 013)**	**13 940**	**4 154**	**1 262**	**1 455**	**258 633**
Income tax expense	(46 265)	(23 479)	(3 898)	(869)	178	(756)	(75 089)
Net profit/loss for the period from continuing operations	**195 570**	**(27 492)**	**10 042**	**3 285**	**1 440**	**699**	**183 544**
Profit / (loss) from operating activities, without financial operations and income tax	**257 697**	**9 724**	**14 392**	**4 121**	**1 301**	**2 857**	**290 092**
Depreciation / Amortization	123 081	69 529	6 339	73	1 900	(1 274)	199 648
Change in impairment	-	22 165	-	-	-	-	22 165
EBITDA	**380 778**	**101 418**	**20 731**	**4 194**	**3 201**	**1 583**	**511 905**

(in thousand PLN)

14. Revenues and costs

14.1. Revenues from the contracts with clients

	Year ended 31 December 2018	*Year ended 31 December 2017*
Material structure		
Revenue from the sale of goods taking into account excise duty		
Excise	(7 520)	(3 100)
Revenues from the sale of goods, including:		
Revenues from the sale of electricity	1 303 787	1 513 909
Revenues from the sale of electricity from trade	674 033	579 571
Revenues from the sale of heat	36 745	57 175
Other sale revenues	25 860	30 579
Revenues from service contracts	**71 119**	**82 906**
Other revenues:		
Property rights from energy certificates	48 221	700
Compensation for LTC termination	152 579	181 335
Total revenues from contracts with clients	**2 304 824**	**2 443 075**

	31 December2018	*31 December 2017*
Poland	2 297 931	2 434 894
EU Countries	6 893	7 951
Outside EU	-	230
Total sale revenues	2 304 824	2 443 075

14.2. Other operating revenues

	Year ended 31 December 2018	*Year ended 31 December 2017*
Compensations received	1 206	2 258
Depreciation of fixed assets purchased from MLF*	-	523
Reversal of write-downs against receivables	262	257
Grants settlement	1 502	1 549
Profit from disposal of non-financial fixed assets	1 600	3 644
Return of the ERO penalty	1 500	-
Release of the provision for costs and losses and cancellation of liabilities	1 013	1 558
Other	3 881	1 535
Total of other operating revenues	10 964	11 324

**MLF – Mining Liquidation Fund*

(in thousand PLN)

The return of the ERO penalty refers to the repayment of the penalty imposed by the Energy Regulatory Office for not keeping fuel (coal) reserves.

The largest components of the "Other" item in 2018 are received damages and penalties in the amount of PLN 324 thousand and revenues from the sale of scrap in the amount of PLN 281 thousand.

14.3. Other operating expenses

	Year ended 31 December 2018	*Year ended 31 December 2017*
Loss on the sale of property, plant and equipment	1 959	225
Creation of provisions	30 821	1 493
Impairment write-down on receivables	407	207
Costs of court and enforcement proceedings	325	288
Electricity-related damage	597	211
Donations given	256	375
Real estate tax for previous years	32	532
Compensatory pensions	231	236
Other	2 732	1 619
Total other operating expenses	37 360	5 186

The main components of the "Other" item in 2018 are contractual penalties related to the performance of long-term contracts for renovation and assembly works and electrical works in the amount of PLN 1 313 thousand, other penalties and compensation paid in the amount of PLN 308 thousand, utilization costs in the amount of PLN 132 thousand.

14.4. Financial income

	Year ended 31 December 2018	*Year ended 31 December 2017*
Interest income	3 875	3 527
Dividend	93	208
Foreign exchange gains	174	12 378
Valuation of hedging instruments exchange rate (forward)	2 746	-
Other	313	80
Total financial income	7 201	16 193

14.5. Financial costs

	Year ended 31 December 2018	*Year ended 31 December 2017*
Interest expenses	13 367	27 228
Valuation and realization of derivative financial instruments	3 300	7 036
Valuation of futures contracts	6 765	-
Foreign exchange losses	5 534	-
Reserve discount for the liquidation of power units	799	746

(in thousand PLN)

Actuarial reserves discount	1 251	1 530
Reserve discount for reclamation	13 290	9 855
Other	1 081	1 257
Total of financial costs	45 387	47 652

The "Other" item in 2018 presents mainly commissions regarding bank loans, bank loans and guarantees in the amount of PLN 547 thousand, and a discount on mining damage in the amount of PLN 117 thousand.

14.6. Costs by type

	Year ended 31 December 2018	*Year ended 31 December 2017*
Depreciation / Amortisation	194 514	199 648
Impairment write-downs on fixed assets	372 540	22 165
Impairment write-downs on inventories	8 890	(852)
Materials	243 126	252 602
External services	99 747	112 451
Taxes and charges, excluding excise duty	173 709	201 592
Costs of allowances for emission of CO_2	492 367	289 942
Employee benefits, including	423 628	461 291
Salaries	*331 507*	*357 968*
Social insurance and other benefits	*92 121*	*103 323*
Other costs by type	44 092	39 350
Cost of goods for resale and raw materials sold and resale of electricity from the market	743 682	555 156
Total cost by type	2 796 295	2 133 345
Items included in cost of goods sold	2 627 910	2 035 396
Items included in selling and distribution expenses	4 001	4 258
Items included in administrative expenses	123 779	119 467
Change in the stocks of finished goods	35 110	(28 710)
Cost of goods and services for internal needs	5 495	2 934

14.7. Depreciation costs and impairment write-downs included in the profit or loss

	Year ended 31 December 2018	*Year ended 31 December 2017*
Items included in the cost of manufacture of sold products:		
Fixed assets depreciation	172 020	176 897
Depreciation of mining asset	8 578	8 812
Intangible assets depreciation	819	714
Impairment of inventory	8 890	-

(in thousand PLN)

Impairment of tangible fixed assets	372 540	22 165
	562 847	208 588
Items included in selling and distribution costs:		
Fixed assets depreciation	5	15
	5	15
Items included in administrative costs		
Fixed assets depreciation	12 646	12 744
Intangible assets depreciation	445	466
	13 091	13 210

14.8. 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 2018 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 2018, 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

	01.01.2018	*Change in the valuation of contracts*	*Revenues recognized in 2018 included in the balance of liabilities as at 31.12.2017*	*Change of the period in which the right to remuneration becomes unconditional*	*31.12.2018*
Valuation of construction contracts	8 341	5 601		-8 341	5 601
Assets due to contracts with clients	8 341	5 601		-8 341	5 601
Valuation of construction contracts	6 707	-4 023			2 683
Liabilities due to contracts with clients	6 707	-4 023			2 683

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:	*31.12.2018*	*31.12.2017*
- up to 1 year	24 720	47 607
- over 1 year		
Total	24 720	47 607

(in thousand PLN)

	Year ended 31 December 2018	*Year ended 31 December 2017*
The gross amount due from the contracting parties for works under the contract:	5 066	7 080
The gross amount due to the contracting parties for work under the contract:	2 482	5 626

15. Income tax

15.1. Tax load

The main components of tax load for the year ended 31 December 2018 and 31 December 2017 are as follows:

	Year ended 31 December 2018	*Year ended 31 December 2017*
Included in the profit or the loss		
Current income tax		
Current income tax load	2 086	13 077
Deferred income tax load		
Related to creation and reversal of temporary differences	(53 720)	61 990
Other changes	(141)	22
Tax load in the consolidated profit or loss	**(51 775)**	**75 089**
Included in the consolidated statement of the comprehensive income		
Net profit (loss) tax due to revaluation of cash flow securities	(520)	(1 033)
Actuarial allowance concerning actuarial profits/losses	252	409
Tax advantage/(tax load) included in comprehensive income	**(268)**	**(624)**

15.2. 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 the year ended on 31 December 2018 and 31 December 2017 is as follows:

	Year ended 31 December 2018	*Year ended 31 December 2017*
Gross profit before taxation from continuing operations	**(515 448)**	**258 633**

(in thousand PLN)

Tax at the statutory tax rate applicable in Poland, amounting to 19%	**(97 935)**	**49 141**
Adjustment concerning the current income tax from previous years	-	(273)
Not included tax losses	23 822	(82)
Usage of the tax losses not recognised earlier	393	(786)
Fixed costs that are not tax deductible costs	5 468	1 332
A write-off on the deferred tax asset	17 240	-
Revenues that are not taxable	(528)	301
Others	(235)	25 456
Tax at the effective tax rate of (10.04%) (in 2017 29.03%)	**(51 775)**	**75 089**
Income tax in profit and loss account	**(51 775)**	**75 089**

(in thousand PLN)

15.3. Deferred income tax

Deferred income tax results from the following items:

			Consolidated profit and loss account for the year ended	
	31 December 2018	*31 December 2017*	*31 December 2018*	*31 December 2017*
Deferred tax asset				
Balance sheet provisions	127 458	112 777	14 429	(15 213)
Overburden and other mining assets	5 105	7 946	(2 841)	375
Interest and exchange rate differences	4 947	4 832	115	(6 545)
Hedging instruments	175	781	(86)	(95)
Valuation of non-terminated agreements for building services	612	1 610	(998)	(116)
Tax loss from previous years	19 384	30 361	(10 977)	(5 603)
Impairment write-down on inventories	2 972	1 475	1 497	(461)
Impairment write-down on receivables	738	636	102	(78)
Impairment write-downs on fixed assets	8 773	1 777	6 996	1 777
Difference between the balance sheet value and the tax value of fixed assets	35	7	28	(3 530)
Settlements with employees	3 169	3 813	(644)	(1 326)
Other	34 677	25 179	9 498	(14 310)
Total	208 045	191 194	17 119	(45 125)

Provision under deferred income tax

(in thousand PLN)

Difference between the balance sheet value and the tax value of fixed assets	471 631	487 308	(15 677)	50 882
Receivables under PPAs	10 961	11 078	(117)	(5 709)
Energy certificates	3 948	352	3 596	(2 263)
Interest and exchange rate differences	1 029	456	573	(2 075)
Valuation of non-terminated construction agreements	1 103	1 851	(748)	(396)
Purchased CO_2 allowances	2 203	50 145	(47 942)	(23 487)
Other	5	(24)	29	(89)
Total	490 880	551 166	(60 286)	16 863

After offsetting the balances at the level of the Group companies, the deferred tax is presented as:				
Asset:	**81 817**	**72 928**		
Provision:	**364 652**	**432 900**		
Deferred tax liability:				
- in correspondence with total incomes			1 594	624
- in correspondence with the financial result			205 113	61 990

Under other deferred tax asset, the main item as at December 31st 2018 is the provision for the redemption of CO2 emission rights in Elektrownia Pątnów II sp. z o.o. in the amount of PLN 29 432 thousand and the asset from the provision for energy certificates in the amount of PLN 4 010 thousand at PAK Volt SA.

