ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA CAPITAL GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2019

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

14 November 2019

Table of content

(in thousand PLN)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the period of 9 months ended 30 September 2019

	Note	*9 months period ended 30 September 2019 (unaudited)*	*3 months period ended 30 September 2019 (unaudited)*	*9 months period ended 30 September 2018 (unaudited)*	*3 months period ended 30 September 2018 (unaudited)*
Continuing operation					
Sales revenues	*12.1*	2 157 170	751 140	1 623 410	640 570
Cost of goods sold	*12.6*	(1 951 059)	(662 564)	(1 564 308)	(622 369)
Gross profit / (loss)		**206 111**	**88 576**	**59 102**	**18 201**
Other operating revenues	*12.2*	13 205	127	5 890	1 724
Selling and distribution expenses	*12.6*	(3 397)	(714)	(3 009)	(967)
Administrative expenses	*12.6*	(81 002)	(25 749)	(92 168)	(27 376)
Other operating expenses	*12.3*	(6 872)	(539)	(3 436)	(566)
Gross profit / (loss) from operations		**128 045**	**61 701**	**(33 621)**	**(8 984)**
Financial income	*12.4*	13 163	5 105	6 176	646
Financial costs	*12.5*	(20 479)	(7 449)	(29 642)	(4 154)
Profit / (loss) before tax		**120 729**	**59 357**	**(57 087)**	**(12 492)**
Income tax expense (taxation)	*13.1*	(48 990)	(24 315)	(5 639)	1 778
Net profit / (loss) for the period from continuing operations		**71 739**	**35 042**	**(62 726)**	**(10 714)**
Discontinued operations					
Profit/ (loss) for the period from discontinued operations		-	-	-	-
Net profit / (loss) for the period		**71 739**	**35 042**	**(62 726)**	**(10 714)**
Net profit/ (loss) attributable to equity holders of the parent		72 591	34 680	(62 087)	(10 830)
Net profit/ (loss) attributable to non-controlling interests		(852)	362	(639)	116

(in thousand PLN)

	Note	*9 months period ended 30 September 2019 (unaudited)*	*3 months period ended 30 September 2019 (unaudited)*	*9 months period ended 30 September 2018 (unaudited)*	*3 months period ended 30 September 2018 (unaudited)*
Profit / loss per share (in PLN):					
Basic/diluted, for profit for the period from continuing operations attributable to equity holders of the parent	*14*	1,43	0,68	(1,22)	(0,21)

(in thousand PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period of 9 months ended 30 September 2019

	Note	*9 months period ended 30 September 2019 (unaudited)*	*3 months period ended 30 September 2019 (unaudited)*	*9 months period ended 30 September 2018 (unaudited)*	*3 months period ended 30 September 2018 (unaudited)*
Net profit / (loss) for the period		**71 739**	**35 042**	**(62 726)**	**(10 714)**
Other comprehensive income					
Items to be reclassified to the profit / (loss) in subsequent reporting periods:					
Cash flow hedges		568	-	2 247	687
Income tax on other comprehensive income	*13.1*	(108)	-	(427)	(130)
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods		460	-	1 820	557
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:					
Profits / (losses) on provisions for post-employment		(1 411)	(544)	(1 372)	(856)
Income tax on other comprehensive income	*13.1*	268	103	261	163
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		(1 143)	(441)	(1 111)	(693)
Net other comprehensive income		**(683)**	**(441)**	**709**	**(136)**
Comprehensive income for the period		**71 056**	**34 601**	**(62 017)**	**(10 850)**
Comprehensive income attributable to equity holders of the parent		71 908	34 239	(61 378)	(10 966)
Comprehensive income attributable to non-controlling holders		(852)	362	(639)	116

(in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	Note	*30 September 2019 (unaudited)*	*31 December 2018*
ASSETS			
Fixed assets			
Property, plant and equipment	*15*	2 622 015	2 791 141
Assets due to the right of use	*16*	57 558	-
Investment property		2 256	2 365
Intangible assets	*17*	3 021	3 773
Assets of removing overburden and other mining assets (long-term)	*18*	75 301	80 326
Other long-term financial assets	*19.1*	3 439	4 748
Other long-term non-financial assets	*19.2*	4 064	3 873
Deferred tax assets	*13.2*	93 864	81 817
Total fixed assets		**2 861 518**	**2 968 043**
Current assets			
Short-term intangible assets	*17*	6 599	66 817
Inventories	*20*	99 415	109 239
Trade and other receivables	*21*	256 459	354 183
Income tax receivables		5 377	1 544
Short-term financial derivatives (assets)	*27.4*	3 216	19
Other short-term financial assets	*19.1*	-	36 679
Other short-term non-financial assets	*19.2*	47 233	24 039
Amounts due from customers under long-term construction contracts	*12.7*	5 352	5 066
Cash and cash equivalents	*22*	381 929	304 658
Total current assets		**805 580**	**902 244**
Assets classified as held for sale		-	1 010
TOTAL ASSETS		**3 667 098**	**3 871 297**

(in thousand PLN)

	Note	*30 September 2019 (unaudited)*	*31 December 2018*
LIABILITIES AND EQUITY			
Equity			
Share capital		101 647	101 647
Reserve capital		1 124 376	1 124 376
Revaluation reserve from valuation of hedging instruments		-	(460)
Other reserve capital		3 472	3 472
Retained earnings / Accumulated losses		391 926	915 020
Net profit / (loss)		72 591	(460 196)
Equity attributable to equity holders of the parent		1 694 012	1 683 859
Equity attributable to non-controlling interests		2 436	3 288
Total equity		**1 696 448**	**1 687 147**
Long-term liabilities			
Interest-bearing loans and borrowings	*24*	38 562	59 424
Long-term employee benefits		44 705	45 555
Trade liabilities and other long-term financial liabilities	*27.2*	7 847	11 468
Long-term financial derivatives (liabilities)		46 452	-
Long-term subsidies	*27.5*	41 880	43 007
Other long-term provisions and accruals	*25*	447 438	450 033
Deferred tax liability	*13.2*	416 586	364 652
Total long-term liabilities		**1 043 470**	**974 139**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities	*27.1*	153 377	154 890
Short-term leasing liabilities		4 497	-
Current portion of interest-bearing loans and borrowings	*24*	162 260	360 955
Short-term financial derivatives (liabilities)	*27.4*	-	921
Other non-financial liabilities	*27.3*	64 279	95 960
Current income tax liability		1 072	21
Short-term employee benefits		10 464	5 445
Short-term subsidies	*27.6*	1 502	1 502
Amounts due to customers under long-term construction contracts	*12.7*	3 289	2 482
Other short-term provisions and accruals	*25*	526 440	587 835
Total short-term liabilities		**927 180**	**1 210 011**
Total liabilities		**1 970 650**	**2 184 150**
TOTAL LIABILITIES AND EQUITY		**3 667 098**	**3 871 297**

(in thousand PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period of 9 months ended 30 September 2019

	Note	*Period ended 30 September 2019 (unaudited)*	*Period ended 30 September 2018*
Cash flow from operating activities			
Profit /(loss) before tax		120 729	(57 087)
Adjustments for:			
Depreciation and amortization		143 297	145 055
Interests and shares in profits		3 796	14 481
(Profit) / loss on foreign exchange differences		1 808	197
(Profit) / loss on investing activities		(390)	(3 231)
(Increase) / decrease in receivables		11 738	(98 016)
(Increase) / decrease in inventories		(3 303)	(13 709)
Increase / (decrease) in payables except for loans and borrowings		32 821	(35 124)
Change in provisions, prepayments, accruals and employee benefits		429 036	344 245
Income tax paid		(11 725)	3 568
Allowances for emission of CO_2		(443 789)	(37 281)
Other		407	1 790
Net cash flow from operating activities		**284 425**	**264 888**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		12 593	5 470
Purchase of property, plant and equipment and intangible assets		(24 982)	(56 745)
Proceeds and expenses relating to other financial assets		33 767	499
Dividends received		49	93
Interest received		-	2
Other		11	-
Net cash flow from investing activities		**21 438**	**(50 681)**
Cash flow from financing activities			
Payment of finance lease liabilities		(1 004)	(1 190)
Proceeds from loans and borrowings and debt securities		4 853	35 569
Repayment of loans and borrowings and debt securities		(222 408)	(212 399)
Dividends paid		-	(30 494)
Interest paid		(8 691)	(16 699)
Net cash flow from financing activities		**(227 250)**	**(225 213)**
Net increase / (decrease) in cash and cash equivalents		**78 613**	**(11 006)**
Cash and cash equivalents at the beginning of the period		**303 316**	**322 570**
Cash and cash equivalents at the end of the period	*22*	**381 929**	**311 564**

(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period of 9 months ended 30 September 2019 (unaudited)

	Note	*Issued capital*	*Reserve capital*	*Revaluation reserve of hedging instruments*	*Other reserve capital*	*Retained earnings/ Accumulated losses*	*Total*	*Non-controlling interest*	*Total equity*
As at 1 January 2019		**101 647**	**1 124 376**	**(460)**	**3 472**	**454 824**	**1 683 859**	**3 288**	**1 687 147**
Adjustment concerning IFRS 16	*5.1*	-	-	-	-	(61 754)	(61 754)	-	(61 754)
Transformed data as of 1 January 2019		**101 647**	**1 124 376**	**(460)**	**3 472**	**393 070**	**1 622 105**	**3 288**	**1 625 393**
Net profit for the period		-	-	-	-	72 591	72 591	(852)	71 739
Total other comprehensive income		-	-	460	-	(1 143)	(683)	-	(683)
Total income for the period		**-**	**-**	**460**	**-**	**71 448**	**71 908**	**(852)**	**71 056**
Distribution of profits from previous years		-	-	-	-	-	-	-	-
Other changes		-	-	-	-	(1)	(1)	-	(1)
As at 30 September 2019		**101 647**	**1 124 376**	**-**	**3 472**	**464 517**	**1 694 012**	**2 436**	**1 696 448**

(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

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

ADDITIONAL EXPLANATORY NOTES

1. General information

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

The interim condensed consolidated financial statements of the group covers a period of 9 months ended 30 September 2019 year and contains comparative data for a period of 9 months ended 30 September 2018 year and data on 31 December 2018. Interim condensed consolidated statement of comprehensive income, the consolidated profit and loss account and the additional explanatory notes provide additional information for the 3 months ended 30 September 2019 year and data comparative studies for a period of 3 months ended 30 September 2018.

