In case of divergence between the language versions, the Polish version shall prevail.

Polenergia S.A. Group

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED ON 31 DECEMBER 2018

INCLUDING THE REPORT OF THE INDEPENDENT AUDITOR

Michał Michalski – President of the Management Board

Robert Nowak - Member of the Management Board

Iwona Sierżęga – Member of the Management Board

Agnieszka Grzeszczak – Director Accounting Department

Warsaw 4 March 2019

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1. Consolidated balance sheet

As at 31 December 2018

ASSETS

	Note	31.12.2018	31.12.2017
I. Non-current assets		**1 877 422**	**2 049 507**
1. Tangible fixed assets	13	1 589 271	1 790 851
2. Intangible Assets	14	19 466	30 146
3. Subordinated entities goodwill	15	69 613	184 613
4. Financial assets	17	22 538	14 609
5. Financial assets measured using the equity method	18	161 838	-
6. Long term receivables	19	4 146	4 489
7. Deferred income tax assets	26	10 507	24 756
8. Prepayments and accrued income		43	43
II. Current assets		**1 176 860**	**614 757**
1. Inventories	20	34 971	26 214
2. Trade receivables	21	116 010	123 091
3. Income tax receivable	21	5 849	1 319
4. Other short term receivables	21	59 863	39 995
5. Prepayments and accrued income	22	5 927	6 939
6. Short term financial assets	23	642 383	119 301
7. Cash and equivalent	24	311 857	297 898
Total assets		**3 054 282**	**2 664 264**

EQUITY AND LIABILITIES

	Note	31.12.2018	31.12.2017
I. Shareholders' equity		**1 185 741**	**1 181 988**
Equity attributable to the shareholders of the parent company		**1 184 838**	**1 181 062**
1. Share capital	25.1	90 887	90 887
2. Share premium account		601 911	680 777
3. Reserve capital from option measurement		13 207	13 207
4. Other capital reserves	25.3	402 612	401 970
5. Retained profit (loss)		72 235	81 312
6. Net profit (loss)		3 404	(87 726)
7. F/X translation differences		582	635
Non-controlling interests		**903**	**926**
II. Long term liabilities		**954 389**	**894 846**
1. Bank loans and borrowings	28	792 259	705 504
2. Deferred income tax provision	26	69 196	73 973
3.Rezerwy	27	22 302	22 907
4. Accruals and deferred income	30	53 367	56 565
5. Other liabilities	29	17 265	35 897
III. Short term liabilities		**914 152**	**587 430**
1. Bank loans and borrowings	28	113 119	298 013
2. Trade payables	29	129 391	129 613
3. Income tax payable	29	345	290
4. Other liabilities	29	646 593	139 972
5.Rezerwy	27	10 587	3 656
6. Accruals and deferred income	30	14 117	15 886
Total equity and liabilities		**3 054 282**	**2 664 264**

2. Consolidated profit and loss account

For the year ended 31 December 2018

	Notes	For 12 months ended		For 3 months ended	
				unaudited	unaudited
		31.12.2018	31.12.2017	31.12.2018	31.12.2017
Sales revenues	32	3 448 712	2 762 378	887 950	751 455
Cost of goods sold	33	(3 319 507)	(2 647 064)	(834 018)	(716 973)
Net sales profit		**129 205**	**115 314**	**53 932**	**34 482**
Other operating revenues	34	79 920	10 755	71 702	1 313
Selling expense	33	(723)	(452)	(216)	53
General overheads	33	(41 612)	(35 953)	(11 585)	(12 136)
Other operating expenses	35	(82 986)	(102 584)	(64 220)	(2 680)
Financial income	36	5 700	6 398	917	1 846
Financial costs	37	(60 794)	(60 763)	(12 957)	(14 970)
Profit on loss of control over subsidiaries	18	11 983	-	-	-
Profit (loss) before tax		**40 693**	**(67 285)**	**37 573**	**7 908**
Income tax	26	(37 312)	(20 417)	(20 945)	(11 371)
Net profit (loss)		**3 381**	**(87 702)**	**16 628**	**(3 463)**
Net profit (loss) attributed to:		**3 381**	**(87 702)**	**16 628**	**(3 463)**
Parent company shareholders		3 404	(87 726)	16 647	(3 463)
Non-controlling shareholders		(23)	24	(19)	-
Earnings (loss) per share:					
Weghted average of ordinary shares		45 443 547	45 443 547	45 443 547	45 443 547
– basic/diluted earnings (loss) for period attributable to parent compnay shareholders		0,07	-1,93	0,37	-0,08
– diluted earnings (loss) from continued operations for period attributable to parent company shareholders		0,07	-1,93	0,37	-0,08