(in thousand PLN)

The table below presents tax losses in the Group's companies

	Tax loss			*Settlement year*
	2016	*2017*	*2018*	
Aquakon sp. z o.o. in liqudation	-	468*	2*	-
KWB Adamów SA	-	-	78 553*	-
KWB Konin SA	-	-	46 834*	-
Elektrownia Pątnów II sp. z o.o.	4 455	39 319	-	2019
ZE PAK SA	66 700	-	-	2020
PAK Serwis sp. z o.o.	2 973	-	4 376	2021
Total	74 128	39 787	129 765	
Deferred tax asset	14 084	3 470	831	

* *deferred income tax assets were not recognized*

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

As at 31 December 2018 Elektrownia Pątnów II sp. z o.o. showed a tax profit of PLN 22 532 thousand. The accumulated value of tax losses as at 31 December 2018 amounted to PLN 43 774 thousand. Elektrownia Pątnów II sp. z o.o. created a tax asset on the value of accumulated tax losses, assuming that these losses will be fully settled with tax revenues of future periods. The value of the tax asset created as at 30 December 2018 amounts to PLN 8 317 thousand.

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

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

On April 24, 2017, the company received an individual interpretation of tax law provisions regarding the recognition over time of tax deductible expenses, expenses due to the return of Zarządca Rozliczeń SA of funds to cover stranded costs. This interpretation recognizes that the company's position regarding the settlement of the above-mentioned costs is incorrect. In the current tax returns for the years 2014 - 2017, the company assumed that the repayment of stranded costs from the company to Zarządca Rozliczeń SA, whose legitimacy results from the LTC Act, constitute tax deductible costs when these payments are made. On the other hand, the tax authorities consider that these costs are recognized as tax deductible costs on the day they are incurred, i.e. posted in the accounts. In the light of receiving an individual tax interpretation, taking into account unsettled tax losses, the Management Board of the Company assessed that there is no risk of tax arrears on this account. The company appealed against the individual interpretation received. On July 7, 2017, Elektrownia Pątnów II Sp. z o.o. submitted to the Provincial Administrative Court in Poznań (via the Director of the National Tax Information Service) a complaint against the abovementioned individual interpretation of tax law. On January 18, 2018, the Provincial Administrative Court in Poznań, in response to a complaint filed by the Pątnów II Power Plant, issued a verdict abrogating the contested Interpretations of the Director of the National Tax Information dated 20 April 2017. On 27 March 2018, the Director of the National Tax Information filed a cassation complaint from the Judgment of the Provincial Administrative Court in Poznań of January 18, 2018. With reference to the above, on 17 April 2018 Elektrownia Pątnów II sp. Z o.o. received the decision of the Head of the Second Wielkopolska Tax Office in Kalisz to initiate tax proceedings regarding the settlement of the corporate income tax for 2016. On June 25, 2018 Elektrownia Pątnów II sp. z o.o. received the decision of the Head of the Second Wielkopolska Tax Office in Kalisz to suspend tax proceedings, initiated in April 2018, regarding the settlement of the corporate tax for 2016, until the issue was resolved by the Supreme Administrative Court. 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 34.2.

(in thousand PLN)

As at 31 December 2018, PAK KWB Konin SA discloses a tax loss in the amount of PLN 46 834 thousand. Deferred income tax asset as at 31 December 2018 is PLN 53 301 thousand, it does not include tax losses.

As at December 31, 2018, PAK KWB Adamów SA reported a tax loss of PLN 78 533 thousand.

As at 31 December 2017, ZE PAK SA disclosed an asset due to unsettled tax loss for 2016 in the amount of PLN 12 673 thousand. As at 31 December 2018, the Company disclosed a tax profit thanks to which it was able to settle a part of the tax loss, and disclosed in the financial statements the use of the asset from 2016 in the amount of PLN 3 002 thousand.

16. Social services fund assets and liabilities of the Company Social Benefits Fund MFŚS

The Act of 4 March 1994 (as amended) on the Company Social Benefits Fund as amended, states that the Social Insurance Fund is formed by employers employing more than 50 full-time employees. The Group forms such a fund and makes periodical write-offs based on the amounts agreed with trade unions. In addition, the Group's companies contribute some social assets to the Fund. The aim of the Fund is to finance social activities, loans granted to the Group's employees and other social costs.

The subsidiaries, PAK KWB Konin SA, PAK KWB Adamów SA, Aquakon Sp. z o.o. – in liquidation, PAK-Volt SA, PAK Adamów Sp. z o.o. do not belong to the Intercompany Social Benefits Fund.

The Group compensated the assets of the Fund with their obligations to the Fund because these assets do not constitute separate assets of the Group. According to the above fact, the net balance as of 31 December 2018 is zloty 9 374 thousand (as of 31 December 2017 – zloty 5 617 thousand respectively).

The below tables present the analytics of assets, liabilities, and costs of the Fund.

	31 December 2018	*31 December 2017*
Loans granted to the employees	5 020	4 921
Cash	6 303	7 355
Liabilities due to the Fund	(1 949)	(6 659)
Balance after compensation	9 374	5 617

	Year ended 31 December 2018	*Year ended 31 December 2017*
Write-offs for the Fund in the financial period	4 724	6 167

17. Profit per one share

Basic profit 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 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 and shares that served to calculated basic and diluted profit per one share were presented below:

	Year ended 31December 2018	*Year ended 31December 2017*
Net profit / (loss) on continued activities of the parent company's shareholders	(460 196)	183 243
Profit / (loss) on abandoned activities of the parent company's shareholders	-	-
Net profit / (loss) of ordinary shareholders used for calculation of diluted profit / (loss) per one share	(460 196)	183 243
The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share	50 823 547	50 823 547

The below table shows the profit per one share in Polish zlotys for the year ended 31 December 2018 and 31 December 2017 presented in the profit and loss account.

	Year ended 31 December 2018	*Year ended 31December 2017*
Basic and diluted from profit for the financial year attributable to the shareholders of the parent company	(9,05)	3,61
Basic and diluted from profit from continuing operations attributable to the shareholders of the parent company	(9,05)	3,61

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

18. Dividends paid and proposed for payment

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

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

Dividend was paid in the following dates:

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

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

As the day of this report the dividend was paid.

(in thousand PLN)

19. Tangible fixed assets

12 months period ended 31 December 2018

	*Lands**	*Buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2018 (transformed data)	264 070	2 019 714	4 941 958	69 440	29 741	222 654	7 547 577
Direct purchase	-	48	4 454	6 971	5 278	52 297	69 048
Repairs	-	2 218	689	-	-	2	2 909
Transfer from fixed assets under construction	24 777	15 237	57 620	659	162	(98 455)	-
Sale and liquidation	(5 170)	(4 951)	(19 428)	(2 324)	(1 460)	-	(33 333)
Gross value as at 31 December 2018	283 677	2 032 266	4 985 293	74 746	33 721	176 498	7 586 201
Depreciation and impairment write-downs as at 1 January 2018	11 065	1 169 349	2 892 319	44 041	21 404	124 896	4 263 074
Depreciation write-down for the period	3 487	42 151	130 018	6 886	2 129	-	184 671
Impairment write-down (change of the state)	31 844	16 593	316 821	724	42	6 517	372 540
Sale and liquidation	(13)	(4 639)	(17 062)	(2 086)	(1 426)	-	(25 225)
Depreciation and impairment write-downs as at 31 December 2018	46 383	1 223 454	3 322 096	49 565	22 149	131 413	4 795 060
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 31 December 2018	237 294	808 812	1 663 197	25 181	11 572	45 085	2 791 141

** this item also includes land exploited for extraction of minerals using the opencast method*

(in thousand PLN)

12 months period ended 31 December 2017 (transformed data)

	*Lands**	Buildings and constructions	Plant and machinery	Motor vehicles	Other	Assets under construction	Total
Gross value as at 1 January 2017 (transformed data)	235 209	2 018 030	4 862 243	69 615	29 082	243 951	7 458 130
Direct purchase	2 720	2 348	5 926	700	1 158	89 720	102 572
Repairs	-	-	68 504	20	(56)	(63 973)	4 495
Transfer from fixed assets under construction	26 749	6 646	12 373	738	527	(47 033)	-
Sale and liquidation	(608)	(7 310)	(7 088)	(1 633)	(970)	(11)	(17 620)
Gross value as at 31 December 2017 (transformed data)	264 070	2 019 714	4 941 958	69 440	29 741	222 654	7 547 577
Depreciation and impairment write-downs as at 1 January 2017	7 932	1 128 103	2 763 323	38 921	20 766	104 171	4 063 216
Depreciation write-down for the period	3 133	45 343	132 975	6 478	1 727	-	189 656
Impairment write-down (change of the state)	-	1 441	106	17	(124)	20 725	22 165
Sale and liquidation	-	(5 538)	(4 085)	(1 375)	(965)	-	(11 963)
Depreciation and impairment write-downs as at 31 December 2017	11 065	1 169 349	2 892 319	44 041	21 404	124 896	4 263 074
Net value as at 1 January 2017 (transformed data)	227 277	889 927	2 098 920	30 694	8 316	139 780	3 394 914
Net value as at 31 December 2017 (transformed data)	253 005	850 365	2 049 639	25 399	8 337	97 758	3 284 503

** this item also includes land exploited for extraction of minerals using the opencast method*

The carrying amount of property, plant and equipment used as at December 31, 2018 under finance lease agreements is PLN 3 175 thousand (as at December 31, 2017, PLN 4 195 thousand).

Land and buildings with a carrying value of PLN 341 876 thousand (as at 31 December 2017: PLN 354 237 thousand) are covered by a mortgage established to secure the Group's bank loans (note 35).

In addition, the Group sold post-mining land with a net value of PLN 1,005 thousand.

The value of capitalized borrowing costs in the year ended 31 December 2018 amounted to PLN 5 137 thousand (in the year ended December 31, 2017 amounted to PLN 2 961 thousand).

19.1. 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
- Proposal for a Regulation of the European Parliament and of the Council on the internal energy market, a project for generating units that do not meet specific CO2 emission criteria, assumes the elimination of support in the form of payments from the power market mechanism after July 1, 2025

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 31 December 2018, the 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 34.2.