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

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

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

The main activities of the Group are:

1) generation and sale of electricity,

2) generation and sale of heat (steam and hot water),

3) lignite extraction.

These interim condensed consolidated financial statements of the Group for a period of 9 months ended 30 September 2019, was approved by the Board for publication on 14 November 2019 year.

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

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

(in thousand PLN)

2. Composition of the Group

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

Entity	*Registered office*	*Scope of operations*	*Group's share in the capital in %*	
			As at 30 September 2019	*As at 31 December 2018*
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100,00%	100,00%
„Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric Energy production and distribution from the 464 MW power unit	100,00%	100,00%
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	100,00%	100,00%
„PAK Górnictwo" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair and maintenance of machines	100,00%	100,00%
„PAK Kopalnia Węgla Brunatnego Konin" SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	97,68%*	97,68%
„PAK Kopalnia Węgla Brunatnego Adamów" SA	62-700 Turek Warenka 23	Lignite extraction	99,35%	99,35%
„Aquakon" sp. z o.o. In liquidation	62-610 Sompolno Police	In liquidation	96,20%*	96,20%*
„PAK-Volt" SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%
„PAK Adamów" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Buying and selling real estate	100,00%	100,00%

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

As of 30 September 2019, the share in the general number of votes held by the Group in subsidiaries is equal to the Group's share in capitals of these subsidiaries.

3. Composition of the Management Board of the parent Company

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

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

On January 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.

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

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

On October 10, 2019, Mr. Henryk Sobierajski resigned from his position as a member of the Company's Supervisory Board.

At the meeting of the Company's Supervisory Board on October 10, 2019, the Supervisory Board appointed Mr. Henryk Sobierajski to the Management Board, entrusting him the function of the President of the Management Board. The resolution on the appointment entered into force upon its adoption.

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

1) Henryk Sobierajski – President of the Board,
2) Zygmunt Artwik – Vice President of the Board,
3) Paweł Markowski – Vice President of the Board,
4) Paweł Lisowski – Vice President of the Board,
5) Maciej Nietopiel – Vice President of the Board.

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

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

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

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

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

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

These financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. However, the Company's Management Board notes that as at September 30, 2019, short-term liabilities, including bank loans, exceed the Group's current assets by PLN 122 million.

Increasing operating costs, significant fluctuations in the level of CO_2 emission allowances, short-term debt and uncertainty regarding market regulations determining the prices of energy generated and certificates obtained affect the uncertainty of the implementation of plans adopted by the Management Board. Consequently, the Management Board draws attention to the existence of significant uncertainty which may raise serious doubts as to the Group's ability to continue as a going concern. However, it should be emphasized that a number of actions are taken at the operational level to improve the economic situation of the Group.

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

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

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

- ***IFRS 17 „Insurance agreements"***

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

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

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

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

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

- ***MSSF 3 „Business combinations"***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.1. Implementation of IFRS 16

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

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

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

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

First application of IFRS 16

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

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

Definition of leasing

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

The Group as a lessee

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

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

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

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

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

(in thousand PLN)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(in thousand PLN)

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

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

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

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

	30 September 2019 (unaudited)	*Impact of IFRS 16 application*	*30 September 2019 without IFRS 16*
ASSETS			
Fixed assets			
Property, plant and equipment	2 622 015	(67 192)	2 689 207
Assets due to the right of use	57 558	57 558	-
Investment property	2 256	-	2 256
Intangible assets	3 021	-	3 021
Assets of removing overburden and other mining assets (long-term)	75 301	-	75 301
Other long-term financial assets	3 439	-	3 439
Other long-term non-financial assets	4 064	-	4 064
Deferred tax assets	93 864	222	93 642
Total fixed assets	**2 861 518**	**(9 412)**	**2 870 930**
Current assets			
Short-term intangible assets	6 599	-	6 599
Inventories	99 415	-	99 415
Trade and other receivables	256 459	-	256 459
Income tax receivables	5 377	-	5 377
Short-term financial derivatives (assets)	3 216	-	3 216
Other short-term financial assets	-	-	-
Other short-term non-financial assets	47 233	-	47 233
Amounts due from customers under long-term construction contracts	5 352	-	5 352
Cash and cash equivalents	381 929	-	381 929
Total current assets	**805 580**	**-**	**805 580**
Assets classified as held for sale	-	-	-
TOTAL ASSETS	**3 667 098**	**(9 412)**	**3 676 510**

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

(in thousand PLN)

Retained earnings / Accumulated losses	391 926	(61 754)	453 680
Net profit / (loss)	72 591	1 393	71 198
Equity attributable to equity holders of the parent	1 694 012	(60 361)	1 754 373
Equity attributable to non-controlling interests	2 436	-	2 436
Total equity	**1 696 448**	**(60 361)**	**1 756 809**
Long-term liabilities			
Interest-bearing loans and borrowings	38 562	-	38 562
Long-term employee benefits	44 705	-	44 705
Trade liabilities and other long-term financial liabilities	7 847	-	7 847
Long-term financial derivatives (liabilities)	46 452	46 452	-
Long-term subsidies	41 880	-	41 880
Other long-term provisions and accruals	447 438	-	447 438
Deferred tax liability	416 586	-	416 586
Total long-term liabilities	**1 043 470**	**46 452**	**997 018**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities	153 377	-	153 377
Short-term leasing liabilities	4 497	4 497	-
Current portion of interest-bearing loans and borrowings	162 260	-	162 260
Short-term financial derivatives (liabilities)	-	-	-
Other non-financial liabilities	64 279	-	64 279
Current income tax liability	1 072	-	1 072
Short-term employee benefits	10 464	-	10 464
Short-term subsidies	1 502	-	1 502
Amounts due to customers under long-term construction contracts	3 289	-	3 289
Other short-term provisions and accruals	526 440	-	526 440
Total short-term liabilities	**927 180**	**4 497**	**922 683**
Total liabilities	**1 970 650**	**50 949**	**1 919 701**
TOTAL LIABILITIES AND EQUITY	**3 667 098**	**(9 412)**	**3 676 510**

Profit and loss account

	Period of 9 months ended *30 September 2019 (unaudited)*	*Impact of IFRS 16 application*	*Period of 9 months ended* *30 September 2018 (unaudited) without IFRS 16*
Continuing operation			
Sales revenue	**2 157 170**	-	**2 157 170**
Cost of goods sold	(1 951 059)	3 797	(1 954 856)
Gross profit / (loss)	**206 111**	**3 797**	**202 314**
Other operating revenues	13 205	-	13 205

(in thousand PLN)

Selling and distribution expenses	(3 397)	-	(3 397)
Administrative expenses	(81 002)	-	(81 002)
Other operating expenses	(6 872)	-	(6 872)
Gross profit / (loss) from operations	**128 045**	**3 797**	**124 248**
Financial income	13 163	-	13 163
Financial costs	(20 479)	(2 626)	(17 853)
Profit / (loss) before tax	**120 729**	**1 171**	**119 558**
Income tax expense (taxation)	(48 990)	222	(49 212)
Net profit / (loss) for the period from continuing operations	**71 739**	**1 393**	**70 346**
Discontinued operations	-	-	-
Net profit / (loss) for the period	**71 739**	**1 393**	**70 346**
Net profit/ (loss) attributable to equity holders of the parent	72 591	1 393	71 198
Net profit/ (loss) attributable to non-controlling interests	(852)	-	(852)

6. Significant principles (policy) of accounting

The principles (policy) of accounting used to prepare the interim condensed consolidated financial statements are coherent with those used for preparing the annual consolidated financial statements of the Group for the year beginning on 1 January 2018 except for the item described below:

Spare parts

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

The revaluation write-off is created for non-rotating materials over 3 years. For spare parts with a value above PLN 100,000, the write-off amounts to 100% of the value. As at September 30, 2019, the inventory write-down is PLN 10,497 thousand.

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

7. Significant values based on professional judgment and estimates

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

Valuation of energy certificates

For the production of energy in renewable, gas and high cogeneration sources, the Group recognizes energy origin certificates (green and red certificates) at fair value at the end of the month in which they were produced. As at the balance sheet date, the Group measures certificates of origin to the net realizable value - for green certificates as at 30 September 2019 at the price of 134.02 PLN / MWh. Data on prices come from listing on the Polish Power Exchange. A revaluation write-off of certificates is created when the obtainable sale price less the costs of sale is lower than the historical cost of production. The amount of the write-down is PLN 59,000. The value of the write-down reduces the value of inventories due to certificates of origin and increases the cost of sales. The source of uncertainty is legal regulations regarding the RES market.

Greenhouse gas emission allowances and provision in this respect

Carbon dioxide emission allowances (European Union Allowances - EUA) received for free are included in the financial statements as allowances for own purposes at a zero value in the item intangible assets. Emission allowances and their equivalents purchased by the Group for its own needs are recognized as intangible assets. These allowances are valued at the purchase price. The provision for liabilities due to gas emissions covered by the emission allowance system is created only when the actual production emission shows a shortage of emission allowances in relation to the allowances granted for the accounting period. This reserve is created in accordance with the FIFO rule. The cost of the created provision is presented in the profit and loss account in operating activity and is recorded in the calculation system in the item cost of sales, while in the comparative system in the item taxes and fees.

8. Change of estimates

Within the 9-month period concluded on 30 September 2019, except for these described in the financial statement, there were no significant changes in estimated sizes and the methodology of estimates that would affect the current period or future period.

9. Information on the comparability of data in the financial statements

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

10. Seasonality of the activities

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

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

11. Operating segments

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

Therefore, there are the following operating segments:

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

(in thousand PLN)

- The Renovation Segment performing services in the scope of construction and renovation services. The Segment covers activities of Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.
- The Sales Segment performing services of the sale of electricity. The Sales Segment also includes "PAK – Volt" SA company.