Consolidated statement of comprehensive income

	For 12 months ended		For 3 months ended	
			unaudited	unaudited
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Net profit for period	**3 381**	**(87 702)**	**16 628**	**(3 463)**
Other comprehensive income that may be reclassified to profit and loss account once specific conditions are met				
Cash flow hedges	642	2 311	(197)	1 123
F/X translation differences	(53)	(47)	1	(15)
Other net comprehensive income	**589**	**2 264**	**(196)**	**1 108**
COMPREHENSIVE INCOME FOR PERIOD	**3 970**	**(85 438)**	**16 432**	**(2 355)**
Comprehensive income for period:	3 970	(85 438)	16 432	(2 355)
Parent company shareholders	3 993	(85 462)	16 451	(2 355)
Non-controlling shareholders	(23)	24	(19)	-

3. Consolidated statement of changes in equity

For the year ended 31 December 2018

	Share capital	Share premium account	Reserve capital from option measurement	Other capital reserves	Retained profit	Net profit	F/X translation differences	Equity attributable to the shareholders of the parent company	Non-controlling interest	Total equity
As at 1 January 2018	**90 887**	**680 777**	**13 207**	**401 970**	**(6 414)**	**-**	**635**	**1 181 062**	**926**	**1 181 988**
Change of accounting principles in line with IFRS 9	-	-	-	-	(217)	-	-	(217)	-	(217)
As at 1 January 2018 (converted)	**90 887**	**680 777**	**13 207**	**401 970**	**(6 631)**	**-**	**635**	**1 180 845**	**926**	**1 181 771**
Comprehensive income for reporting period										
- Net profit (loss) for reporting period	-	-	-	-	-	3 404	-	3 404	(23)	3 381
- Other comprehensive income for period	-	-	-	642	-	-	(53)	589	-	589
Transactions with owners of the parent recognized directly in equity										
- Allocation of profit/loss	-	(78 866)	-	-	78 866	-	-	-	-	-
As at 31 December 2018	**90 887**	**601 911**	**13 207**	**402 612**	**72 235**	**3 404**	**582**	**1 184 838**	**903**	**1 185 741**

The amount of PLN 642K of other comprehensive income refers to the measurement of cash flow hedges referred to in more detail in Note 42.

The amount of PLN 78,866K is distribution of profit/loss of the parent company for 2017 referred to in more detail in Note 25.4.

The change of accounting principles affecting the figure of PLN 217K results from renegotiation of the facility agreement, with more details in Note 28

For the year ended 31 December 2018

	Share capital	Share premium account	Reserve capital from option measurement	Other capital reserves	Retained profit	Net (loss)	F/X translation differences	Equity attributable to the shareholders of the parent company	Non-controlling interest	Total equity
As at 1 January 2017	**90 887**	**765 810**	**13 207**	**399 659**	**(3 721)**	**-**	**682**	**1 266 524**	**902**	**1 267 426**
Comprehensive income for reporting period										
- Net (loss) for reporting period	-	-	-	-	-	(87 726)	-	(87 726)	24	(87 702)
- Other comprehensive income for period	-	-	-	2 311	-	-	(47)	2 264	-	2 264
Transactions with owners of the parent recognized directly in equity										
- Allocation of profit/loss	-	(85 033)	-	-	85 033	-	-	-	-	-
- Dividend distribution	-	-	-	-	-	-	-	-	-	-
As at 31 December 2017	**90 887**	**680 777**	**13 207**	**401 970**	**81 312**	**(87 726)**	**635**	**1 181 062**	**926**	**1 181 988**

The amount of PLN 2,311K of other comprehensive income refers to measurement of cash flow hedges referred to in more detail in note 42.