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 fulfill 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 Ministry

took into account the recommendations of both the renewable energy industry and international chambers of commerce, banks and representatives of conventional energy, which alarmed about the harmful effects of these provisions for existing RES installations. In the opinion of TGPE, it would hinder the planning of the work of units for biomass, which would hit Polish producers. As a consequence, the implementation of the RES objective would widen. In the case of a scenario of a lack of renewable energy support above 15 years, the Company plans to decrease the biomass prices in an alternative scenario.

- 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 labor 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 6.53%.
- 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.

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:
    - Adamów open pit – 5,07 m tons till2023,
    - Tomisławice open pit – 28,79 m tons till 2030,
    - Jóźwin open pit – 6,24 m tons till 2021,
    - Drzewce open pit – 5,39 m tons till 2021,
    - Ościsłowo open pit – 31,32 tons till 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.

(in thousand PLN)

The tests were performed as at 31 December 2018.

Based on the conducted tests, it was found that there is a need to recognize write-offs updating the property, plant and equipment held in the Generation segment, as well as property, plant and equipment of the Mining Segment.

The test results for individual CGUs for which impairment was found are presented below:

As at 31.12.2018

	CGU Elektrownia Pątnów II	*CGU PAK KWB Konin*	*CGU PAK KWB Adamów*
Tested value	1 735 664	673 876	72 693
Recoverable value	1 515 664	583 876	16 693
Established loss	220 000	90 000	56 000

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

Based on the results of the tests, it was also not necessary to include additional revaluation allowances for CGU ZE PAK SA assets. On the basis of the conducted analysis and test results, there was also no increase in the estimated usable potential of fixed assets for CGU ZE PAK SA, so there was also no reversal of previously recognized impairment losses in the amount of PLN 1 880 000 thousand.

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 17.15% in the analyzed period, with the remaining assumptions remaining unchanged, to cover the loss of revenues.

Zespół Elektrowni Pątnów-Adamów-Konin SA	(+) increase by 1.0 percentage points	(-) decrease by 1.0 percentage points
Weighted average cost of capital	(PLN 54 m)	PLN 64 m
	(+) increase by 1%	(-) decrease by 1%.
Change in sales revenues (electricity price)	PLN 78 m	(PLN 78 m)
	(+) increase by 5%	(-) decrease by 5%.
Change in cost of sales (price of 1 EUA)	(PLN 109 m)	PLN 109 m
	(+) increase by 5%	(-) decrease by 5%
Change of biomass price (PLN/GJ)	(PLN 138 m)	PLN 138 m

In the case of a drop in sales revenues by 0.46% in the forecast horizon with the remaining parameters of the model unchanged, and also in the case of a rise in the average weighted cost of capital by 0.91 pp. with the remaining 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 percentage points	(-) decrease by 1.0 percentage points
Weighted average cost of capital	(PLN 129 m)	PLN 151 m

(in thousand PLN)

	(+) increase by 1%	(-) decrease by 1%.
Change in sales revenues (electricity price)	PLN 101 m	(PLN -101 m)
	(+) increase by 5%	(-) decrease by 5%.
Change in cost of sales (price of 1 EUA)	(PLN 152 m)	PLN 152 m

In the case of an increase in sales revenues of 2.10% in the forecast horizon with the remaining parameters of the model unchanged, and in the case of a weighted average cost of capital of 1.41 points, with the remaining 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 percentage points	(-) decrease by 1.0 percentage points
Weighted average cost of capital	(PLN -64 m)	PLN 73 m
	(+) increase by 1%	(-) decrease by 1%
Change in sales revenues	PLN 52 m	(PLN -53 m)

In the case of an increase in sales revenues by 1.75% in the forecast horizon with the remaining parameters of the model, the determination of the recoverable amount or in the case of a decrease in the weighted average cost of capital by 1.22 pp. with the remaining parameters of the unchanged model, the recoverable amount of CGU would be equal to the carrying amount.

PAK KWB Adamów SA	(+) increase by 1.0 percentage points	(-) decrease by 1.0 percentage points
Weighted average cost of capital	PLN 1 m	(PLN 2 m)
	(+) increase by 1%	(-) decrease by 1%
Change in sales revenues	PLN 5,08 m	(PLN 6,00 m)

In the case of an increase in sales revenues by 11.1% in the forecast horizon with the remaining parameters of the model, the determination of the recoverable amount or in the case of a decrease in the weighted average cost of capital by 35.55 p.p. with the remaining parameters of the unchanged model, the recoverable amount of CGU would be equal to the carrying amount.

20. Leasing

20.1. Liabilities under financial lease agreements and lease agreement with purchase option

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

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

(in thousand PLN)

	As at 31 December 2018		*As at 31 December 2017*	
	minimum payments	*present value of payments*	*minimum payments*	*present value of payments*
Up to 1 year	1 924	1 819	1 768	1 636
1 to 5 years	1 661	1 389	2 962	2 606
Over 5 years	-	-	-	-
Total minimal lease payments	3 585	3 208	4 730	4 242
Minus finance expenses	(377)	-	(488)	-
resent value of minimal lease payments, including:	3 208	3 208	4 242	4 242
Short-term	1 819	1 819	1 636	1 636
Long-term	1 389	1 389	2 606	2 606

(in thousand PLN)

21. Intangible assets

Long-term intangible assets – 12 months period ended 31 December 2018

	CO_2 Emission units (EUA)	*Patents and licenses*	*Computer software*	*Other*	*Total*
Gross value as of 1 January 2018	2 266	21 886	1 981	428	26 561
Transfer EUA	(2 266)	-	-	-	(2 266)
Increases	-	(11)	(9)	(11)	(31)
Decreases	-	458	161	-	619
Gross value as of 31 December 2018	-	22 333	2 133	417	24 883
Depreciation and impairment write-downs as at 1 January 2018	-	17 561	1 958	363	19 882
Depreciation write-down for the period	-	1 184	66	14	1 264
Impairment write-down	-	-	-	-	-
Decreases	-	(11)	(9)	(16)	(36)
Depreciation and impairment write-downs as at 31 December 2018	-	18 734	2 015	361	21 110
Net value as at 1 January 2018	2 266	4 325	23	65	6 679
Net value as at 31 December 2018	-	3 599	118	56	3 773

In the EUA Transfer, the Group presents transfer of CO_2 allowances between long-term and short-term intangible assets.

(in thousand PLN)

Long-term intangible assets – 12 months period ended 31 December 2017

	CO_2 Emission units (EUA)	*Patents and licenses*	*Computer software*	*Other*	*Total*
Gross value as of 1 January 2017	114 503	21 540	1 998	431	138 472
Transfer EUA	(114 503)				(114 503)
Increases	-	(440)	(42)	(4)	(486)
Decreases	2 266	786	25	1	3 078
Gross value as of 31 December 2017	2 266	21 886	1 981	428	26 561
Depreciation and impairment write-downs as at 1 January 2017	-	16 943	1 903	344	19 190
Depreciation write-down for the period	-	1 058	99	23	1 180
Impairment write-down	-	-	-	-	-
Decreases	-	(440)	(44)	(4)	(488)
Depreciation and impairment write-downs as at 31 December 2017	-	17 561	1 958	363	19 882
Net value as at 1 January 2017	114 503	4 597	95	87	119 282
Net value as at 31 December 2017	2 266	4 325	23	65	6 679

In the EUA Transfer, the Group presents transfer of CO_2 allowances between long-term and short-term intangible assets.

(in thousand PLN)

Short-term intangible assets

	31 December 2017	*31 December 2016*
	CO2 emission units (EUA)	*CO2 emission units (EUA)*
Gross value as of 1 January	261 654	273 036
Purchase of EUA	93 102	187 220
Redemption of EUA	(290 205)	(313 105)
Transfer of EUA	2 266	114 503
Gross value as of 31 December	66 817	261 654
Redemption and impairment as of 1 January	-	-
Impairment write-down of a period	-	-
Depreciation and impairment write-down as of 30 December	-	-
Net value as of 1 January	261 654	273 036
Net value as of 31 December	66 817	261 654

22. Assets for overburden removal and other mining assets

As of 31 December 2018, the item of assets concerning overburden stripping and other mining assets includes the assets related to overburden stripping and other mining assets in PAK KWB Konin in the amount of PLN 80 326 thousand.

	31 December 2018	*31 December 2017*
As of 1 January	72 536	80 524
Increases	16 369	824
Decreases	-	-
Depreciation for the period	(8 579)	(8 812)
As of December	80 326	72 536
long-term	80 326	72 536
short-term	-	-

(in thousand PLN)

23. Other assets

23.1. Other financial assets

	31 December 2018	*31 December 2017*
Deposits for debt service security	36 679	35 616
Investments and deposits	-	14
Investments and MLF* deposits	4 203	8 365
Shares	352	313
Other	193	1 791
Total other financial assets	41 427	46 099
short-term	36 679	35 788
long-term	4 748	10 311

* *MLF – Mining Liquidation Fund*

The creation of the mining plant's liquidation fund results from the Geological and Mining Act.

As means of servicing the costs of indebtedness, funds are presented to secure the servicing of loans at Elektrownia Pątnów II sp. z o.o.

23.2. Other non-financial assets

	31 December 2018	*31 December 2017*
VAT receivables	18 378	6 402
Insurance	1 516	1 527
Other receivables from the state budget	1 842	-
Other non-financial assets	2 682	-
Other accruals	2 149	2 756
Delivery prepayments	66	115
Prepayments for assets under construction	751	2 451
Other	528	296
Total other non-financial assets:	27 912	13 547
short-term	24 039	11 425
long-term	3 873	2 122

The largest components of the item "other accruals" in 2018 are the settlements regarding the valuation of properties for sale owned by PAK KWB Konin SA, in the amount of PLN 726 thousand. The costs are charged at the time of sale of the real estate that the valuation concerned. A significant component of other accruals is also the settlement of royalties in the amount of PLN 539 thousand.

(in thousand PLN)

24. Employee benefits

24.1. Pension benefits and other post-employment benefits

The Group's entities pay the retiring employees amounts of one-time retirement benefits and other post-employment benefits in the amount specified by the Collective Labour Agreement. In relation to this, the Group, on the basis on the evaluation made by a professional pension actuary company, creates a provision for the current value of the liability due to one-time retirement and other benefits.