The ZE PAK SA Group also conducts other types of activities that have been included in the "Other" column. During the nine-month period ended September 30, 2019, it includes the activities of Aquakon sp. z o.o. in liquidation, PAK Adamów sp. z o.o. and PAK Górnictwo sp. z o.o.

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

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

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

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

EBITDA for the entire ZE PAK SA Capital Group

	9 months period ended 30 September 2019 (unaudited)	*9 months period ended 30 September 2018 (unaudited)*
Net profit / (loss)	71 739	(62 726)
Financial revenues	- 13 163	-6 176
Financial costs	+ 20 479	+29 642
Income tax	+ 48 990	+5 639
Depreciation and impairment write-downs	+ 144 137	+146 180
EBITDA	272 182	112 559

The following tables present segment results for the 9-month periods ended September 30, 2019, September 30, 2018.

(in thousand PLN)

9-month period ended 30 September 2019 (unaudited)

	Generation	Mining	Renovation	Sale	Other	Consolidation adjustment	Total
Sales revenues to external customers	1 597 657	6 763	57 185	493 942	1 623	-	2 157 170
Sales revenues between segments	181 739	412 028	55 223	-	161 312	(810 302)	-
Sales revenue	**1 779 396**	**418 791**	**112 408**	**493 942**	**162 935**	**(810 302)**	**2 157 170**
Cost of goods sold	(1 557 606)	(460 603)	(102 359)	(494 700)	(158 614)	822 823	(1 951 059)
Gross profit / (loss)	**221 790**	**(41 812)**	**10 049**	**(758)**	**4 321**	**12 521**	**206 111**
Other operating income	5 912	10 499	3 095	4 320	465	(11 086)	13 205
Selling and distribution expenses	(1 395)	-	-	(1 552)	(450)	-	(3 397)
Administrative expenses	(36 932)	(29 819)	(7 418)	(2 249)	(4 584)	-	(81 002)
Other operating expenses	(1 133)	(1 036)	(4 369)	(3)	(331)	-	(6 872)
Financial income	6 542	24	345	6 948	33	(729)	13 163
Financial costs	(8 495)	(12 166)	(361)	(9)	(177)	729	(20 479)
Profit / (loss) before tax	**186 289**	**(74 310)**	**1 341**	**6 697**	**(723)**	**1 435**	**120 729**
Income tax expenses (tax burden)/tax benefits	(60 491)	14 123	(882)	(1 209)	(258)	(273)	(48 990)
Net profit / (loss) for the period from continuing operation	**125 798**	**(60 187)**	**459**	**5 488**	**(981)**	**1 162**	**71 739**
Profit / (loss) from operating activities, without financial operations and income tax	**188 242**	**(62 168)**	**1 357**	**(242)**	**(579)**	**1 435**	**128 045**
Depreciation	90 192	44 431	2 672	19	4 110	2 999	144 423
Impairment write-down	-	(286)	-	-	-	-	(286)
EBITDA	**278 434**	**(18 023)**	**4 029**	**(223)**	**3 531**	**4 434**	**272 182**

(in thousand PLN)

9-month period ended 30 September 2018 (unaudited)

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

(in thousand PLN)

12. Revenues and costs

12.1. Sale revenues

	9 months period ended 30 September 2019 (unaudited)	*3 months period ended 30 September 2019 (unaudited)*	*9 months period ended 30 September 2018 (unaudited)*	*3 months period ended 30 September 2018 (unaudited)*
Revenues by type				
Revenues from electricity sale	1 170 834	458 399	954 209	380 035
Revenues from electricity resold on the market	742 110	221 542	430 742	168 045
Income from the price difference amount	17 720	757	-	-
Energy certificates of origin	37 560	11 740	27 674	18 480
Revenues from construction contracts	48 189	16 651	55 808	20 408
Compensation related to PPA termination	90 718	29 593	114 988	42 486
Revenues from heat sale	31 919	6 876	24 384	5 557
Other	19 665	5 823	20 481	6 667
Excise	(1 545)	(241)	(4 876)	(1 108)
Total revenues	2 157 170	751 140	1 623 410	640 570

12.2. Other operating revenues

	9 months period ended 30 September 2019 (unaudited)	*3 months period ended 30 September 2019 (unaudited)*	*9 months period ended 30 September 2018 (unaudited)*	*3 months period ended 30 September 2018 (unaudited)*
Revenues from the sale of CO_2 allowances	1 384	19	-	-
Compensation received	4 361	392	2 287	1 613
Reversal of write-down against receivables	28	22	78	(4)
Grants settlement	1 126	375	1 133	382
Profit from disposal of non-financial fixed assets	418	(800)	313	(465)
Release of the provision for costs and losses and cancellation of liabilities	4 327	5	1 013	1
Other	1 561	114	1 060	197
Total other operating revenues	13 205	127	5 890	1 724

(in thousand PLN)

12.3. Other operating costs

	9 months period ended *30 September 2019 (unaudited)*	*3 months period ended* *30 September 2019 (unaudited)*	*9 months period ended* *30 September 2018 (unaudited)*	*3 months period ended* *30 September 2018 (unaudited)*
Loss on the sale of property, plant and equipment	437	360	130	(9)
Creation of provisions	221	-	77	70
Impairment write-downs on receivables	543	504	1 225	806
penalties and damages	4 525	59	16	(6)
Electricity-related damage	120	104	179	101
Donations given	166	11	228	9
Trade Union costs	31	7	36	8
Shortage and damage costs	16	-	16	-
Other	813	(506)	1 529	(413)
Total other operating costs	6 872	539	3 436	566

The main component of the item "Penalties and damages" for the 9-month period ended September 30, 2019 are penalties and damages related to the implementation of construction contracts in the amount of PLN 4,308 thousand. The part concerning subcontractors and consortium members in the amount of PLN 2,862 thousand is presented in other operating revenues in the item of revenues from damages. As at the date of publication of this report, the Group does not anticipate additional charges for any penalties and damages related to the implementation of construction contracts.

12.4. Financial income

	9 months period ended *30 September 2019 (unaudited)*	*3 months period ended* *30 September 2019 (unaudited)*	*9 months period ended* *30 September 2018 (unaudited)*	*3 months period ended* *30 September 2018 (unaudited)*
Interest income	1 807	987	2 627	845
Dividends	49	49	93	11
Foreign exchange rates	93	93	184	(47)
Valuation of exchange rates hedging instruments (forward)	4 089	4 089	1 130	(515)
Release of write-offs on futures contracts	6 765	-	-	-
Other	360	(113)	2 142	352
Total financial income	13 163	5 105	6 176	646

(in thousand PLN)

12.5. Financial costs

	9 months period ended 30 September 2019 (unaudited)	*3 months period ended 30 September 2019 (unaudited)*	*9 months period ended 30 September 2018 (unaudited)*	*3 months period ended 30 September 2018 (unaudited)*
Interest expenses	8 365	2 978	9 829	2 727
Valuation and realization of derivative financial instruments	870	267	1 760	(702)
Foreign exchange losses	1 010	480	4 874	(2 159)
Reserve discount for the liquidation of power units	753	200	411	137
Revaluation of investments	-	-	-	-
Reserve discount for reclamation	7 464	2 488	8 589	2 863
Other	2 017	1 036	4 179	1 288
Total financial costs	20 479	7 449	29 642	4 154

The main component of the „Other" item are the bank fees in the amount of PLN 931 thousand.

12.6. Costs by type

	9 months period ended 30 September 2019 (unaudited)	*3 months period ended 30 September 2019 (unaudited)*	*9 months period ended 30 September 2018 (unaudited)*	*3 months period ended 30 September 2018 (unaudited)*
Depreciation	144 423	47 351	146 185	50 050
Impairment write-downs on fixed assets	(286)	(2)	(5)	(3)
Impairment write-downs on inventories	1 110	(58)	771	660
Materials usage	233 033	80 752	214 490	75 336
External services	71 710	28 564	75 285	29 422
Taxes and fees excluding excise duty	122 575	37 482	114 605	38 240
Costs of CO_2 emission allowances	430 138	168 583	338 232	172 063
Costs of employee benefits	310 343	95 061	325 943	100 741
Other costs by type	28 666	14 393	24 881	4 711
The value of sold goods and materials and sold energy purchased from the market	707 202	218 146	438 178	184 860
Total costs by type	2 048 914	690 272	1 678 565	656 080
Items included in cost of goods sold	1 951 059	662 564	1 564 308	622 369
Items included in selling and distribution expenses	3 397	714	3 009	967
Items included in administrative expenses	81 002	25 749	92 168	27 376
Change in the stocks of finished goods	11 476	551	15 252	2 609
Cost of goods and services for internal needs	1 980	694	3 828	2 759

(in thousand PLN)

12.7. Construction agreements

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

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

The revenue of the III quarter of 2019 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 the III quarter of 2019, 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

	01.01.2019	*Change in the valuation of contracts*	*Revenues recognized in 2019 included in the balance of liabilities as at 31.12.2018*	*Change of the period in which the right to remuneration becomes unconditional*	*30.09.2019*
Valuation of construction contracts	5 601	5 756		-5 601	5 756
Assets due to contracts with clients	5 601	5 756		-5 601	5 756
Valuation of construction contracts	2 683	2 628	1 592		3 719
Liabilities due to contracts with clients	2 683	2 628	1 592		3 719

Remaining commitments to perform the obligations

The total amount of the transaction price assigned to the obligation to perform the service, which remained unmet (or partially unfulfilled) at the end of the reporting period to be implemented:	*30.09.2019*	*31.12.2018*
- up to 1 year	9 916	24 720
- over 1 year		
Total	9 916	24 720

	period of 9 months ended 30 September 2019 (unaudited)	*Period of 9 months ended 30 September 2018 (unaudited)*
The gross amount due from the contracting parties for works under the contract:	5 352	9 391
The gross amount due to the contracting parties for work under the contract:	3 289	1 207

(in thousand PLN)

13. Income tax

13.1. Tax load

The main components of tax burden for the period of 9 months ended 30 September 2019 and 30 September 2018 are as follows:

	9 months period ended *30 September 2019 (unaudited)*	*3 months period ended* *30 September 2019 (unaudited)*	*9 months period ended* *30 September 2018 (unaudited)*	*3 months period ended* *30 September 2018 (unaudited)*
Included in profit or loss				
Current income tax				
Current (encumbrance) / income tax benefit	1 026	(1 759)	2 183	1 784
Deferred income tax				
Related to creation and reversal of temporary differences	48 961	27 107	3 434	(3 575)
Other changes	(997)	(1 033)	22	13
Tax burden in consolidated profit or loss	**48 990**	**24 315**	**5 639**	**(1 778)**
Included in the consolidated statement of the comprehensive income				
Net profit/ (loss) tax due to revaluation of cash flow securities	(108)	-	(427)	(130)
Actuarial allowance concerning actuarial profits/losses	268	103	261	163
Tax benefits / (tax burden) included in other comprehensive income	**160**	**103**	**(166)**	**33**

13.2. Deferred income tax

Deferred income tax results from the following items:

	30 September 2019 (unaudited)	*31 December 2018*
Deferred tax asset		
Balance sheet provisions	87 955	127 458
Overburden and other mining assets	5 178	5 105
Interest and exchange rate differences	2 912	4 947
Hedging instruments	-	175
Valuation of non-terminated agreements for building services	783	612
Tax loss from the previous years	81 443	19 384
Impairment write-down on inventories	3 018	2 972

(in thousand PLN)

Impairment write-down on receivables	860	738
Impairment write-downs on fixed assets	1 251	8 773
Difference between the balance sheet value and the tax value of fixed assets	10 583	35
Settlements with employees	1 039	3 169
Other	4 806	34 677
Total	199 828	208 045
Provision under deferred income tax		
Difference between the balance sheet value and the tax value of fixed assets	507 556	471 631
Receivables under PPAs	8 046	10 961
Energy certificates	4 848	3 948
Interest and exchange rate differences	910	1 029
Valuation of non-terminated construction agreements	1 176	1 103
Purchased CO_2 allowances	-	2 203
Other	14	5
Total	522 550	490 880
After offsetting the balances at the level of the Group companies, the deferred tax is presented as:		
Asset:	**93 864**	**81 817**
Provision:	**416 586**	**364 652**

For the 9-month period ended September 30, 2019, ZE PAK SA Group shows a tax loss of PLN 82,147 thousand. The created asset due to tax losses in this period is PLN 17,786 thousand.

14. Profit per one share

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

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

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

	9 months period ended *30 September 2019 (unaudited)*	*3 months period ended* *30 September 2019 (unaudited)*	*9 months period ended* *30 September 2018 (unaudited)*	*3 months period ended* *30 September 2018 (unaudited)*
Net (loss) / profit on continued activities of the parent company’s shareholders	72 591	34 680	(62 087)	(10 830)
Profit / (loss) on abandoned activities of the parent company’s shareholders	-	-	-	-

Net (loss) / profit of ordinary shareholders used for calculation of diluted profit / (loss) per one share	72 591	34 680	(62 087)	(10 830)
The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share	50 823 547	50 823 547	50 823 547	50 823 547

The table below presents profit / (loss) per share in Polish zlotys for the 9-month period ended September 30, 2019 and September 30, 2018 presented in the income statement.

	9 months period ended 30 September 2019 (unaudited)	*3 months period ended 30 September 2019 (unaudited)*	*9 months period ended 30 September 2018 (unaudited)*	*3 months period ended 30 September 2018 (unaudited)*
Basic from profit for the financial year attributable to the shareholders of the parent	1,43	0,68	(1,22)	(0,21)
Diluted from profit from continuing operations attributable to the shareholders of the parent	1,43	0,68	(1,22)	(0,21)

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

(in thousand PLN)

15. Tangible fixed assets

A period of 9 months ended 30 September 2019 (unaudited)

	*Land, including the right of perpetual usufruct of land **	*Buildings and constructions*	*Plants and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2019 (transformed data)	218 269	2 033 360	4 998 420	69 045	33 721	176 498	7 529 313
Direct purchase	-	-	4 932	3 150	319	12 212	20 613
Repairs	-	-	(32)	-	-	-	(32)
Transfer from fixed assets under construction	4 198	5 154	4 673	-	-	(14 025)	-
Sale and liquidation	(1 128)	(4 104)	(2 467)	(1 426)	(418)	-	(9 543)
Gross value as at 30 September 2019	221 339	2 034 410	5 005 526	70 769	33 622	174 685	7 540 351
Depreciation and impairment write-downs as at 1 January 2019 (transformed data)	46 383	1 223 454	3 324 971	46 462	22 149	131 413	4 794 832
Depreciation write-down for the period	2 792	33 992	89 723	3 818	1 134	-	131 459
Impairment write-downs (change of the state)	-	-	-	-	-	(286)	(286)
Sale and liquidation	(3)	(3 902)	(2 300)	(1 054)	(410)	-	(7 669)
Depreciation and impairment write-downs as at 30 September 2019	49 172	1 253 544	3 412 394	49 226	22 873	131 127	4 918 336
Net value as at 1 January 2019 (transformed data)	171 886	809 906	1 673 449	22 583	11 572	45 085	2 734 481
Net value as at 30 September 2019	172 167	780 866	1 593 132	21 543	10 749	43 558	2 622 015

** this item also includes land exploited for the extraction of minerals by the open pit method*

(in thousand PLN)

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

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

** this item also includes land exploited for the extraction of minerals by the open pit method*

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

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

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

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

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

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

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

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

Elektrownia Pątnów II sp. z o.o. – the second electricity producer in the Group, pursuant to the Act on termination of long-term agreements, is involved in the programme of coverage of stranded costs by the end of 2025. The final settlement of this programme is planned in 2026.

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

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

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

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

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

Conducting the value impairment test of fixed assets, the Group based on the financial model for 2019-2047 reflecting strategic priorities of the parent company – ZE PAK SA

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

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

- Production of electricity from Pątnów I was founded by 2030, production from Pątnów II was established until 2047, production from biomass from Konin was established until 2047.
- Heat production was set up until 2047 in connection with the operation of the biomass block that was created up to this year, from which heat is generated to the city of Konin.
- Production assumptions result from the adopted investment and renovation program for the Generation segment.
- Receipts from the capacity market in 2021-2023 based on the results of the auction were adopted; additionally, participation in the auction for 2024 was assumed, and participation in the secondary power market was also assumed.
- Electricity sales prices were adopted on the basis of developed forecasts broken down into BASE, PEAK and OFFPEAK prepared for ZE PAK SA by an independent external advisor, taking into account own estimates, based on the current market situation for the first years of the forecast.
- Heat sales prices were adopted on the basis of currently realized deliveries along with forecasted steady growth in subsequent years.
- Price forecasts for CO2 emission allowances, based on assumptions from the Ministry of Energy document - "National Plan for Energy and Climate for 2021-2030" (Project - item 3.1 of 4 January 2019), including own estimates, based on current market situation for the first years of the forecast.
- The purchase costs of lignite purchased for production were determined on the basis of the delivery schedule and prices agreed with the relevant schedules included in the financial projections of mining companies.
- The costs of biomass purchase were set at the level of contracted prices for 2019 together with forecasted steady growth in subsequent years.
- The forecast of the margin on the biomass block was estimated with the assumption of support mechanisms.
- The Company assumed the use of free allowances for CO2 emissions in the amount resulting from Art. 10a of Directive 2003/87 / EC of the European Parliament and of the Council of October 13, 2003.
- The effects of labour cost optimization resulting from the implemented etatization policy have been taken into account,
- The weighted average post-tax capital (WACC) was assumed in the projection period at 6.57%.
- Within the scope of BAT conclusions for ZE PAK SA, it was assumed to receive derogations from the required emission limit values due to the planned short life span of generation assets, whereas in the case of Elektrownia Pątnów II sp. z o. o. A periodic release was assumed until 2024 to realize investments as part of the general renovation planned for this year.
- In the case of Elektrownia Pątnów II sp. z o.o. the participation of this unit in the stranded costs scheme (LTC) was accepted.

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 – 4.39 m tons till 2023,
    - Tomisławice open pit – 27.04 m tons till 2030,
    - Jóźwin open pit – 4.40 m tons till 2021,

(in thousand PLN)

    - Drzewce open pit – 4.47 m tons till 2021,
    - Ościsłowo open pit – 31.32 tons from 2024 till 2036.
- The level of investment expenditures allowing the construction of a new Ościsłowo open pit ensuring the supply of the power plant and maintaining specific production capacities during their operation was adopted.
- The effects of employment restructuring processes were taken into account.
- There were taken into account the costs of such events as:
    - costs of pitting reclamation,
    - pension reserves,
    - for PAK KWB Adamów SA, severance pay for group layoffs,
    - for PAK KWB Adamów SA revenues from the sale of assets after the exploitation of the open pit,
    - the extension of the concession in PAK KWB Adamów SA for Adamów deposit was concluded.
- the weighted average cost of capital after tax (WACC) was assumed in the projection period for PAK KWB Adamów SA at 6.93% and for PAK KWB Konin SA at 7.08%, the higher discount rate reflects the higher risk related to the functioning of PAK KWB Konin SA in the longer term (longer horizon of the forecast), in particular with regard to investment activities related to the development of new lignite deposits.

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

The tests were performed as at 30 September 2019.