The amount of PLN 85,033K is distribution of profit/loss of the parent company for 2016 referred to in more detail in note 25.4.

4. Consolidated statement of cash flows

For the year ended 31 December 2018

	Notes	For 12 months ended 31.12.2018	For 12 months ended 31.12.2017
A. Cash flow from operating activities			
I. Profit (loss) before tax		**40 693**	**(67 285)**
II. Total adjustments		**71 190**	**178 874**
1.Amortyzacja	33	95 523	97 080
2 Foreign exchange losses (gains)		792	(1 797)
3. Interest and profit shares (dividends)		53 472	56 340
4. Losses (gains) on investing activities		83	112 194
5. Income tax		(24 271)	(3 479)
6. Changes in provisions		6 326	(2 009)
7. Changes in inventory		(8 353)	15 543
8. Changes in receivables		(536 720)	(15 375)
9. Changes in short term liabilities, excluding bank loans and borrowings		487 690	(77 409)
10 . Changes in accruals		(3 624)	(2 641)
11. Other adjustments		272	427
III. Net cash flows from operating activities (I+/-II)		**111 883**	**111 589**
B. Cash flows from investing activities			
I. Cash in		**111 378**	**7 437**
1. Disposal of intangibles and tangible fixed assets		3 574	398
2. From financial assets, including:		109 358	156
a) disposal of financial assets		108 612	-
b) repayment of long –term loans given		-	156
c) other inflows from financial assets		746	-
3. Cash from disposal of subsidiary		(1 554)	-
4. Other investment inflows		-	6 883
II.Cash out		**55 312**	**32 259**
1. Acquisition of tangible fixed assets		28 693	32 207
2. For financial assets, including:		26 619	52
a) acquisition of financial assets		26 619	52
III. Net cash flows from investing activities (I-II)		**56 066**	**(24 822)**
C. Cash flows from financing activities			
I.Cash in		**58 652**	**12 148**
1. Loans and borrowings		58 652	12 148
II.Cash out		**212 496**	**181 978**
1. Repayment of loans and borrowings		165 520	126 369
2. Financial lease payables		611	732
3.Interest		45 383	52 931
4. Other financial expenses		982	1 946
III. Net cash flows from financing activities (I-II)		**(153 844)**	**(169 830)**
D. Total net cash flows (A.III +/- B.III +/- C.III)		**14 105**	**(83 063)**
E. Increase/decrease in cash in the balance sheet, including:		**13 959**	**(82 964)**
- change in cash due to f/x differences		(146)	99
F.Cash at beginning of period		**297 898**	**380 862**
G.Cash at end of period, including:		**311 857**	**297 898**
- restricted cash	38	40 049	42 363

External financing sources – bank loans (statement of cash flows)	For 12 months ended 31.12.2018	31.12.2017
item C.I.1 Proceeds from borrowings	58 652	12 148
item C.II.1 Repayment of borrowings	(165 520)	(126 369)
Change in external financing sources, including:	**(106 868)**	**(114 221)**
net investment loans incurred	(144 774)	(105 353)
net drawdown/repayment of overdraft	37 906	(8 868)

5. General

Polenergia S.A. Group (the "Group") comprises Polenergia S.A. (former Polish Energy Partners S.A), business name altered by way of an inscription in the National Court Register (KRS) dated 11 September 2014 (the "Company", the "parent company") and its subsidiaries. The Company was founded under a Notarized Deed of 17 July 1997. The Company has been registered with the National Court Register kept by the District Court for the city of Warsaw, Commercial Division XII of the National Court Register under number KRS 0000026545. The Company was assigned the statistical number REGON 012693488. The registered office of the Company is located in Warsaw at Krucza 24/26; the head office was registered on 20 November 2013.

Stock of Polenergia S.A. is listed at the Warsaw Stock Exchange.