The amount of the provision and the agreement of changes in provisions during the accounting period are presented in the following table:

	Provision for pension, retirement, and post-mortem benefits	*Anniversary premiums*	*Subsidies to electricity/coal benefits*	*Total*
as of 1 January 2018	**28 645**	**2 535**	**22 443**	**53 623**
Current service cost	1 196	214	1 181	2 591
Interest costs	957	84	741	1 782
Actuarial profits and losses	161	(17)	(1 384)	(1 240)
Paid benefits	(3 460)	(407)	(2 636)	(6 503)
Past service cost	(1 974)	(494)	2 767	299
Other	448	-	-	448
as of 31 December 2018	**25 973**	**1 915**	**23 112**	**51 000**
Long-term provisions	23 412	1 623	20 520	45 555
Short-term provisions	2 561	292	2 592	5 445

	Provision for pension, retirement, and post-mortem benefits	*Anniversary premiums*	*Subsidies to electricity/coal benefits*	*Total*
as of 1 January 2017	**28 292**	**3 086**	**23 712**	**55 090**
Current service cost	1 144	265	-	1 409
Interest costs	736	108	830	1 674
Actuarial profits and losses	1 699	(67)	736	2 368
Paid benefits	(2 689)	(680)	(2 835)	(6 204)
Past service cost	4 326	(177)	-	4 149
Other	(4 863)	-	-	(4 863)
as of 31 December 2017	**28 645**	**2 535**	**22 443**	**53 623**
Long-term provisions	12 886	2 157	19 679	34 722
Short-term provisions	15 759	378	2 764	18 901

The main assumptions adopted by the actuary as of the balance sheet date for calculation of the amount of the liability are as follows:

	Year ended 31 December 2018	*Year ended 31 December 2017*
discount rate	3,0%	3,3%
expected inflation rate	2,5%	2,5%

(in thousand PLN)

expected remuneration growth rate	depending on the company in rage from 0 % to 3 %	depending on the company in rage from 0 % to 3 %

25. Inventories

	31 December 2018	*31 December 2017*
Production fuel	7 131	7 564
Spare parts and other materials	75 205	79 001
Certificates of origin of energy	26 897	11 119
Goods	6	74
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	109 239	97 758

Spare parts are a reserve for repairs and service. The revaluation write-off is created for materials not rotating above 3 years. For spare parts with a value of over PLN 100,000, the write-down is 100% of the value. As at December 31st 2018, the write-down amounts to PLN 11 274 thousand.

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

According to the records, as at 31 December 2018, the Group held, in total 24 784.187 MWh of green certificates of green energy produced and verified by URE

Na dzień 31 grudnia 2018 roku Grupa posiadała łącznie według ewidencji 24 784,178 MWh praw majątkowych zielonych certyfikatów wyprodukowanej i zweryfikowanej przez URE zielonej energii. From 1 January 2018 to 31 December 2018, the Group received 4 014 442 MWh of certificates for production in July 2017 and 200 047 202 MWh for production from January to August 2018. During this period, an application was filed for the issue of 34 635 872 MWh for production in September and 34 733 549 MWh for production in October 2018. Until 31 December 2018, 206 804 631 MWh were sold to TGE SA, this revenue in the amount of PLN 25 880 thousand, was recognized under Other revenues..

26. Trade and other receivables

	31 December 2018	*31 December 2017*
Trade receivables	150 765	151 814
Receivables due to compensation related to the termination of the PPAs	57 691	58 303
Receivables due to security of purchase of electricity in the balancing market	14 761	7 695
Other receivables	130 966	35 449
Net receivables	354 183	253 261
Impairment write-down on receivables	42 110	41 522
Gross receivables	396 293	294 783

In the line, other receivables as at December 31, 2018, the Group presents mainly receivables from security deposits at the Polish Power Exchange in the amount of PLN 121 797 thousand.

(in thousand PLN)

The Group analyzes 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. The whole revaluation write-off of receivables concerns individual receivables.

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

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

As of 31 December 2018, receivables due to supplies and services and other receivables in the amount of PLN 42 110 thousand (as of 31 December 2017: PLN 41 522 thousand) were included in the write-off. Changes in the impairment write-downs on receivables were as follows:

	31 December 2018	*31 December 2017*
Impairment write-down as at	41 522	41 947
Acquisition of a company	(151)	-
Increase	874	56
Use	(69)	(2)
Redemption	(66)	(479)
Impairment write-down as at 31 December	42 110	41 522

Below is an analysis of trade receivables and other receivables which as at 31 December 2018 and as at 31 December 2017 were past due, but were not considered as irrecoverable and were not written off. The write-off balance mainly consists of a receivable from several counterparties that has been written off historically in 100% (grade 3 in accordance with IFRS 9). The Group has identified a high probability of non-recoverability of written off receivables.

	Total without write-down	Unexpired	Expired but recoverable				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
31 December 2018	354 183	304 141	42 239	6 124	580	38	1 061
31 December 2017	253 261	248 044	3 521	410	547	28	711

27. Cash and cash equivalents

Cash at bank are subject to interest at volatile interest rates, whose amount depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group’s demand for cash and are subject to interest at fixed interest rates. The fair value of cash and cash equivalents as of 31 December 2018 amounts to PLN 304 658 thousand (as of 31 December 2017: PLN 322 201 thousand).

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

(in thousand PLN)

Cash structure

	31 December 2018	*31 December 2017*
Cash in hand and at bank:	260 467	229 387
Short-term deposits	44 191	92 814
Total cash and cash equivalents in the balance sheet:	304 658	322 201
Foreign exchange differences	(1 342)	369
Total cash and cash equivalents in cash flow statement	303 316	322 570

Explanation of changes in balance sheet items and changes to items recognized in the statement of cash flows

	31 December 2018	*31 December 2017*
Depreciation:		
Depreciation shown in the income statement	194 514	199 648
Settlement of subsidies	(1 502)	(1 502)
Depreciation shown in the cash flow statement	-	(2 454)
depreciation shown in cash flow statement	193 012	195 692

	31 December 2018	*31 December 2017*
Receivables:		
Balance sheet change in trade receivables and other receivables	(100 922)	(7 236)
Balance sheet change in other long and short-term non-financial assets	(14 366)	19 916
Balance sheet change in amounts due from clients under PPAs	2 014	1 089
Change in advances for fixed assets under construction	(1 701)	(3 429)
Other changes	(315)	1 361
Change in receivables shown in the cash flow statement	(115 290)	11 701

(in thousand PLN)

	31 December 2018	*31 December 2017*
Liabilities:		
Balance sheet change in trade liabilities and other financial liabilities, long and short-term	18 363	(156 170)
Balance sheet change in other non-financial liabilities	(11 426)	(9 044)
Balance sheet change in amounts paid to clients under PPAs	(3 144)	1 635
Change in liabilities under investment settlements	5 879	(2 992)
New lease agreements and payment of lease liabilities	1 426	6 750
Change in liabilities under purchase of allowances of emission CO_2	-	59 951
Other changes	393	790
Change in liabilities shown in the cash flow statement	11 491	(99 080)

	31 December 2018	*31 December 2017*
Change in provisions, prepayments and accruals and employee benefits:		
Change in provisions and prepayments	282 980	20 137
Change in long and short-term employee benefits	(364)	(1 459)
Decrease of provision from redemption EUA	290 205	313 105
Change in actuarial provisions indicated in other comprehensive income	(862)	(2 155)
Other changes	(56 827)	(829)
Change in provisions, prepayments and accruals and employee benefits	515 132	328 799

In the item of expenditures and receipts associated with other financial assets in consolidated financial statement there were presented inflows and outflows of the cash earmarked for debt service and received guarantees.

28. Share capital and other capitals

28.1. Share capital

Share capital	*31 December 2018*	*31 December 2017*
50 823 547 shares with a nominal value of PLN 2 each	101 647	101 647

28.1.1. Share nominal value

All the issued shares have a nominal value of zloty 2 each and were paid up.

(in thousand PLN)

28.1.2. Shareholders rights

The shares of all series are equally preferred in terms of dividend and return on the capital.

28.1.3. Shareholders with significant share

	31 December 2018	31 December 2017
Elektrim SA		
share in capital	0,39%	0,39%
share in voting right	0,39%	0,39%
Embud II sp. z o.o.		
share in capital	1,16%	1,16%
share in voting right	1,16%	1,16%
Trigon XIX Fundusz Inwestycyjny Zamknięty		
share in capital	19,68%	19,68%
share in voting right	19,68%	19,68%
Argumenol Investment Company Limited		
share in capital	30,32%	30,32%
share in voting right	30,32%	30,32%
Nationale - Nederlanden OFE		
share in capital	9,97%	9,97%
share in voting right	9,97%	9,97%
Towarzystwo Funduszy Inwestycyjnych PZU SA		
share in capital	-	6,06%
share in voting right	-	6,06%
OFE PZU Złota Jesień		
share in capital	5,24%	5,24%
share in voting right	5,24%	5,24%
Others		
share in capital	33,24%	27,18%
share in voting right	33,24%	27,18%
	100,00%	100,00%

Shareholders owning more than 5% share in the capital and the number of votes according to the knowledge of the Company based on notifications submitted by shareholders.

29. Supplementary capital

As of 31 December 2017, the structure of the supplementary capital origin in the amount of zloty 1 124 376 thousand is as follows:

- from the sale of shares above their nominal value 380 030
- created in accordance with the articles of association above the statutory (minimum) value 617 397
- other, including: 126 949
  - Acquiring of PAK Odsiarczanie sp. z o.o. and PAK Holdco sp. z o.o. 66 126
  - Liquidation of fixed assets 60 823

29.1. Other reserve capital

The ZE PAK SA Company was founded as a result of the commercialisation of the Zespół Elektrowni PAK State-owned Company made pursuant to the Act of 13 July 1990 on the privatisation of state-owned companies. The so-called Privatisation Fund, shown as part of the reserve capital in the balance sheet of the company, was created by the Zespół Elektrowni PAK state-owned company on the basis of the Act of 31 January 1989 on financial economy of state-owned companies.

The value of the reserve fund consists of the Privatisation Fund in the amount of zloty 3 472 thousand, which was created from the profit of 1994, on the basis of a resolution of the Extraordinary General Meeting of the newly established Company, and the values related to the redemption of own shares in the amount of zloty 2 405 thousand. Due to the negative result of ZE PAK SA for 2015 in the amount of zloty 1,515,851 thousand, the General Meeting of the Company, on 28 June 2016, adopted a resolution no. 5 on covering the Company’s loss for 2015. According to the resolution, the General Meeting allocated the amount of zloty 2 405 thousand from the reserve capital. The total value of other reserve capitals, as of 31 December 2018, is zloty 3 472 thousand.

Cash accumulated in this fund were to be reserved for employees’ purchase from the State Treasury shares after transformation of the enterprise into the company and its privatisation (purchase of up to 10% of the shares for a half price). The Act of 30 August 1996 on the commercialisation and privatisation of state-owned enterprises introduced in 1996 granted employees the right to acquire 15% of the company’s shares belonging to the State Treasury free of charge. Therefore, the objectives, which the privatisation fund was to serve, do not exist. However, the capital in the company’s liabilities remained.