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

16. Assets due to the right to use

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

	9 months period ended 30 September 2019 (unaudited)
Gross value as at 1 January	65 803
Remission as at 1 January	(3 103)
Net value as at 1 January	62 700
Depreciation for the period	(5 142)
State as at the end of period	57 558

(in thousand PLN)

17. Intangible assets

Long-term intangible assets – a period of 9 months ended 30 September 2019 (unaudited)

	CO_2 emission units (EUA)	*Patents and licences*	*Computer software*	*Other*	*Total*
Gross value as at 1 January 2019	-	22 333	2 133	417	24 883
Decrease	-	-	(5)	-	(5)
Increase	-	245	-	-	245
Gross value as at 30 September 2019	-	22 578	2 128	417	25 123
Depreciation and impairment write-downs as at 1 January 2019	-	18 734	2 015	361	21 110
Depreciation write-down for the period	-	894	100	3	997
Impairment write-down	-	-	-	-	-
Decrease	-	-	(5)	-	(5)
Depreciation and impairment write-down as at 30 September 2019	-	19 628	2 110	364	22 102
Net value as at 1 January 2019	-	3 599	118	56	3 773
Net value as at 30 September 2019	-	2 950	18	53	3 021

(in thousand PLN)

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

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

* *transferred to short-term part*

(in thousand PLN)

Short-term intangible assets

	30 September 2019 (EUA)(unaudited)	*30 September 2018* (EUA)(unaudited)
Gross value as at 1 January 2019	66 817	261 654
Purchase	443 789	37 280
Decrease	(11 940)	-
Redemption of EUA	(492 067)	(290 205)
Transfer of EUA	-	2 266
Gross value as at 30 September 2019	6 599	10 995
Net value as at 1 January 2019	66 817	261 654
Net value as at 30 September 2019	6 599	10 995

18. Assets for overburden removal and other mining assets

As at 30 September 2019, the item of assets concerning overburden stripping and other mining assets includes the assets related to overburden stripping and other mining assets of PAK KWB Konin in the amount of PLN 75 301 thousand.

	9 months period ended 30 September 2019 (unaudited)	*Year ended 31 December 2018*
As at 1 January 2019	80 326	72 536
Increase	1 800	16 369
Depreciation for the period	(6 825)	(8 579)
As at 30 September 2019	75 301	80 326
Long-term	75 301	80 326
Short-term	-	-

19. Other assets

19.1. Other financial assets

	30 September2019 (unaudited)	*31 December 2018*
Deposits for debt security service	-	36 679
Investments and FLZG* deposits	2 893	4 203
Shares	352	352
Other	194	193
Total of financial assets	3 439	41 427
Short-term	-	36 679
Long-term	3 439	4 748

**FLZG – mining liquidation fund*

(in thousand PLN)

19.2. Other non-financial assets

	30 September 2019 (unaudited)	*31 December 2018*
VAT receivables	22 465	18 378
The amount of the price difference from Zarządca Rozliczeń under the "Price Freezing" Act	18 085	-
Insurance	378	1 516
Other receivables from the budget	228	1 842
Other non-financial assets	1 449	2 682
Other accruals	4 994	2 149
Delivery prepayments	30	66
Prepayments for assets under construction	2 287	751
Other	1 381	528
Total other non-financial assets	51 297	27 912
Short-term	47 233	24 039
Long-term	4 064	3 873

The largest components of the „Other" item are the settlements regarding Company Social Benefit Fund in the amount of PLN 1 042 thousand.

20. Inventories

	30 September 2019 (unaudited)	*31 December 2018*
Production fuel	10 453	7 131
Other materials used to ongoing service works	60 576	75 205
Certificates of origin	28 379	26 897
Goods	7	6
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	99 415	109 239

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

(in thousand PLN)

21. Trade and other receivables

	30 September 2019 (unaudited)	*31 December 2018*
Trade receivables	143 926	150 765
Receivables due to compensation related to the termination of the PPAs	42 347	57 691
Receivables due to security of purchase of electricity in the balancing market	16 111	14 761
Receivables due to security of transactions on the Polish Power Exchange	43 516	121 797
Other receivables	10 559	9 169
Net receivables	256 459	354 183
Impairment write-down on receivables	42 640	42 110
Gross receivables	299 099	396 293

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

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

22. Cash and cash equivalents

Cash at bank are subject to interest at volatile interest rates, whose amount depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group’s demand for cash and are subject to interest at fixed interest rates. The fair value of cash and cash equivalents as at September 30, 2019 is PLN 381 929 thousand (as at September 30, 2018: PLN 312 804 thousand). The Group invests cash in bank accounts and deposits in banks with good financial condition, therefore there was no write-down of financial assets in the form of cash. Ratings assigned to banks in which the Group has cash are presented in note 32.3.

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

Cash structure

	30 September 2019 (unaudited)	*30 September 2018 (unaudited)*
Cash in hand and at bank	106 644	303 153
Short-term deposits	275 285	9 651
Total cash and cash equivalents in the balance sheet	381 929	312 804
Foreign exchange differences	-	(1 240)
Total cash and cash equivalents in cash flow statement	381 929	311 564

(in thousand PLN)

23. Dividends paid and proposed for payment

ZE PAK SA did not pay or declare dividends within the period of 9 months of 2019.

24. Interest-bearing loans and borrowings

Short-term	*Maturity*	*30 September 2019 (unaudited)*	*31 December 2018*
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin (Elektrownia Pątnów II sp. z o.o.)	23.04.2019	-	108 200
Overdraft facility at Santander Bank Polska SA in the amount of zloty 40 000 thousand; interest rate at WIBOR 1M + bank margin (PAK KWB Konin SA)	30.06.2020	32 755	38 998
Overdraft in Alior Bank SA in the amount of PLN 66 700 thousand, bearing interest at WIBOR 1M + bank margin	26.07.2019	-	58 448
Non-revolving loan at Alior Bank SA in the amount of PLN 66,700 thousand, bearing interest according to WIBOR 3M + bank margin (PAK KWB Konin SA)	15.12.2021	26 138	-
Investment loan (syndicated) in the amount of PLN 577 000 thousand (Loan A), bearing interest at WIBOR 3M + bank margin (ZE PAK SA)	20.03.2020	54 702	139 188
Investment loan (syndicated)in the amount of PLN 90 000 thousand (Loan B), bearing interest at WIBOR 3M + bank margin (ZE PAK SA)	20.03.2020	43 821	11 683
Overdraft facility in mBank SA in the amount of PLN 10 000 thousand, bearing interest at WIBOR 1M + bank margin (PAK Serwis sp. z o.o.)	29.05.2020	3 750	4 438
Overdraft facility in Pekao SA in the amount of PLN 10 000 thousand, bearing interest at WIBOR 1M + bank margin (PAK Serwis sp. z o.o.)	30.11.2019	1 094	-
TOTAL		**162 260**	**360 955**

Long-term	*Maturity*	*30 September 2019 (unaudited)*	*31 December 2018*
Investment loan (syndicated) in the amount of PLN 577 000 thousand (Loan A), bearing interest at WIBOR 3M + bank margin (ZE PAK SA)	20.03.2020	-	19 447
Investment loan (syndicated) in the amount of PLN 90 000 thousand (Loan B), bearing interest at WIBOR 3M + bank margin (ZE PAK SA)	20.03.2020	-	39 977
Non-revolving loan at Alior Bank SA in the amount of PLN 66,700 thousand, bearing interest according to WIBOR 3M + bank margin (PAK KWB Konin SA)	15.12.2021	38 562	-
TOTAL		**38 562**	**59 424**

(in thousand PLN)

25. Provisions and accruals

25.1. Accruals

	30 September 2019 (unaudited)	*31 December 2018*
Provision for bonuses and holiday leaves	18 066	25 545
Compensation from an insurance company	118	38
Audit of financial statements	-	264
Other	14 247	1 545
Total	32 431	27 392
Short-term	32 431	27 392
Long-term	-	-

The main components of the "Other" item are fees for economic use of the environment in the amount of PLN 13 048 thousand and a provision for a fine for exceeding the amount of dust released into the air in 2015 in the amount of PLN 1 190 thousand. The group appealed against this decision to the Provincial Inspectorate for Environmental Protection in Poznań. The case was referred to the Chief Inspector for Environmental Protection. As at the date of these financial statements, the procedure of collecting and analysing documents related to Adamów Power Plant was completed. The Group is currently awaiting a decision.

(in thousand PLN)

25.2. Change in provisions

	Provision for EUA redemption	*Provision for return of CO_2 emission allowances*	*Provision for the fixed assets liquidation costs*	*Provision for the reclamation of ash storage yards*	*Provision for the long-term contract loss*	*Provision for the certificates of origin of energy redemption*	*Reclamation provisions and other provisions related to mining activities*	*Other*	*Total*
As at 1 January 2019	492 104	30 640	17 391	63 656	65	21 919	358 718	25 983	1 010 476
increase	429 356	221	599	154	136	218	4 912	6 514	442 110
decrease	(491 285)	-	-	(88)	(104)	(9 725)	(9 051)	(886)	(511 139)
As at 30 September 2019 *(unaudited)*	430 175	30 861	17 990	63 722	97	12 412	354 579	31 611	941 447
Long-term	-	30 861	17 990	63 594	-	-	330 284	4 709	447 438
Short-term	430 175	-	-	128	97	12 412	24 295	26 902	494 009
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	(289 942)	-	-	(216)	(595)	(804)	(17 257)	(13 945)	(322 759)
As at 31 December 2018	492 104	30 640	17 391	63 656	65	21 919	358 718	25 983	1 010 476
Long-term	-	30 640	17 391	63 440	-	-	333 005	5 557	450 033
Short-term	492 104	-	-	216	65	21 919	25 713	20 426	560 443

25.3. Description of significant titles of provisions

25.3.1. The provision for liabilities due to the emission of greenhouse gases (EUA)

The Group recognises the provision for the redemption of greenhouse gases emission allowances. During the 9-month period of 2019, companies in ZE PAK SA Group, i.e. ZE PAK SA and Elektrownia Pątnów II sp. z o.o., emitted 4 462 496 tonnes of carbon dioxide. Due to the above, as at September 30, 2019, a provision for shortage of emission allowances (EUA) was created in the amount of PLN 430 175 thousand.

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

The Group creates the provision for future costs of reclamation of the land on the basis of legal obligation resulting from the “Integrated Permits.” The basis of estimation of the provision size is data prepared by domestic services. The value of the provision is estimated and verified on every balance sheet date on the basis of estimated cost to be incurred in the future and a discount. As of 30 September 2019, the created provision amounted to PLN 63 722 thousand. A description of the contingent liabilities related to the decommissioning of the power plant is provided in Note 28.4.