According to the National Court Register entry, the object of the Company includes:

- production and distribution of electricity (classified under PKD 40.10),
- production and distribution of heat (steam and hot water) (PKD 40.30),
- general construction and civil engineering (PKD 45.21),
- construction systems (PKD 45.3),
- other forms of lending, save for business which requires a concession or a license or which has been exclusively reserved for banks (PKD 65.22),
- research and development in natural and technical sciences (PKD 73.10),
- development and sale of real estate on the Company's own account (PKD 70.11),
- real property management provided to third parties (PKD 70.32),
- accounting and bookkeeping services (PKD 74.12),
- construction, urban and technology- related design (PKD 74.20),
- business and management advisory services (PKD 74.14),
- other commercial business, not classified elsewhere (PKD 74.84),
- other forms of education, not classified elsewhere (PKD 80.42),
- wholesale of solid, liquid and gaseous fuel and derivative products (PKD 51.51).

The scope of business of the subsidiaries is related to the core business of the parent company.

5.1. Lifetime

Lifetime of the Company, as well as all member companies of the Group is unlimited.

5.2. Periods covered by the consolidated financial statements

The consolidated financial statements cover the year ended on 31 December 2018 and comprises comparable financial data for the year ended on 31 December 2017.

Composition of the parent company Management Board as at 31 December 2018:

Jacek Głowacki	President of the Management Board
Michał Michalski	Member of the Management Board
Robert Nowak	Member of the Management Board

On 9 April 2018 the Supervisory Board appointed the existing Vice-President Mr. Jacek Głowacki President of the Company Management Board.

On 9 April 2018 Mr. Bartłomiej Dujczyński resigned from his position of the Member of the Company Management Board.

On 8 August 2018 Mr. Robert Nowak and Mr. Jacek Suchenek were appointed Members of the Management Board.

On 30 November 2018 Mr. Jacek Suchenek resigned from his position of the Member of the Company Management Board.

On 23 January 2019 the Company received a resignation of Mr. Jacek Głowacki from his position as the President of the Management Board. Concurrently, during the meeting on 23 January 2019, the Supervisory Board appointed Mr. Michał Michalski President of the Management Board and Ms. Iwona Sierżęga Member of the Management Board.

Composition of the parent company Supervisory Board as at 31 December 2018:

Dominika Kulczyk - Chair of the Supervisory Board

Hans E. Schweickardt - Deputy Chair of the Supervisory Board

Marta Schmude-Olczak - Member of the Supervisory Board

Brian Bode - Member of the Supervisory Board

Kajetan D'Obyrn - Member of the Supervisory Board

Arkadiusz Jastrzębski - Member of the Supervisory Board

Michał Kawa - Member of the Supervisory Board

Orest Nazaruk - Member of the Supervisory Board

On 6 July 2018 resignation was filed from the position of the Supervisory Board Member by Mr. Tomasz Mikołajczak, Mr. Łukasz Rędziniak, Mr. Dominik Libicki, Mr. Mariusz Nowak and Mr. Dawid Jakubowicz. All the above-mentioned persons resigned from the Supervisory Board effective as at 12 July 2018.

On 13 July 2018 Extraordinary General Meeting of the Company appointed five Members of the Supervisory Board, namely Ms. Dominika Kulczyk, Ms. Marta Schmude - Olczak, Mr. Hans Schweickardt, Mr. Kajetan D'Obyrn and Mr. Michał Kawa.

On 19 July 2018 resignation was filed from the position of the Supervisory Board Member by Ms. Dagmara Gorzelana.

On 7 January 2019 Mr. Michał Kawa resigned from his position of the Member of the Company Supervisory Board.