29.2. Undivided financial result and restrictions on payment of dividend

The undivided profit also includes amounts, which are not subject to division that is they may not be paid in the form of dividend. They are:

- Retained profits/losses of subsidiaries owned by the shareholders of the parent company,
- differences in values of retained profits between the statutory statement and the IFRS statement of the parent company,
- The equivalent of 8% of the statutory write-offs from profit for the capital and other write-offs made on the basis of existing provisions in the contracts of subsidiaries.

In the Group, as of 31 December 2018, the full amount of undivided profit (including the equivalent of reserve and supplementary capitals created within the division of profits in the previous years) is subject to the restriction on payment of dividend. The following conditions are the basis of such an assumption:

- Statutory financial statements of all companies included in the ZE PAK SA Capital Group are prepared in accordance with the Polish accounting standards. The dividend may be paid on the basis of the financial result determined in a separate annual financial statement prepared for the statutory purposes.
- According to the requirements of the Code of Commercial Companies, a parent company is required to create a reserve capital for coverage of losses. At least 8% of the profit for a given financial year, recognised in a separate financial statement of the company is transferred to this category of the capital, until this capital reaches at least one third of the parent company’s issued capital. The use of supplementary and reserve capitals is decided by the General Meeting. However, parts of the supplementary capital in the amount of the one-third of the initial capital can be used only to cover the loss demonstrated in the separated financial statement of the parent company and is not divided for other purposes.

As of 31 December 2018, there are no other restrictions on the payment of the dividend.

(in thousand PLN)

29.3. Non-controlling interest

	Year ended 31 December 2018	*Year ended 31 December 2017*
At the beginning of the period		
Acquisition - defining non-controlling interest at the acquisition date	30 971	30 971
Employee share program - correction of the original settlement	(955)	(955)
Result of subsidiaries in a given year - attribution to non-controlling interests	(3 477)	589
The result of subsidiaries in a given year - attribution to non-controlling interests	3 199	-
Settlement PUT options - the recognition of the commitment to purchase employee shares	(30 016)	(30 971)
Settlement PUT option - recognition of the difference between the value of non-controlling interest and obligation at end of period	3 566	366
Total	3 288	-

Allocation of the result to the non-controlling interests

In the consolidated financial statement, 15% of the PAK KWB Adamów SA's result and 15% of the PAK KWB Konin SA's result for the period from 19 July 2012 – 31 December 2013 and from 1 January 2014 – 31 December 2014 were allocated as a profit of non-controlling shareholders. In 2015, 2016, 2017 and 2018 in connection with the ongoing employee shares redemption, the profit for non-controlling shareholders was allocated in proportion to the shares volume of non-controlling shareholders.

The Company's obligation to buy employee shares was recognized as at the date of taking control and applies to situations in which employees have the option to sell shares. In accordance with the chosen policy, non-controlling interests received the allocation of the result and other comprehensive income in the next reporting periods. At the end of each reporting period, the value of non-controlling interests was adjusted as if they were acquired while simultaneously recognizing the liability for the share buyback option. The difference between the value of non-controlling interest derecognized as at the reporting date and the recognized financial liability was recognized in the position of retained earnings. As at 31 December 2018, ZE PAK SA's obligation to buy employee shares expired.

Recognition of ZE PAK SA's obligation to purchase the remaining shares in PAK KWB Konin SA and PAK KWB Adamów SA

In accordance with the IFRS, ZE PAK SA recognised the obligation to purchase the shares of PAK KWB Konin SA and PAK KWB Adamów SA possessed by the non-controlling interest on the day of the acquisition of control.

In the shares sale agreement of KWB Konin SA and KWB Adamów SA concluded between ZE PAK SA and the State Treasury on 28 May 2012 (hereinafter "Shares Sale Agreement"), ZE PAK SA submitted an irrevocable offer of purchasing the remaining shares of both mines to the State Treasury, under the terms set forth in this agreement, which will not be acquired from the State Treasury by the entitled employees and their legal successors on the basis of the Act of 30 August 1996 on the commercialisation and certain powers of employees. In accordance with the provisions of this act, the entitled employees of KWB Konin SA and KWB Adamów SA are entitled to acquire free of charge up to 15% of the shares of the company covered by the State Treasury on the date of entering a given company into the register. In accordance with the Shares Sale Agreement, ZE PAK SA's purchase of the remaining mines' shares from the State Treasury, not covered by the entitled employees or by their legal successors, will take place at a price per share equal to, respectively, the price of one share of KWB Konin SA and KWB Adamów SA in the transaction of sale of 85% of KWB Konin SA and KWB Adamów SA's shares of Konin to ZE PAK SA by the State Treasury, index-linked by the consumption products and services price indicator announced by the CSO President. In accordance with the Shares Sale

(in thousand PLN)

Agreement, the offer of purchasing the remaining shares of KWB Konin SA and KWB Adamów SA are submitted by ZE PAK SA to the State Treasury, which is referred to above, was binding until 28 February 2017. The remaining shares of KWB Konin SA and KWB Adamów SA were purchased from the Treasury.

In addition, in accordance with the Shares Sale Agreement, ZE PAK SA obliged to, under the terms as provided for in this agreement, submit to the entitled employees of KWB Konin SA and KWB Adamów SA, who acquired free of charge the shares from the State Treasury on the basis of the Act of 30 August 1996 on the commercialisation and certain powers of employees, the offer to purchase these shares at a prices equal to, respectively, the price of one share of KWB Konin SA and KWB Adamów SA in the transaction of sale of 85% of KWB Konin SA and KWB Adamów SA's shares of Konin to ZE PAK SA by the State Treasury. In the implementation of this obligation, after the expiry of the prohibition on trading the employee shares specified in article 38 paragraph 3 of the Act of 30 August 1996 on the commercialisation and certain powers of employees, ZE PAK SA began the process of employee share redemption, within which ZE PAK SA offered the people, who expressed the interest in disposal of PAK KWB Konin SA and PAK KWB Adamów SA's shares, to redeem them under terms set forth in the Shares Sale Agreement. By the end of 2016, as a result of that redemption process, most employee shares of PAK KWB Konin SA and PAK KWB Adamów SA were acquired. ZE PAK SA still plans to purchase the employee shares of PAK KWB Konin SA and PAK KWB Adamów SA and continues the redemption process at the currently offered price.

As at 31 December 2018, in the opinion of the Management Board of ZE PAK SA, the obligation to buy employee shares of PAK KWB Konin SA and PAK KWB Adamów SA expired.

30. Interest-bearing loans and borrowings

Short-term	*Maturity*	*31 December 2018*	*31 December 2017*
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin	20.07.2019	108 200	136 840
Overdraft facility at Santander Bank Polska SA in the amount of zloty 40 000 thousand; interest rate at WIBOR 1M + bank margin	30.06.2019	38 998	23
Overdraft in Alior Bank SA in the amount of PLN 66 700 thousand, bearing interest at WIBOR 1M + bank margin	30.05.2019	58 448	59 025
Investment loan (syndicated) in the amount of PLN 577 000 thousand (Loan A), bearing interest at WIBOR 3M + bank margin	20.03.2020	139 188	141 662
Investment loan (syndicated)in the amount of PLN 90 000 thousand (Loan B), bearing interest at WIBOR 3M + bank margin	20.03.2020	11 683	12 023
Overdraft in mBank SA in the amount of PLN 10 000 thousand, bearing interest at WIBOR 1M + bank margin	31.05.2019	4 438	-
TOTAL		**360 955**	**349 573**

(in thousand PLN)

Long-term	*Maturity*	*31 December 2018*	*31 December 2017*
Investment loan (syndicated) in the amount of EUR 240 000 thousand, bearing interest at the EURIBOR 3M rate + bank's margin	20.07.2019	-	101 431
Investment loan(syndicated) in the amount of PLN 577 000 thousand (Loan A), bearing interest at WIBOR 3M + bank margin	20.03.2020	19 447	150 931
Investment loan (syndicated) in the amount of PLN 90 000 thousand (Loan B), bearing interest at WIBOR 3M + bank margin	20.03.2020	39 977	50 103
TOTAL		**59 424**	**302 465**

31. Provisions and accruals

31.1. Accruals

	31 December 2018	*31 December 2017*
Provision for bonuses and holiday leaves	25 545	28 770
Provision for employment termination costs	-	2 173
Compensation from an insurance company	38	-
Audit of financial statements	264	563
Other	1 545	1 328
Total	27 392	32 834
Short-term	27 392	32 834
Long-term	-	-

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

(in thousand PLN)

31.2. 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 2018 (transformed data)	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, including:	(289 942)	-	-	(216)	(595)	(804)	(17 257)	(13 945)	(322 759)
Use	(289 942)	-	-	(216)	(559)	(804)	(17 257)	(13 945)	(322 723)
termination	-	-	-	-	(36)	-	-	-	(36)
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
As at 1 January 2017 (transformed data)	313 105	-	16 848	57 898	13	7 838	307 837	37 552	741 091
increase	289 942	-	747	1	397	1 616	70 385	1 023	364 111
Decrease, including:	(313 105)	-	(1 002)	(250)	(40)	(932)	(15 806)	(13 821)	(344 956)
Use	(313 105)	-	-	(250)	(38)	(932)	(15 806)	(9 380)	(339 511)
termination	-	-	(1 002)	-	(2)	-	-	(4 441)	(5 445)
As at 31 December 2017 (transformed data)	289 942	-	16 593	57 649	370	8 522	362 416	24 754	760 246
long-term	-	-	16 593	57 433	-	-	336 292	4 477	414 795
Short-term	289 942	-	-	216	370	8 522	26 124	20 277	345 451

31.3. Description of significant titles of provisions

31.3.1. 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 reserves for liabilities for greenhouse gas emissions is included in note 32 of the CO2 emission rights.

31.3.2. Provision for reclamation of ash storage yards and costs of liquidation of fixed assets

The Group creates the provision for future costs of reclamation of the land on the basis of legal obligation resulting from the "Integrated Permits." The basis of estimation of the provision size are data 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 31 December 2018, the created provision amounted to PLN 61 278 thousand. Descriptions of the created provision are included in notes 5, 11 and 34.4.

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 31 December 2018, the provision due to this amounted to PLN 17 391 thousand.

31.3.3. 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 December 31, 2018 amounted to PLN 362 406 thousand and decreased compared to the year ended December 31, 2017 by PLN 10 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 11 452 thousand.