Due to the legal obligation to liquidate fixed assets after their period of use, the Group creates the provision for projected future costs, which will be necessary to pay for fulfilment of this obligation. As of 30 September 2019, the provision due to this amounted to PLN 17 990 thousand.

25.3.3. Reclamation provisions and other provisions related to mining activities

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

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

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

The provision for decommissioning and reclamation of mining areas and for the preparation of operational areas at PAK KWB Konin SA and PAK KWB Adamów SA as at September 30, 2019 amounted to PLN 354 579 thousand and decreased compared to the year ended December 31, 2018 by PLN 4 139 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 7 464 thousand.

25.3.4. Provision for redemption of Energy certificates

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load co-generation. As of 30 September 2019, the provision due to this amounted to PLN 12 412 thousand.

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

The provision is described in note 26.

25.3.6. Other provisions

In PAK KWB Konin, the main items of other reserves as of 30 September 2019 are: provisions for mining damage in the amount of PLN 3 865 thousand, the provisions for pending legal proceedings in the amount of PLN 527 thousand, provision for remuneration for mining use in the amount of PLN 2 514 thousand, provision for exploitation fees in the amount of PLN 3 126 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.

(in thousand PLN)

26. CO_2 emission allowances

From January 1, 2013, another accounting period for emission allowances applies, which will end on December 31, 2020. The assumption of this period is the free allocation of emission allowances (EUA) resulting from the production of heat energy pursuant to art. 10a of Directive 2009/29 / EC), although the energy sector was additionally covered by the possibility of derogation. Derogation resulting from art. 10c of Directive 2009/29 / EC consists in the granting of additional free allowances, provided that the declared investment outlays for investments reported in the National Investment Plan (KPI) are incurred and a material and financial report on their implementation is presented.

In February 2019, ZE PAK SA was granted EUA related to the heat generated for 2019, resulting from art. 10a, in the amount of 37 081 tonnes.

In 2019, as in the previous year, companies from ZE PAK SA Group did not apply for EUAs resulting from art. 10c of Directive 2009/29 / EC.

CO2 emission allowances and changes in emission allowance ownership for the 9-month period ended September 30, 2019 (unaudited)

(tons)		***Zespół Elektrowni Pątnów-Adamów-Konin SA***	***Elektrownia Pątnów II sp. z o.o.***
	CO_2 Emission *	2 717 195	1 745 301
EUA	Balance at the beginning of the period	1 062 113	820 908
	Purchased	3 744 000	1 714 000
	Free of charge	37 081	-
	Redemption	(4 780 925)	(2 454 232)
	Balance at the end of the period	62 269	80 676

CO2 emission allowances and changes in emission allowance ownership for the 9-month period ended September 30, 2018 (unaudited)

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

Return of the allocated CO2 emission allowances in connection with the abandonment of investments in units 3 and 4 at the Pątnów Power Plant and the risk of the refund of the allocated rights related to the investment in the gas and steam block at the Konin Power Plant

On October 10, 2019, the Supervisory Board decided to discontinue the modernization of units 3 and 4 at Elektrownia Pątnów and agreed to return the equivalent of the emission allowances granted to ZE PAK SA for this investment. In accordance with statutory requirements, ZE PAK SA notified the Ministry of the Environment about this fact. ZE PAK SA is awaiting the decision by the Ministry of the Environment on the amount to be refunded. The estimated return value of EUA granted to ZE PAK SA free of charge is approximately PLN 25 million.

(in thousand PLN)

The Company's Management Board had predicted that there was a risk of potential return of CO2 emission allowances granted free of charge related to the investment in units 3 and 4 and the gas-steam block, and in connection with the above, a provision was created in 2018. As at September 30, 2019, it amounts to PLN 30 861 thousand. (including PLN 24,452 thousand for blocks 3 and 4 and PLN 6,409 thousand for gas-steam block).

In the case of the gas-steam block at Konin Power Plant, in October 2019 ZE PAK SA informed the Ministry of the Environment that analyses are still underway to clearly determine the profitability of the investment. If the construction is not completed, the equivalent of emission allowances will be returned at a later date. Most likely, the refund will become due when the Republic of Poland prepares the final report on the implementation of the KPI for the European Commission, which will take place in 2020.

27. Trade liabilities, other liabilities and accruals

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

	30 September 2019 (unaudited)	*31 December 2018*
Trade liabilities:	130 592	123 339
Investment liabilities	2 517	9 468
Liabilities to employees due to salaries	15 799	16 313
Other liabilities	4 469	5 770
Total	153 377	154 890

In the line other liabilities as at September 30, 2019, the Group mainly presents liabilities regarding settlements with employees and deductions from the payroll in the amount of PLN 1,667 thousand, for deposits in the amount of PLN 709 thousand and for leasing in the amount of PLN 1 301 thousand.

Terms and conditions of payment of the above financial obligations:

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

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

	30 September 2019 (unaudited)	*31 December 2018*
Liability due to financial lease	441	1 389
Short-term liabilities to other entities - over 12 months	5 317	8 017
Investment liabilities	2 000	2 000
Other	89	62
Total	7 847	11 468

(in thousand PLN)

27.3. Other non-financial liabilities

	30 September 2019 (unaudited)	*31 December 2018*
VAT tax liabilities	40 031	35 817
Liabilities due to environmental charges	290	15 832
Liabilities due to the excise tax	682	2 660
Liabilities due to social insurance	18 262	21 714
Individual income tax	4 096	5 244
Other budget liabilities	341	6 092
Advanced payments for deliveries	-	94
Service charge	-	7 517
Other	577	990
Total	64 279	95 960

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

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

27.4. Derivative financial instruments

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

27.5. Grants and deferred income (long-term)

	30 September 2019 (unaudited)	*31 December 2018*
Long-term grants	38 876	40 003
Other	3 004	3 004
Total	41 880	43 007

(in thousand PLN)

The main component of the item "Long-term grants": Grants presented at September 30, 2019 in the amount of PLN 38,501 and Water Management as if it had been granted on market terms. The subsidy is settled in accordance with the useful life of fixed assets included in the 464 MW block at Pątnów II Power Plant.

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

27.6. Grants and deferred income (short-term)

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

28. Contingent liabilities and description of significant judicial cases

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

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

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

The Act introduced, among others:

1) reducing the excise duty rate on electricity from PLN 20 to PLN 5 per megawatt hour (MWh),
2) a 95% reduction in the rate of the transitional fee paid monthly by electricity consumers in distribution bills,
3) for energy enterprises carrying out economic activity in the field of electricity trading, the obligation to specify prices and rates for electricity for final customers for the period from 1 January to 31 December 2019 in an amount not higher than the prices and rates of electricity charges applicable on June 30, 2018,
4) a compensation system to cover the difference:
   - between the weighted average prices of electricity on the wholesale market for the period from January 1, 2019 to June 30, 2019, increased by other unit costs, and the net price of electricity for the final customer referred to in art. 5 of the Act, applicable on June 30, 2018, containing the excise duty rate on electricity settled by the trading company in 2018 (price difference amount) and
   - between the weighted average electricity prices on the wholesale market applicable in the month of supply (for deliveries from July 1, 2019 to December 31, 2019), increased by other unit costs, and the net price of electricity for the final customer referred to in art. 5 paragraph 1a of the Act, applicable on June 30, 2018, containing the excise duty rate on electricity settled by the trading company in 2018 (financial compensation).

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

Impact of the Act on the period of 9 months 2019

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

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

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

c) the volume of sales within the period of 9 months of 2019 was adopted in accordance with the agreements concluded by PAK-Volt SA, i.e. in the amount of 288 thousand of MWh.

Based on the adopted assumptions the following were received:

a) revenues in the electricity sales segment decreased by PLN 28,930 thousand (this is the amount that PAK-Volt SA is obliged to return to final customers in accordance with the Act),

b) the amount of the price difference and financial compensation that PAK-Volt SA should receive from Zarządca Rozliczeń SA will amount PLN 17 720 thousand.

In addition, the Act's beneficiaries are PAK Kopalnia Węgla Brunatnego Adamów SA and PAK Kopalnia Węgla Brunatnego Konin SA, which purchase electricity for the needs of lignite mining from an entity outside the Group and are included in final recipients other than those specified in art. 5 paragraph 1a of the Act. For these companies, for the supply period from January 1, 2019 to June 30, 2019, the energy prices applicable on June 30, 2018 applied. Therefore, for the period of 9 months of 2019 a reduction in the cost of electricity consumption in the total amount of PLN 13 841 thousand was included.

Impact of the Act on subsequent reporting periods

The Group has assessed the impact of the Act on results in the IV quarter of 2019, in terms of the provisions of IAS 37 "Provisions, contingent liabilities and contingent assets", whether it is required to create provisions for the so-called load-bearing contracts. It follows from IAS 37 that if an entity is a party to a chargeable contract, the current obligation under the contract is recognized and measured as a provision. Calculations have made that the impact of the Act on the Group's financial results in the IV quarter of 2019 will be insignificant. Due to the above, the report for the period of 9 months of 2019 did not include a provision for contracts generating charges.

28.2. Court proceedings

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

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

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

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

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

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

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

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

The proceeding is in progress.

Proceedings on refund of excise duty overpayment

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

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

Due to the above fact, pursuant to Article 75 § 1, in relation to Article 75 § 2 of the Act of 29 August 1997 – Tax Ordinance, ZE PAK SA submitted applications for stating overpayment of the excise tax for 2006, 2007, 2008, as well as January and February 2009 for the total amount of PLN 626 million, with the justification that pursuant to the regulations of the EU law and the judicial decisions of the Provincial Administrative Courts, the activities executed by ZE PAK SA are not subject to the excise tax. Particular applications were recognised at the following levels: the Customs Office in Kalisz, the Customs Chamber in Poznań, and 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 ultimately reduced to the amount of damage caused by economic analyses, i.e. 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 (file reference number VI Co 311/12), 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. Ultimately, all applications were included in the cause lists of the Supreme Administrative Court (NSA). As at the date of this report, all cases before both courts and tax authorities have been completed. More specifically:

- 22 cases for the period January 2006 - November 2007 - at hearings held on April 10 and 11, 2018, the Supreme Administrative Court dismissed the Company's cassation appeals in the above-mentioned 22 cases;
- 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 - 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;
- 14 proceedings for the periods December 2007 - February 2009 - by letters of October 15, 2019, the Company withdrew cassation complaints in the above mentioned 14 cases, because due to the shaped negative jurisprudence of the Supreme Administrative Court, the Company saw no chance of obtaining a positive decision. Thus, guided by rationality, the Company sent requests to withdraw previously submitted complaints, thus recovering court fees paid in the amount of approx. PLN 200,000 .