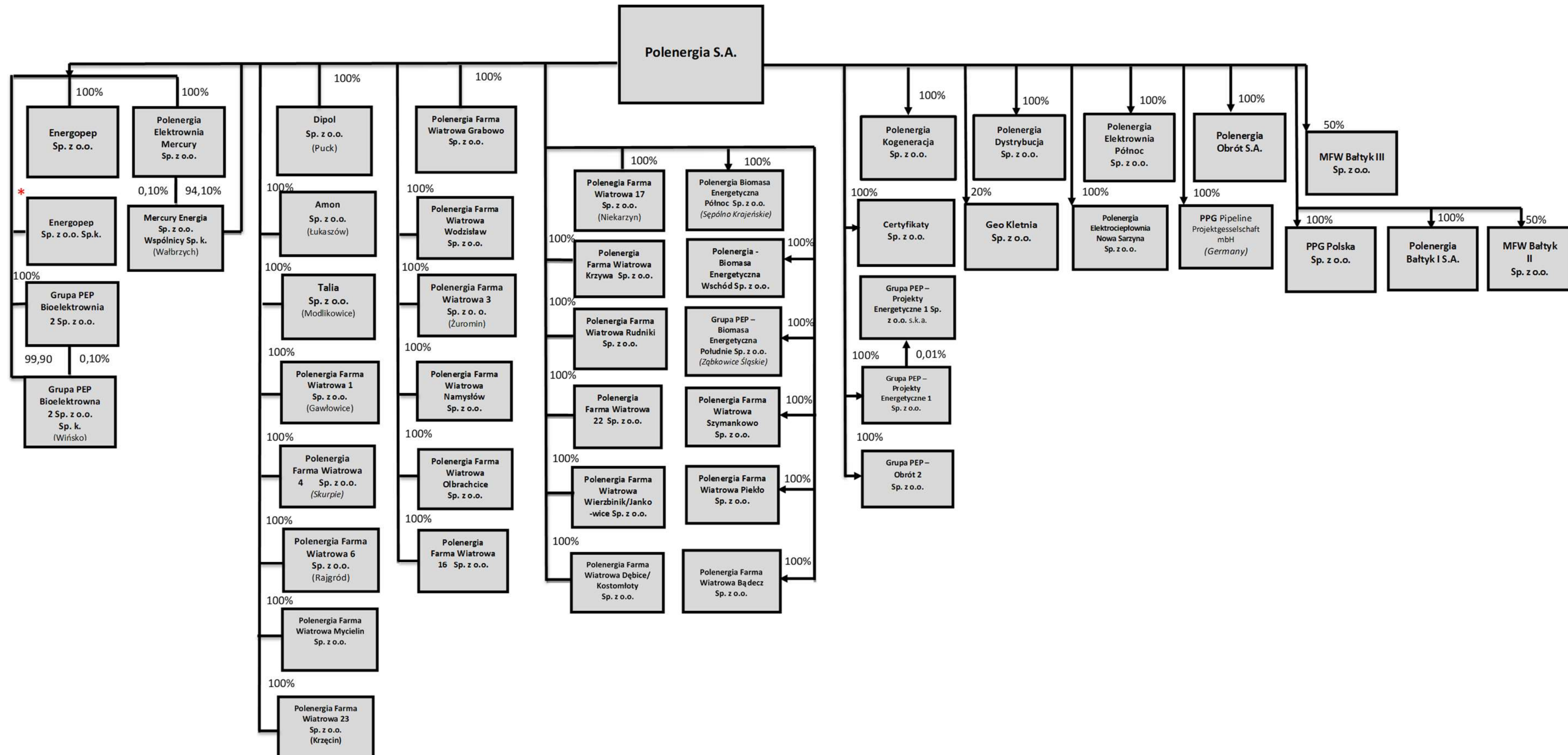
On 8 January 2019 Extraordinary General Meeting dismissed Mr. Kajetan D'Obyrn from the Supervisory Board and appointed Ms. Marjolein Helder and Mr. Sebastian Kulczyk Members of the Supervisory Board.

6. Going concern assumption

The consolidated financial statements have been prepared based on the going concern assumption for the Company and the Group companies in foreseeable future, that is for no fewer than 12 months following the reporting day, i.e. following 31 December 2018.

7. Organizational structure of the Group

[see chart below]



*0,1% przysługuje spółce Energopep Sp. z o.o., 33,9 % POL-SA, 33% POL-D, 33% Dipol;

8. Approval of the financial statements

These consolidated financial statements were approved for publication by the parent company Management Board on 4 March 2019.