31.3.4. Provision for redemption of Energy certificates

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load co-generation. As of 31 December 2018, the provision due to this amounted to PLN 21 919 thousand.

31.3.5. Other provisions

In PAK KWB Konin, the main items of other reserves as of 31 December 2018 are: provisions for mining damage in the amount of PLN 4 669 thousand, the provisions for pending legal proceedings in the amount of PLN 536 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.

32. CO2 emission allowances

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

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

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

As at 1 January 2018, the Group had physical assets in its EUA accounts in the amount of 9 776 059 tons. In the first quarter of 2018, the Group received free EUA for heat for 2018 (Article 10a of the ETS Directive) in the amount of 69 066 tons. In addition, the Group purchased emission allowances under forward contracts concluded for the production needs of 2017 in the amount of 1 330 000 EUA. In connection with the above, the balance of EUA units on accounts in ZE PAK SA Group as at 31 March 2018 is 11 175 125 EUA. In April 2018, the Group redeemed CO2 emissions for 2017 in the amount of 10 866 104 tons, including ZE PAK SA in the amount of 8 260 668 tons and Elektrownia Pątnów II sp. Z o.o. in the amount of 2 605 436 tons. In May 2018, PAK purchased 82 000 EUA in spot transactions. The status as at 30 September 2018 in the ZE PAK SA Group 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 the Dec18 futures in the amount of 590 000 EUA and Pątnów II Power Plant in the amount of 702 000 EUA. The state of EUA as at 31 December 2018 in the Group was 1 883 021 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 7.1 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 30 640 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 December 31, 2018 and December 31, 2017.

CO2 emission allowances in the year ended 31 December 2018

		Zespół Elektrowni Pątnów-Adamów-Konin SA		*„Elektrownia Pątnów II" sp. z o.o.*	
	CO_2 Emission	4 780 646		2 454 232	
		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	68 150
	Purchased	2 202 000	70 787	702 000	24 581
	Free of charge	69 066	-	-	-
	Redemption	(8 260 668)	(222 055)	(2 605 436)	(68 150)
	Balance at the end of the period	1 062 113	42 236	820 908	24 581
	Remain to purchase	3 718 533	292 546	1 633 324	132 741

CO2 emission allowances in the year ended 31 December 2017

		Zespół Elektrowni Pątnów-Adamów-Konin SA		*„Elektrownia Pątnów II" sp. z o.o.*	
	Emisja CO_2	8 260 668		2 605 436	
		quantity (in tons)	*amount (thousand PLN)*	*quantity (in tons)*	*amount (thousand PLN)*
EUA	Balance at the beginning of the period	12 900 660	364 691	920 181	22 848
	Purchased	3 496 000	79 001	3 832 000	108 219
	Free of charge	83 317	-	-	-
	Redemption	(9 428 262)	(250 188)	(2 027 837)	(62 917)
	Balance at the end of the period	7 051 715	193 504	2 724 344	68 150
	Remain to purchase / (surplus)	1 208 953	28 288	1 633 324	(2 266)

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

33. Trade liabilities, other liabilities and accruals

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

	31 December 2018	*31 December 2017*
Trade liabilities	123 339	100 503
Liabilities due to the put option	-	3 755
Investment liabilities	9 468	15 530
Liabilities to employees due to salaries	16 313	14 452
other	5 770	12 176
total	154 890	146 416

(in thousand PLN)

In the other liabilities line as of 31 December 2018, the Group presents mainly liabilities due to financial lease in the amount of PLN 1 819 thousand, (PLN 1 636 thousand in 2017). The remaining amount in the other liabilities item as of 31 December 2018 concerns mostly settlements with employees and deductions from the pay roll amounting to PLN 1 717 thousand (PLN 7 104 thousand in 2017) and settlements due to security amounting to PLN 924 thousand (1 111 thousand in 2017).

Principles and terms of payment of above financial liabilities:

Liabilities due to supplies and services are not subject to interest and are usually settled within either the 14-day, or 30-day period.

Liabilities due to interests are usually settled within either monthly or quarterly periods during the whole financial year.

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

	31 December 2018	*31 December 2017*
Liability due to financial lease	1 389	2 606
Short-term liabilities to other entities – over 12 months	8 017	415
Other	2 062	2 125
Total	11 468	5 146

33.3. Other non-financial liabilities

	31 December 2018	*31 December 2017*
VAT tax liabilities	35 817	18 238
Liabilities due to environmental charges	15 832	39 115
Liabilities due to the excise tax	2 660	971
Liabilities due to social insurance	21 714	23 203
Income tax from individuals	5 244	6 273
Other budget liabilities	6 092	5 115
Advanced payments for deliveries	94	936
Service charge	7 517	11 060
Other	990	2 476
Total	95 960	107 387

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

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

(in thousand PLN)

33.4. Derivative financial instruments

	31 December 2018	*31 December 2017*
Instruments securing floating interest rates (SWAP)	921	4 112
Other currency options	-	897
Total	921	5 009
short-term	921	4 139
long-term	-	870

33.5. Grants and deferred income (long-term)

	31 December 2018	*31 December 2017*
Long-term grants	40 003	41 504
Other	3 004	3 005
Total	43 007	44 509

The main component of the item "Long-term subsidies": The subsidies in the amount of PLN 39 593 thousand presented as at December 31, 2018 arose as a result of the valuation 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 period of fixed assets included in the 464 MW block in Pątnów II Power Plant.

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

33.6. Grants and deferred income (short-term)

	31 December 2018	*31 December 2017*
Short-term grants	1 501	1 502
Other	1	5
Total	1 502	1 507

34. Contingent liabilities and description of significant judicial cases

Apart from liabilities described in notes 34.1, 35 and 36 below, as of 31 December 2018, the Group have any other contingent liabilities, guarantees and sureties granted.

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

On December 28, 2018, the Act amending the act on excise duty and certain other acts (the "Act") was in force from 1 January 2019.

The act introduced, among others:

- a 95% reduction of the interim payment paid monthly by electricity consumers in distribution accounts,
- determination of the price and rates of electricity fees for the final customer to be applied in 2019 by sellers at the level of prices applied in 2018,
- a compensation system to cover the difference between the price indicated in the price list and the weighted average price of electricity on the wholesale market,
- lowering the excise tax rate for electricity sold to a final customer from PLN 20 / MWh to PLN 5 / MWh.

As a rule, the Act requires a reduction in prices in contracts with final recipients, while the legislator, by introducing a compensation scheme, assumes balancing the interests of electricity consumers and energy companies, which allows to conclude that revenues lost as a result of lower prices should be compensated by energy suppliers. The Act refers, on key issues, to a regulation whose content as at the date of this report has not been published.

Determining the amount of provision for contracts giving rise to a charge as at 31 December 2018.

After the adoption of the Act, the Group assessed its impact in terms of the provisions of IAS 37 Provisions, whether contingent liabilities and contingent assets are required to create provisions for the so-called contracts generating charges. According to the reporting rules, if a given contract or a group of contracts is loss-making, the company should recognize an appropriate reserve in the period in which the loss became inevitable. However, costs in principle include only costs directly related to the contract, which the entity would not have incurred if it had not performed the contract.

Considering the lack of implementing provisions to determine the final effects of the entry into force of the Act, the Group estimated the potential financial consequences of the Act. When estimating the value of the required provision, the following assumptions were made:

1) The existing legal status as of 31 December 2018.

2) In relation to the determination of costs of performance in accordance with IAS 37, only direct costs (costs of energy purchase, property rights together with the current rate of excise duty) were accepted, and indirect costs (own costs and profit) were omitted.

3) Market values were adopted to determine the costs of energy purchase, the volume of sales volume for 2019 was adopted in accordance with the concluded agreements.

On the basis of the adopted assumptions, the following was established:

(a) guided by the provisions of the Act and accepting prices from the company's pricelist as in force on 30 June 2018 for business customers (the company does not sell electricity to other customers), a comparison of the benefits of the contracts and unavoidable costs of these contracts was made. The analysis did not show a surplus of the above costs over the benefits and therefore no provisions were created.

(b) Due to the lack of data to determine the amount of the price difference, the recognition of any assets due to compensation as at 31 December 2018 has been waived.

Impact on subsequent reporting periods

Within the scope of its final recipients, the Group applies prices as of the agreements concluded in 2019 due to the lack of regulation of the Minister of Energy. The implementation of the provisions of the Act will be performed by the Group on dates resulting from the implementing provisions.

The Group estimates that for this segment of customers, the reduction in revenues will result from the difference in unit prices of electricity, understood as the difference in average quotations of BASE 2018 and BASE 2019 instruments on the TGE market, and changes in market prices and percentages in terms of obligations to obtain "color" energy certificates ".

The cost of purchasing electricity for the instrument with the highest liquidity, i.e. BASE Y listed on Towarowa Giełda Energii SA for 2019 (BASE Y-19), during the listing period amounted to 244.93 PLN / MWh. The price for the product for 2018, i.e. BASE Y-18, was 175.16 PLN / MWh.

The market valuation of color energy certificates, which, apart from the cost of electricity purchase, constitute the most important element of the final customer's sales price, is close to year. The total purchase cost of electricity for deliveries in 2018 was at the level of PLN 189.21 / MWh, and for 2019 it is estimated at PLN 258.49 / MWh.

The Group is entitled by virtue of the Act to receive compensation resulting from lowering the price level, taking into account both direct and indirect costs as well as margins.

However, taking into account the lack of implementing rules and hence the lack of data constituting a significant part of the calculation of the amount of the price difference, the Group is not able to determine the amount of compensation and the degree of compensation for potential losses as at the date of these financial statements.

The Group analyzes legal provisions on a current basis and at the moment of publishing the Ministry of Energy regulation and other data allowing for making proper estimates, it will identify the results of analyzes in terms of confidential information within the meaning of the MAR Regulation.

34.2. Court proceedings

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

On 28 March 2018, the President of the Energy Regulatory Office (“the ERO President”) initiated ex officio administrative proceedings in order to determine the amount of the annual adjustment of stranded costs for 2017 for Elektrownia Pątnów II sp. z o.o. On July 23, 2018, the President of the Energy Regulatory Office issued a decision on the amount of the annual adjustment for 2017 for Elektrownia Pątnów II sp. z o.o. The adjustment amount is plus PLN 58 305 thousand. This amount was credited to the account of Elektrownia Pątnów II sp. z o.o. on September 28, 2018. The proceedings do not create obligations in terms of conditions or provisions.

The proceeding is completed.