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 could 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. On March 4, 2019, the European Commission adopted the final position, which showed that it had no grounds to question the actions of Polish tax authorities and courts.

Thus, the last premise was dropped, which was to contribute to the Company obtaining positive decisions before the Supreme Administrative Court.

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

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

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

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

Dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA means that the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 became legally binding and the case regarding the statement of invalidity of the environmental decision will be examined again by the Self-government Appeal Court. On 18th January 2019 the Local Government Appeal Court in Konin issued a decision refusing to annul the environmental decision issued on August 7, 2007 by the Head of Wierzbinek Commune related to the exploitation of Tomisławice lignite open pit.

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

Proceedings on an environmental decision on lignite deposit in Ościsłowo

On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") of 10 March 2017, refusing the establishment of the environmental conditions for the investment titled: "Extraction of lignite and associated minerals from the Ościsłowo Open Pit." The decision of RDOŚ in Poznań is not final. PAK KWB Konin SA appealed accordingly to the General Directorate for Environmental

Protection in Warsaw. The appeal included a request to revoke the appealed ruling in its entirety and determine the environmental conditions for the execution of the above-mentioned project. On 30 November 2017, General Director of Environmental Protection in Warsaw has decided to repeal a decision in its entirety (contested by PAK KWB Konin SA - a subsidiary of the Company) of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") dated March 10, 2017, refusing to specify environmental conditions for the project entitled: " Extraction of lignite and associated minerals from Ościsłowo Open Pit" and forward the case for reconsideration by RDOŚ in Poznań.

PAK KWB Konin SA, by letter of December 18, 2017 filed an objection against the abovementioned decision of GDOŚ in Warsaw to the Provincial Administrative Court in Warsaw (WSA). In the opinion of PAK KWB Konin S.A. there were grounds for issuing a reformatory decision by GDOŚ in Warsaw, i.e. amending the contested decision of RDOŚ in Poznań and substantive decision in this matter, not referring the matter for reconsideration. The other party also opposed the WSA. Both objections were dismissed by the WSA. The verdict was passed on March 1, 2018. On April 12, 2018, PAK KWB Konin SA filed a cassation complaint with the Supreme Administrative Court in Warsaw against the verdict of the WSA in Warsaw of 1 March 2018. The Supreme Administrative Court in Warsaw, by a judgment of September 25, 2018, repealed the appealed judgment and forwarded the case to the Provincial Administrative Court in Warsaw for reconsideration. The Provincial Administrative Court by judgment of 18 October 2018 annulled the contested decision of 30 November 2017 issued by GDOŚ in Warsaw. At present, the matter is being reviewed by GDOŚ in Warsaw and the announced date of settling the case was scheduled for 31 December 2019.

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

Significant tax proceedings have been described in note 28.3.

28.3. Tax settlements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- 2015 PLN 24 149 thousand,
- 2016 PLN 22 990 thousand,
- 2017 PLN 37 586 thousand,

(in thousand PLN)

- 2018 PLN 248 114 thousand.

As at the day of preparing the report, the Company created a deferred tax asset due to tax loss in the amount of PLN 68 806 thousand.

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

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

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

29. Liability repayment securities

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

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

Liabilities secured with the assets

Agreement	*Kind of security*	*30 September 2019 (unaudited)* *Security amount*	*currency*	*31 December 2018* *Security amount*	*currency*
Syndicated loan agreement of 13 March 2014 for PLN 667 million for ZE PAK SA	Registered pledge on a collection of items Registered pledge on bank accounts Joint contractual mortgage established on real estate	Up to 2 040 000	PLN	Up to 2 040 000	PLN
Syndicated loan agreement dated 14 January 2011 for EUR 240 million for Pątnów II Power Plant	Joint contractual mortgage established on the property of Pątnów II and PAK Infrastruktura	Up to 400 000 up to 339 750	EUR PLN	Up to 400 000 up to 339 750	EUR PLN

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

(in thousand PLN)

Other securities of liabilities

Guarantees given

Kind of guarantee	*30 September 2019 (unaudited) Security amount*	*currency*	*31 December 2018 Security amount*	*currency*
Guarantees of good performance of the contract	17 459	PLN	19 255	PLN
Guarantees to remove defects and faults	3 624 593	PLN EUR	4 317 438	PLN EUR
Payment guarantees	30 818	PLN	219	PLN
Guarantee of advance payment	42	PLN	148	PLN

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

The table below shows the sum of granted guarantees.

	30 September 2019 (unaudited)	*currency*	*31 December 2018*	*currency*
Intra-Group Guarantees	120 700	PLN	126 700	PLN
The Guarantees granted to the entities outside the Group	16 259	PLN	-	PLN
Total of granted Guarantees	**136 959**	**PLN**	**126 700**	**PLN**

30. Obtained guarantees and sureties

Kind of guarantee	*30 September 2019 (unaudited) Security amount*	*currency*	*31 December 2018 Security amount*	*currency*
Guarantees of good performance of the contract	9 946	PLN	13 909	PLN
Guarantees to remove defects and faults	3 472 -	PLN EUR	3 344 18	PLN EUR
Payment guarantees	6 233 -	PLN EUR	22 689 -	PLN EUR
Guarantee of advance payment	-	PLN	-	PLN

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

31. Information about related entities

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

(in thousand PLN)

Related entity		*Sales to related entities (unaudited)*	*Purchase from related entities (unaudited)*	*Receivables from related entities (unaudited)*	*Liabilities towards related entities (unaudited)*
Elektrim SA	III quarters 2019	-	90	-	-
	III quarters 2018	-	60	-	-
Megadex Serwis sp. z o.o.	III quarters 2019	2	25 508	-	-
	III quarters 2018	-	25 497	-	-
Polkomtel sp. z o.o.	III quarters 2019	129 616	10 435	18 165	2 375
	III quarters 2018	141 502	1 601	19 587	571
Laris Investments sp. z o.o.	III quarters 2019	543	299	240	-
	III quarters 2018	363	621	287	-
CPE sp. z o.o.	III quarters 2019	-	77	-	21
	III quarters 2018	-	4	-	-
Plus Flota sp. z o.o.	III quarters 2019	-	220	-	76
	III quarters 2018	-	237	-	14
Total	**III quarters 2019**	**130 161**	**36 629**	**18 405**	**2 472**
	III quarters 2018	**141 865**	**28 020**	**19 874**	**585**

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

31.1. Loan granted to a member of the Management Board

During the period of 9 months ended 30 September 2019 as well as during the period of 9 months ended 30 September 2018 the Parent Company did not grant any loans and similar benefits to members of the management and supervisory staff

31.2. Other transactions involving members of the Management Board

During the period of 9 months ended 30 September 2019 as well as during the period of 9 months ended 30 September 2018 there were no transactions with members of management and supervisory Staff.

31.3. Remuneration of Chief executive Staff of the Group

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

	9 months period ended 30 September 2019 (unaudited)	*9 months period ended 30 September 2018 (unaudited)*
Management Board of the parent company		
Short-term employee benefits	1 661	2 029
Termination benefits	65	-
Supervisory Board of the parent company		

Short-term employee benefits	834	824
Management Boards of the subsidiaries		
Short-term employee benefits	1 700	2 300
Termination benefits	25	-
Supervisory Board of subsidiaries		
Short-term employee benefits	-	1
Total	4 285	5 154

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

	9 months period ended 30 September 2019 (unaudited)	*9 months period ended 30 September 2018 (unaudited)*
Short-term employee benefits	8 438	9 490
Post-employment benefits	-	-
Benefits for termination of the contract of employment	216	183
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	8 654	9 673

32. Goals and rules of financial risk management

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

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

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

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

32.1. Interest rate risk

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

Interest rate risk – the sensitivity gap

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

(in thousand PLN)

Classes of financial instruments	***30 September 2019 (unaudited)***		***Interest rate risk sensitivity as of 30 September 2019***							
			WIBOR				***EURIBOR***			
			WIBOR + 49pb		***WIBOR - 49pb***		***EURIBOR + 18,38pb***		***EURIBOR - 18,38pb***	
	Carrying amount	***value at risk***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	3 439	2 893	14	-	(14)	-	-	-	-	-
Trade and other receivables	256 459	-	-	-	-	-	-	-	-	-
Derivative financial instruments	3 216	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	381 929	381 929	1 865	-	(1 865)	-	2	-	(2)	-
Interest-bearing loans and borrowings	(200 822)	(200 822)	(984)	-	984	-	-	-	-	-
Liabilities for deliveries and services and other financial liabilities	(161 224)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Total	**282 997**	**184 000**	**895**	**-**	**(895)**	**-**	**2**	**-**	**(2)**	**-**

pb – base points

(in thousand PLN)

Classes of financial instruments	***30 September 2018***		***Interest rate risk sensitivity as of 30 September 2018***							
			WIBOR				***EURIBOR***			
			WIBOR + 47pb		***WIBOR - 47pb***		***EURIBOR + 15,69pb***		***EURIBOR - 15,69pb***	
	Carrying amount	***value at risk***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	43 416	24 268	29	-	(29)	-	29	-	(29)	-
Trade and other receivables	330 815	-	-	-	-	-	-	-	-	-
Derivative financial instruments	325	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	312 804	312 804	1 371	-	(1 371)	-	33	-	(33)	-
Interest-bearing loans and borrowings	(484 187)	(484 187)	(1 608)	-	1 608	-	(223)	-	223	-
Liabilities for deliveries and services and other financial liabilities	(184 591)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(1 537)	(1 537)	-	-	-	-	-	72	-	(72)
Total	**17 045**	**(148 652)**	**(208)**	**-**	**208**	**-**	**(161)**	**72**	**161**	**(72)**

pb – base points

(in thousand PLN)

32.2. Currency risk

As at September 30, 2019, two companies from the Group used instruments to limit the risk arising from changes in exchange rates. ZE PAK S.A. and Elektrownia Pątnów II sp. z o.o. secured the euro exchange rate for a part of cash flows related to the purchase of CO2 emission allowances. ZE PAK S.A. used forward transactions with settlement in March 2020 to hedge the exchange rate. Pątnów II Power Plant used forward transactions with settlement in December 2019 to hedge the exchange rate. Potential possible changes in exchange rates were calculated on the basis of implied annual volatilities for currency options quoted on the interbank market for a given pair of currencies as at the balance sheet date.