9. Accounting principles (policy) applied

The accounting principles (policies) applied in preparation of the financial statements are consistent with those applied in preparation of the Company financial statements for the year ended 31 December 2017, except for the adoption of new and amended standards referred to in Note 9a and Note 9b. The new accounting principles applied as of 1 January 2018 have been outlined in relevant Notes.

New and modified standards and interpretations have been applied:

These consolidated financial statements apply for the first time the following new standards and modifications to the existing standards which took effect as of 1 January 2018:

a) IFRS 9 “Financial Instruments”

IFRS 9 has replaced IAS 39. This standard implements the following financial asset classification: financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and those measured at amortized cost. The classification of a financial asset is made at the time it is initially recognized and depends on the model the company has adopted for financial instrument management and the features of contractual cash flows from such instruments.

IFRS 9 requires a new model for write downs: a model of expected credit losses.

Most of the requirements under IAS 39 regarding classification and measurement of financial liabilities have been incorporated into IFRS 9 unchanged. The key change is the requirement imposed on companies to disclose, under other comprehensive income, the effect of changes of their own credit risk on account of financial liabilities determined by the financial performance to be measured at fair value through profit or loss and to recognize under profit or loss, on an one-off basis - the effects of renegotiations of facility agreements which do not trigger elimination of the relevant liability from accounting books.

The Group applied IFRS 9 retrospectively, but took advantage of an option not to recompute data for comparable periods. As a result, the comparative data is still based on the accounting principles applied by the Group earlier and referred to in the annual consolidated financial statements for the financial year ended on 31.12.2017.

In terms of hedge accounting the changes were aimed at more closely align hedge accounting with risk management.

It transpires from the analyses that IRFS 9 had no material impact on the consolidated financial statements of the Group except for the impact of renegotiated facility agreement referred to in more detail hereinbelow. IFRS 9 will not be applied to hedge accounting. In view of such negligible impact of IFRS 9 on the consolidated financial statements, the Group does not disclose any detailed change reconciliation as at the date of implementing said standard in a separate note. The Group has not identified any changes in classification of its financial assets and liabilities following implementation of IFRS 9, therefore the classification under IAS 39 remains valid.

Assets that include loans and debtors under IAS 39 are measured under IFRS 9 at amortized cost, while assets measured at fair value through P&L have not changed. The Group has not identified any other asset categories.

In connection with renegotiation of the loan agreement with the subsidiary - Dipol sp. z o.o., a change of accounting principles took place which used to be disclosed as an adjustment of the effective interest rate of liability in order to settle the delta between the balance sheet value of such liability and the discounted modified future payments throughout the expected financing term is recognized under profit or loss on a one-off basis, according to IFRS 9. It was found necessary to recalculate the depreciated cost using the effective interest rate determined as at the execution day of the facility agreement in connection with the modification of such facility agreement that took place.

b) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15:Revenue from Contracts with Customers” has replaced IAS 18 and IAS 11 and their relevant interpretations. The principles in IFRS 15 refer to any and all contracts yielding revenues. The core principle of the new standard is that revenue is recognized at the moment of transfer of control over the goods or services to a customer in the amount of the transaction price. Any goods or services which are sold in packages but can be identified separately in a package must be recognized individually, on top of that any discounts and rebates affecting the transaction price must in principle be allocated to individual elements of the package. If the consideration is variable, according to the new standard, variable amounts are recognized under revenue, if it is highly probable that no reversal of revenue recognition will take place in the future as a result of remeasurement. In addition, according to IFRS 15, any cost borne in order to win and secure a contract with a customer must be activated and recognize over time for a period of consuming benefits from such contract.

The Group adopted IFRS 15 as od 1 January 2018 which triggered changes in accounting principles applied. IFRS 15 was originally issued in May 2014. It was amended in September 2015 to defer its effective date until 1 January 2018 and in April 2016 in order to clarify a number of issues identified by the Joint IASB FASB Transition Resource Group for Revenue Recognition. According to the transition provisions of IFRS 15, the Group adopted new guidelines and applied a modified retrospective approach in that the cumulative impact of the inception of the new standard is disclosed as an adjustment of the opening balance of retained profit in the inception period, i.e. as at 1 January 2018. No adjustment has been made to the comparative previous years data. Those entities which apply the modified retrospective approach should apply it retrospectively solely with respect to those contracts which had not been performed as at 1 January 2018. The entities which apply the modified retrospective approach may also resolve to adopt a practical solution for the contract amendments. The implementation of IFRS 15 has not affected the method of recognizing revenues, nor the need to recognize assets from contracts with customers or liabilities under contracts with customers.