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

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

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

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

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

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

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

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

The proceeding is in progress.

Initiation of tax proceedings against the Pątnów II Power Plant sp. z o.o. on the settlement of corporate income tax for 2016

The description of the proceedings can be found in note 34.3 Tax settlements.

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

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

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

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

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

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

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

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

The proceeding is completed.

Proceedings on refund of excise duty overpayment

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

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

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

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

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

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

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

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

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

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

Dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA means that the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 became legally binding and the case regarding the statement of invalidity of the environmental decision will be examined again by the Self-government Appeal Court. On 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. The parties have the right to submit an application for reconsideration of the case by the Local Government Appeal Court in Konin.

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 May 17, 2019.

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

34.3. 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 cause instability of the tax system and difficulties in precisely 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 31 December 2018 and 31 December 2017, appropriate provisions for the recognised and calculable tax risk were created.

Initiation of tax proceedings against Pątnów II Power Plant 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.

On June 25, 2018 Power Plant Pątnów II sp. Z o.o. received the decision of the Head of the Second Wielkopolska Tax Office in Kalisz to suspend, initiated in April 2018, tax proceedings regarding the settlement of the corporate income tax for 2016 until the issue of the Supreme Administrative Court has been resolved. The Group does not recognize the risks associated with tax audit.

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

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

As at the date of this report, the Company did not receive any applications and protocols from the tax authorities indicating the potential result of the audit. At the current stage of the audit proceedings, the Group does not consider a material impact on the tax liability. These will only be transfers of the tax cost recognition in individual periods.

The tax authority, by a decision of September 24, 2018, set the date for completing the inspection proceedings as at May 31, 2019.

34.4. 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.

35. 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 December 2018 and 31 December 2017, the Group had liabilities protected with its assets and other protections of payment of liabilities:

(in thousand PLN)

Liabilities secured with the assets

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

Other securities of liabilities

Guarantees given

Kind of guarantee	*31 December 2018* *Security amount*	*currency*	*31 December 2017* *Security amount*	*currency*
Guarantees of good performance of the contract	19 255	PLN	14 500	PLN
Guarantees to remove defects and faults	4 317 438	PLN EUR	4 135 419	PLN EUR
Payment guarantees	219	PLN	145	PLN
Guarantee of advance payment	148	PLN	1 329	PLN

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

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

The table below shows the sum of granted guarantees.

	31 December 2018	*currency*	*31 December 2017*	*currency*

Intra-Group Guarantees	126 700	PLN	50 000	PLN

36. Obtained guarantees and sureties

Kind of guarantee	*31 December 2018* *Security amount*	*currency*	*31 December 2017* *Security amount*	*currency*
Guarantees of good performance of the contract	13 909	PLN	19 752	PLN
Guarantees to remove defects and faults	3 344 18	PLN EUR	2 245 18	PLN EUR
Payment guarantees	22 689 -	PLN EUR	32 004 5 149	PLN EUR
Guarantee of advance payment	-	PLN	2 399	PLN

The value of guarantees received is in line with the value of sureties granted described in Note 36.

37. Information about related entities

The following table shows the total amounts of transactions concluded with related entities for the current and previous financial years:

Related entity		*Sales to related entities*	*Purchase from related entities*	*Receivables from related entities*	*Liabilities towards related entities*
Elektrim SA	2018	-	120	-	-
	2017	-	120	-	-
Megadex Serwis sp. z o.o.	2018	-	25 497	-	-
	2017	3	-	-	-
Polkomtel sp. z o.o.	2018	188 578	2 234	21 994	413
	2017	128 970	3 979	16 859	475
Laris Investments sp. z o.o.	2018	470	831	255	-
	2017	463	821	251	-
CPE sp. z o.o.	2018	-	37	-	38
	2017	-	1 089	-	11
Plus Flota sp. z o.o.	2018	-	241	-	27
	2017	-	628	-	357
Cyfrowy Polsat	2018	2 261	-	485	-
	2017	2 204	3	434	1
Total	**2018**	**189 048**	**28 960**	**22 249**	**478**
	2017	**129 436**	**6 637**	**17 110**	**843**

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

(in thousand PLN)

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

37.1. Loan granted to a member of the Management Board

Both in the financial year ended 31 December 2018 and in the one ended 31 December 2017, the Parent Company did not grant any loans and similar benefits to members of the management and supervisory staff.

37.2. Other transactions involving members of the Management Board

Both in the financial year ended 31 December 2018 and in the one ended 31 December 2017, there were no transactions with members of management and supervisory staff.

37.3. Remuneration of Chief executive Staff of the Group

37.3.1. Remuneration paid or payable to the members of the Management Board and to the members of the Supervisory Council of the Group

	Year ended 31 December 2018	*Year ended 31 December 2017*
Management Board of the parent company		
Short-term employee benefits	2 463	2 400
Supervisory Board of the parent company		
Short-term employee benefits	1 099	993
Management Boards of subsidiaries		
Short-term employee benefits	2 928	4 235
Post-employment benefits	-	19
Benefits for termination of the contract of employment	-	105
Supervisory Board of subsidiaries		
Short-term employee benefits	14	16
Total	6 504	7 768

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

	Year ended 31 December 2018	*Year ended 31 December 2017*
Short-term employee benefits	12 514	14 701
Jubilee awards	19	-
Post-employment benefits	32	15
Benefits for termination of the contract of employment	183	317
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	12 748	15 033

The main management team includes directors and senior management.

(in thousand PLN)

38. Information about the remuneration of the statutory auditor or the entity entitled to audit accounts

The following table presents the remuneration of an entity entitled to audit accounts paid or due to the year ended 31 December 2018, and for the year ended 31 December 2017, divided into types of services:

	Year ended 31 December 2018	*Year ended 31 December 2017*
Compulsory examination and unit review and consolidated financial statements	141	194
Other services	-	23
Total	141	217

39. Goals and rules of financial risk management

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

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

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

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

39.1. Interest rate risk

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

The Group uses financial liabilities, mostly variable rate credits and loans. As at December 31, 2018, the Group shows long-term financial debt due to a single bank loan. Other financial liabilities due to loans and borrowings are short-term.

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

Interest rate risk – the sensitivity gap

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

(in thousand PLN)

Classes of financial instruments	*31 December 2018*		*Interest rate risk sensitivity study as of 31 December 2018*							
			WIBOR				*EURIBOR*			
			WIBOR + 48pb		*WIBOR - 48pb*		*EURIBOR + 16,57pb*		*EURIBOR - 16,57pb*	
	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	41 427	22 542	20	-	(20)	-	30	-	(30)	-
Trade and other receivables	354 183	-	-	-	-	-	-	-	-	-
Derivative financial instruments	19	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	304 658	304 658	906	-	(906)	-	192	-	(192)	-
Interest-bearing loans and borrowings	(420 379)	(420 379)	(1 499)	-	1 499	-	(179)	-	179	-
Trade payables and other financial liabilities	(166 358)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(921)	(921)	-	-	-	-	-	46	-	(46)
Total	**112 629**	**(94 100)**	**(573)**	**-**	**573**	**-**	**43**	**46**	**(43)**	**(46)**

(in thousand PLN)

	31 December 2017		*Interest rate risk sensitivity study as of 31 December 2017*							
			WIBOR				*EURIBOR*			
Classes of financial instruments			*WIBOR + 44pb*		*WIBOR – 44pb*		*EURIBOR + 10,05pb*		*EURIBOR - 10,05pb*	
	Carrying amount	*value at risk*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*
Other financial assets	46 099	43 995	37	-	(37)	-	36	-	(36)	-
Trade and other receivables	253 261	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	322 201	322 201	1 249	-	(1 249)	-	38	-	(38)	-
Interest-bearing loans and borrowings	(652 038)	(652 038)	(1 820)	-	1 820	-	(239)	-	239	-
Trade payables and other financial liabilities	(151 562)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(5 009)	(5 009)	-	-	-	-	-	125	-	(125)
Total	**(187 048)**	**(290 851)**	**(534)**	**-**	**534**	**-**	**(165)**	**125**	**165**	**(125)**

39.2. Currency risk

The Group is exposed to currency risk due to concluded transactions. Such a risk relates to liabilities due to loans and advances. In 2017, two companies of the Group applied instruments to limit the risk resulting from changes in foreign exchange rates. ZE PAK SA and Elektrownia Pątnów II sp. Z o.o. hedged the euro exchange rate for a part of cash flows related to the purchase of CO2 emission allowances. To hedge the exchange, forward transactions were made with the settlement date in March 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.

(in thousand PLN)

Classes of financial instruments	*31 December 2018*		*Analysis of sensitivity to interest rate risk as of 31 December 2018*			
			EUR/PLN			
			EUR/PLN + 5,887%		**EUR/PLN - 5,887%**	
			4,5531		**4,0469**	
	Carrying amount	*Value at risk*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*
Other financial assets	41 427	18 340	1 080	-	(1 080)	-
Trade and other receivables	354 183	305	18	-	(18)	-
Derivative financial instruments	19	-	-	-	-	-
Cash and cash equivalents	304 658	115 970	6 827	-	(6 827)	-
Interest-bearing loans and borrowings	(420 379)	(108 200)	(6 370)	-	6 370	-
Trade payables and other financial liabilities	(166 358)	(1 794)	(106)	-	106	-
Derivative financial instruments	(921)	-	-	-	-	-
Total	**112 629**	**24 621**	**1 449**	**-**	**(1 449)**	**-**

(in thousand PLN)

Classes of financial instruments	*31 December 2017*		*Analysis of sensitivity to interest rate risk as of 31 December 2017*			
			EUR/PLN			
			EUR/PLN + 6,2%		**EUR/PLN - 6,2%**	
			4,4295		**3,9123**	
	Carrying amount	*Value at risk*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*
Other financial assets	46 099	35 630	2 209	-	(2 209)	-
Trade and other receivables	253 261	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	322 201	38 235	2 371	-	(2 371)	-
Interest-bearing loans and borrowings	(652 038)	(238 271)	(14 773)	-	14 773	-
Trade payables and other financial liabilities	(151 562)	(1 860)	(115)	-	115	-
Derivative financial instruments	(5 009)	-	-	-	-	-
Total	**(187 048)**	**(166 266)**	**(10 308)**	**-**	**10 308**	**-**

39.3. Commodity prices risk

The company is exposed to influence and the adverse impact of risk factors associated with the volatility of cash flows and financial results due to the changes in the prices of commodity prices. Exposure to the commodity prices risk is reflected by the volume of purchases of basic raw materials, which are mostly lignite and biomass of wood and agricultural origin.