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

Classes of financial instruments	*30 September 2019 (unaudited)*		*Sensitivity analysis for currency risk as of 30 September 2019*			
			EUR/PLN			
			EUR/PLN + 5,175%		*EUR/PLN - 5,175%*	
			4,5999		*4,1473*	
	Carrying amount	*Value at risk*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*
Other financial assets	3 439	-	-	-	-	-
Receivables for deliveries and services and other financial receivables	256 459	2 478	128	-	(128)	-
Derivative financial instruments	3 216	-	-	-	-	-
Cash and cash equivalents	381 929	1 357	70	-	(70)	-
Interest-bearing loans and borrowings	(200 822)	-	-	-	-	-
Liabilities for deliveries and services and other financial liabilities	(161 224)	(668)	(35)	-	35	-
Derivative financial instruments	-	-	-	-	-	-
Total	**282 997**	**3 167**	**163**	**-**	**(163)**	**-**

(in thousand PLN)

Classes of financial instruments	*30 September 2018*		*Sensitivity analysis for currency as of 30 September 2018 EUR/PLN*			
			EUR/PLN + 5,338% 4,4994		*EUR/PLN - 5,338% 4,0434*	
	Carrying amount	*Value at risk*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*
Other financial assets	43 416	18 203	972	-	(972)	-
Receivables for deliveries and services and other financial receivables	330 815	5 165	276	-	(276)	-
Derivative financial instruments	325	-	-	-	-	-
Cash and cash equivalents	312 804	21 156	1 129	-	(1 129)	-
Interest-bearing loans and borrowings	(484 187)	(142 041)	(7 582)	-	7 582	-
Liabilities for deliveries and services and other financial liabilities	(184 591)	(2 052)	(110)	-	110	-
Derivative financial instruments	(1 537)	-	-	-	-	-
Total	**17 045**	**(99 569)**	**(5 315)**	**-**	**5 315**	**-**

32.3. Credit risk

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

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

The concentration of receivables in relation to key electricity consumers of the Group is subject to monitoring. The main recipients of electricity include the companies with a significant position in the electricity trade sector, such as Energa Obrót, GetEntra, Tauron Polska Energia and PSE Operator. The transactions concluded on the exchange market are settled on a day-to-day basis by the Towarowa Giełda Energii SA Company, which minimises the credit risk. The large share of sales on the power exchange and the selection of reputable companies with good credit ratings to the Group's sales portfolio mean that despite the presence of a portfolio of entities with a relatively large share of over 5% in the portfolio, the level of concentration is not identified as significant. In the light of the above, the Group does not apply additional collateral resulting from the mere phenomenon of concentration, the application of collateral depends on the financial condition of the counterparty.

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

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

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

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

32.4. Liquidity risk

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

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

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

(in thousand PLN)

30 September 2019 (unaudited)	*Less than 3 months*	*3 - 12 months*	*1 - 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	40 962	117 625	38 562	-	197 149
Trade payables and other financial liabilities	149 406	3 970	7 847	-	161 223
Derivative financial instruments	64 611	79 312	-	-	143 923
	254 979	**200 907**	**46 409**	**-**	**502 295**

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

Derivative instruments indicated in above tables were presented in gross values of non-discounted payments. However, these contracts can be settled either in gross values, or net amounts. The tables shown below present agreements of these values to balance sheet values of derivative instruments: As at September 30, 2019, there was no interest rate swap derivative in the Group due to its complete settlement together with the early repayment of the syndicated loan of Pątnów II Power Plant on April 23, 2019.

(in thousand PLN)

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

31 December 2018	*On demand*	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Inflows	-	(43)	(40)	-	-	(83)
Outflows	-	416	421	-	-	837
Net amounts	-	(459)	(461)	-	-	(920)
Discounted using appropriate interbank rates	**-**	**(459)**	**(462)**	**-**	**-**	**(921)**

(in thousand PLN)

33. Financial instruments

33.1. Balance sheet value and fair value of particular classes of financial instruments

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

Financial assets	Category acc. to IFRS 9	*30 September 2019 (unaudited)*	*31 December 2018*
Other financial assets	AFwgZK	3 439	41 427
Trade receivables and other receivables	AFwgZK	256 459	354 183
Derivative financial instruments	WwWGpWF	3 216	19
Cash and cash equivalents	AFwgZK	381 929	304 658
Financial liabilities			
Interest-bearing bank credits and loans, including:		200 822	420 379
long term	PZFwgZK	38 562	59 424
short term	PZFwgZK	162 260	360 955
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	161 224	166 358
Derivative financial instruments	WwWGpWF	-	921

Used abbreviations:

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

(in thousand PLN)

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

	30 September 2019 (unaudited)	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	3 216	-
Derivatives hedging liabilities	-	-	-	-

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

The fair value of financial instruments other than derivatives as at September 30, 2019 and December 31, 2018 did not deviate significantly from the carrying amounts, mainly due to the fact that for short-term instruments the effect of discounting is not material and the fact that the transactions are concluded at market conditions; for this reason, the fair value of these instruments has been presented at the carrying amount.

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

In the period ended 30 September 2019 and the one ended 31 December 2018, there were no shifts between the level 1 and the level 2 of the fair value hierarchy, and none of instruments was shifted to the level 3 of the fair value hierarchy

(in thousand PLN)

33.2. Interest rate risk

The table below presents the interest rate gap constituting the Group's exposure to interest rate risk and the concentration of this risk by currency and type of interest.

	Type of interest rate	*Carrying amount as of 30 September 2019 (unaudited)*	*Carrying amount as of 31 December 2018*
Financial assets at interest rate risk – PLN	Fixed	-	-
	Variable	383 466	192 891
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	1 357	134 310
Financial liabilities at interest rate risk - PLN	Fixed	-	-
	Variable	200 822	312 179
Financial liabilities at interest rate risk – Other currencies	Fixed	-	53 756
	Variable	-	54 444
Net exposure -PLN	Fixed	-	-
	Variable	182 644	(119 288)
Net exposure - other currencies	Fixed	-	(53 756)
	Variable	1 357	79 866

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

33.2.1. Hedging

As at 31 December 2018 the Group secured interest rate risk related to the incurred corporate credit denominated in EUR of variable interest rate based on the EURIBOR 3M benchmark interest rate using derivative transactions. The instrument securing exposure to interest risk rate was the Interest Rate Swap transaction, within which the Group exchanged stream of cash interest payments based on the variable EURIBOR 3M rate for payments of fixed interest rate at 3.1050%. The Group indicated designated derivative instruments as protecting instruments in the model of cash flow security, and included them in accordance with protections accounting rules.

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

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

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

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

Instrument type	*Nominal value in the transaction currency [euro]**	*Fair value in PLN*	*Expected duration of hedged item's realisation*
	31 December 2018	*31 December 2018*	*31 December 2018*
IRS transaction	12 501	(921)	23 April 2019

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

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

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

As at September 30, 2019, two Group companies used instruments to mitigate the risk arising from changes in exchange rates. ZE PAK S.A. and Elektrownia Pątnów II sp. z o.o. secured the euro exchange rate for some flows related to the purchase of CO2 emission allowances. ZE PAK SA used forward transactions with settlement in March 2020 to hedge the exchange rate. Elektrownia Pątnów II sp. z o.o. to hedge the exchange rate, it used forward transactions with settlement in December 2019.

Type of concluded transactions	*Currency cross*	*Transaction amount (nominal value in thousand EUR) 30 September 2019 (unaudited)*	*Net market value (fair value in thousand PLN) 30 September 2019 (unaudited)*	*Maturity*
Purchase of EUR transaction (forward)	(EUR/PLN)	18 400	1 917	March 2020
Purchase of EUR transaction (forward)	(EUR/PLN)	15 000	1 299	December 2019

The Group also hedges the risk of changes in the prices of CO_2 emission allowances by using forward transactions for the purchase of allowances for its own needs. The table below presents a summary of forward transactions active on September 30, 2019.

30 September 2019 (unaudited)

Type of concluded transactions	*Number of purchased allowances (unaudited)*	*Total value of transactions in EUR thousand (unaudited)*	*Currency of transactions*	*Maturity*
Forward transaction	6 679 000	140 580	EUR	Up to 1 year
Forward transaction	3 155 000	81 763	EUR	Over 1 year

30 September 2018 (unaudited)

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

34. Capital management

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

The Group manages the capital structure, and, as a result of changes of economic conditions, introduces amendments to it. In the period ended 30 June 2019 and 31 December 2018, there were no introduced amendments to goals, rules and processes applying in this area.

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

	30 September 2019 (unaudited)	*31 December 2018*
Interest-bearing credits and loans	200 822	420 379
Derivative financial instruments (liabilities)	-	921
Trade liabilities and other financial liabilities	161 224	166 358
Minus cash and its equivalents	381 929	304 658
Net debt	(19 883)	283 000
Equity	1 696 448	1 687 147
Capitals from revaluation of security instruments	-	(460)
Total capital	1 696 448	1 686 687
Net capital and debt	1 676 565	1 969 687
Leverage ratio	(1,19%)	14,37%

35. Significant events after the balance sheet date

Apart from those described in the additional explanatory notes, after the balance sheet date to the date of approval of these interim condensed consolidated financial statements for the 9-month period ended September 30, 2019, no significant events occurred.

SIGNATURES:

Henryk Sobierajski
President of the Management Board ....

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

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

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

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

Aneta Desecka
Chief Accountant ....