The volume and costs of consumption of the main raw materials are presented in the table below:

	2018		*2017*	
	Volume (tons)	*Consumption cost (in PLN thousand)*	*Volume (tons)*	*Consumption cost (in PLN thousand)*
Fuel				
Lignite	7 660 483	565 207	11 666 228	763 820
Forestry biomass	320 476	60 527	3 917	499
Agricultural biomass	56 116	12 864	908	189
Fuel oil	7 745	13 847	12 203	19 079
Sorbent	173 406	13 752	159 761	13 084

Significant risk factors are also the costs of purchasing CO2 emission allowances and the costs of electricity purchase.

	2018		*2017*	
	CO_2 emission (tons)	*Emission costs (thousands PLN)*	*CO_2 emission (tons)*	*Emission costs (thousands PLN)*
CO_2 emission costs	7 234 878	489 950	10 866 104	289 942

	2018		*2017*	
	Quantity (MWh)	*Purchase cost (thousands PLN)*	*Quantity (MWh)*	*Purchase cost (thousands PLN)*
Purchase of electricity	3 279 319	605 948	3 364 545	498 245

39.4. 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, ENEA Trading, 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 means 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 analyzes 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 31 December 2018. The bank has not been evaluated by any of the three main rating agencies, i.e. Fitch, Standard & Poor's and Moody's. Due to the fact that Plus Bank is controlled by the same owner, the Group assesses the credit risk of this bank as insignificant.

39.5. Liquidity risk

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

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

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

(in thousand PLN)

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**	**-**	**662 108**

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

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

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

(in thousand PLN)

31 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)**	**(462)**	**-**	**-**	**(921)**

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

(in thousand PLN)

40. Financial instruments

40.1. 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	*31 December 2018*	*31 December 2017*
Other financial assets	AFwgZK	41 427	46 099
Trade receivables and other receivables	AFwgZK	354 183	253 261
Derivative financial instruments	WwWGpWF	19	-
Cash and cash equivalents	AFwgZK	304 658	322 201
Financial liabilities			
Interest-bearing bank credits and loans, including:		420 379	652 038
long term	PZFwgZK	59 424	302 465
short term	PZFwgZK	360 955	349 573
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	166 358	151 562
Derivative financial instruments	WwWGpWF	921	5 009

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

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

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

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

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

As at December 31, 2018, Interest Rate Swap derivatives and forward transactions for currency purchase were valued at fair value. The Interest Rate Swap valuation methodology is presented in note 41.3. For the purposes of valuing foreign exchange contracts, the difference between discounted future cash flows is calculated between the forward price on the valuation day and the transaction price, according to quotations prepared by the relevant bank, multiplied by the nominal value of the contract in a foreign currency. The valuation of these instruments has been classified to level 2 of the fair value measurement hierarchy.

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

(in thousand PLN)

40.2. Items of revenue, costs, profits and losses included in the income statement divided into categories of financial instruments

12 months period ended 31 December 2018

	Revenues /(costs) due to interests (including effect of valuation with depreciated cost)	*Profits / (losses) due to exchange rate differences*	*Redemption / (creation) of impairment write-downs*	*Profits/(losses) due to derivative instruments*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	3 446	1 812	-	-	-	5 258
Other short-term financial assets	-	-	-	-	-	-
Deliveries and services receivables	21	(5)	-	-	313	329
Other receivables	407	-	-	-	-	407
Derivative instrument	-	(1 830)	-	2 300	-	470
Financial liabilities						
Credit and loan liabilities (long- and short-term ones)	(13 021)	(5 297)	-	-	(577)	(18 895)
Deliveries and services liabilities	(112)	(36)	-	-	-	(148)
Other financial liabilities (without instruments)	(138)	-	-	-	-	(138)
Derivative instruments	-	-	-	(2 854)	-	(2 854)
Other liabilities	(97)	(6)	-	-	(14 005)	(14 108)
Total	(9 494)	(5 362)	-	(554)	(14 269)	(29 679)

(in thousand PLN)

12 month period ended 31 December 2017

	Revenues /(costs) due to interests (including effect of valuation with depreciated cost)	*Profits / (losses) due to exchange rate differences*	*Redemption / (creation) of impairment write-downs*	*Profits/(losses) due to derivative instruments*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	3 179	(1 956)	-	-	-	1 223
Other short-term financial assets	1	(10 020)	-	-	(10)	(10 029)
Deliveries and services receivables	33	(38)	(16)	-	80	59
Other receivables	315	-	-	-	-	315
Derivative instrument	-	-	-	368	-	368
Financial liabilities						
Credit and loan liabilities (long- and short-term ones)	(26 065)	24 190	-	-	(527)	(2 402)
Deliveries and services liabilities	(143)	202	-	-	-	59
Other financial liabilities (without instruments)	(226)	-	-	-	-	(226)
Derivative instruments	-	-	-	(7 404)	-	(7 404)
Other liabilities	(793)	1	(11 166)	-	(1 273)	(13 231)
Total	(23 699)	12 379	(11 182)	(7 036)	(1 730)	(31 268)

(in thousand PLN)

40.3. Interest rate risk of financial instruments

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

	Type of interest rate	*Carrying amount as of 31 December 2018*	*Carrying amount as of 31 December 2017*
Financial assets at interest rate risk – PLN	Fixed	-	-
	Variable	192 891	292 331
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	134 310	73 866
Financial liabilities at interest rate risk - PLN	Fixed	-	-
	Variable	312 179	413 767
Financial liabilities at interest rate risk – Other currencies	Fixed	53 756	118 839
	Variable	54 444	119 432
Net exposure -PLN	Fixed	-	-
	Variable	(119 288)	(121 436)
Net exposure - other currencies	Fixed	(53 756)	(118 839)
	Variable	79 866	(45 566)

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

40.3.1. Hedging

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

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

Instrument type	*Nominal value in the transaction currency [euro]* 31 December 2018*	*Fair value in zloty 31 December 2018*	*Expected duration of hedged item's realisation 31 December 2018*
IRS transaction	12 501	(921)	in quarterly periods, in January, April, July, and October each year, until the date of maturity of IRS, i.e. July 2019

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

Instrument type	*Nominal value in the transaction currency [euro]* 31 December 2018*	*Fair value in zloty 31 December 2018*	*Expected duration of hedged item's realisation 31 December 2018*
IRS transaction	43 785	(4 112)	in quarterly periods, in January, April, July, and October each year, until the date of maturity of IRS, i.e. July 2019

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

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

	Year ended 31 December 2018	*Year ended 31 December 2017*
Opening balance	(3 307)	(6 883)
Effective part of profits / losses on a security instrument	4 413	6 352
Amounts charged to the income statement, including:	1 675	2 776
adjustment of costs of interest	1 675	2 776
adjustment under ineffective hedging	-	-
Closing balance	(569)	(3 307)
Deferred tax assets – recognized in the revaluation reserve	108	628
Closing balance including deferred tax	(460)	(2 679)

As at December 31, 2018, the Group used instruments to mitigate risks resulting from changes in foreign exchange rates. To hedge the EUR / PLN rate, forward transactions were made with the settlement date in March 2019.

Type of concluded transactions	*Currency cross*	*Transaction amount (nominal value in euro thousand) 31 December 2018*	*Net market value (fair value in zloty thousand) 31 December 2018*	*Maturity*
Purchase of EUR transaction (forward)	(EUR/PLN)	16 000	20	March 2019

The Group also hedges the risk of changes in prices of CO2 emission allowances by using forward transactions to purchase allowances for its own needs. The tables below present a summary of forward transactions active as at December 31, 2018 and December 31, 2017.

31 December 2018

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions in EUR thousand*	*Currency of transactions*	*Maturity*
Forward transaction	6 433 000	16 923	EUR	Up to 1 year
Forward transaction	4 647 000	96 382	EUR	Up to 1 year

31 December 2017

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions in EUR thousand*	*Currency of transactions*	*Maturity*
Forward transaction	2 622 000	17 224	EUR	Up to 1 year
Forward transaction	300 000	2 242	EUR	Up to 2 years

41. Capital management

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

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

The Group monitors the balance of its capitals using the leverage ratio, which is calculated as a relation of net debt to the sum of capitals enlarged with net debt. The expected leverage ratio for the Group should be a maximum of 30%. The Group includes interest bank credits and loans, liabilities due to supplies and services, and other liabilities, decreased by the cash and cash equivalents in the net debt. The capital includes the equity decreased by reserve capitals due to unrealised net profits.

	31 December 2018	*31 December 2017 (transformed data)*
Interest-bearing credits and loans	420 379	652 038
Derivative financial instruments (liabilities)	921	5 009
Trade liabilities and other financial liabilities	166 358	151 562
Minus cash and its equivalents	304 658	322 201
Net debt	**283 000**	**486 408**
Equity	1 687 147	2 211 047
Capitals from revaluation of security instruments	(460)	(2 678)
Total capital	1 686 687	2 208 369
Net capital and debt	**1 969 687**	**2 694 777**
Leverage ratio	14,37%	18,05%

(in thousand PLN)

42. Employment structure

The average employment in the Group for the years ended 31 December 2018 and 31 December 2017 was developing as follows:

	Year ended 31 December 2018	*Year ended 31 December 2017*
Management Board of the parent company	5	4
Management Boards of the Group's entities	9	14
Administration	269	304
Sales department	136	108
Production division	4 460	5 053
Other	330	464
Total	5 209	5 946

43. Significant events after the balance sheet date

Already after the end of the reporting period, i.e. on 12 April 2019, Mr. Lesław Podkański resigned from the position of a member of the Supervisory Board. Whereas on April 15, 2019, at the meeting of the Extraordinary General Meeting of the Company, the Supervisory Board of the Company was appointed in a new nine-member composition. Also on April 15, the Supervisory Board appointed from among its members the Chairman of the Supervisory Board, Deputy Chairman and Secretary. As of the date of publication of this report, the composition of the Supervisory Board is as follows:

1) Wojciech Piskorz – Chairman,
2) Wiesław Walendziak – Deputy of the Chairman,
3) Tomasz Szeląg – Secretary,
4) Henryk Sobierajski,
5) Sławomir Sykucki,
6) Leszek Wysłocki,
7) Sławomir Zakrzewski,
8) Piotr Stępniak,
9) Grzegorz Krystek,

Henryk Sobierajski	Zygmunt Artwik	Paweł Markowski	Aneta Desecka
/ Member of the Supervisory Board of ZE PAK SA delegated to temporarily perform the duties of the President of the Management Board /	/ Vice President of the Board /	/ Vice President of the Board /	/Chief Accountant/