The Group applied IFRS 15 retrospectively, but took advantage of an option not to recompute data for comparable periods. As a result, the comparative data is still based on the accounting principles applied by the Group earlier and referred to in the annual consolidated financial statements for the financial year ended on 31.12.2017.

It transpires from the analyses that IRFS 15 had no material impact on the consolidated financial statements of the Group. In view of such negligible impact of IFRS 15 on the consolidated financial statements, the Group does not disclose any detailed change reconciliation as at the inception date of said standard in a separate note.

c) Clarifications to IFRS 15 “Revenue from Contracts with Customers”

Clarifications to IFRS 15 “Revenue from Contracts with Customers” provide additional information on core model framework of IFRS 15 on identification of individual performance obligations, determining whether the entity has the status of intermediary (agent) or whether it is the major

supplier of goods and services (principal), as well as the recognition of license revenue. In addition to such clarifications, exemptions and simplified procedures have also been envisaged for entities applying this standard for the first time.

d) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The amendment to of IFRS 2 provides, without limitation, for guidelines with respect to fair value measurement of share based payment transactions settled in cash, guidelines with respect to the change of classification of cash-settled share-based transactions for equity-settled share-based transactions, as well as guidelines with respect to recognition of tax liability of an employee arising from share-based transactions.

e) Amendments to IFRS 4: Application of IFRS 9 “Financial Instruments” along with IFRS 4 “Insurance Contracts”

Amendments to IFRS 4 “Insurance Contracts” address the issue of application of new standard IFRS 9 “Financial Instruments”. The published Amendments to IFRS 4 add to the already existing options and are meant to prevent previous fluctuation of performance of entities in the insurance sector in connection with the implementation of IFRS 9.

f) Annual Improvements to IFRS Standards 2014–2016 Cycle

“Annual Improvements to IFRS Standards 2014 - 2016 Cycle” have modified 3 standards: IFRS 12 “Disclosure of Interests in Other Entities”, IFRS 1 “First-time Adoption of IFRS” and IAS 28 “Investments in Associates”. Modifications provide clarifications and changes with respect to the scope of standards, recognition and measurement, as well as changes in terminology and editing.

Amendments to IFRS 12 apply to annual periods commencing 1 January 2017, while all other modifications became mandatory as of 1 January 2018.

g) Amendments to IAS 40: Transfers of Investment Property Classification

Amendments to IAS 40 specify the requirements with respect to transfers to or from investment property classification.

h) IFRIC 22: Foreign Currency Transactions and Advance Consideration

IFRIC 22 clarifies the accounting principles for transactions that include the receipt or payment of advance consideration in a foreign currency.

Published standards and interpretations that do not yet apply and have not been applied by the Group prior to their effective date

The Group has decided to refrain from early applying the following published standards, interpretations or amendments to the existing standards in these consolidated financial statements prior to the effective date of such standards, interpretations or amendments:

a) IFRS 16 "Leases"

IFRS "Leases" applies to annual periods commencing on 1 January 2019 or thereafter and has been approved by the European Union. It shall replace the existing IAS 17 standard, as well as the IFRIC 4 and SIC 15,27 interpretations.

The new standard brings a single lease recognition model in the lessee's accounting books, similar to the finance lease recognition under IAS 17. According to IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The most crucial element differentiating between the definitions of a lease under IAS 17 and IFRS 16 is the requirement of exerting control over the use of a specific asset identified in the contract explicitly or implicitly. Transfer of the right to use takes place whenever an identified asset is involved with respect to which the lessee has the right to practically all rewards and controls the use of such asset in a given period.

Whenever the definition of a lease is met, the right to use a given asset is recognized, including the relevant lease liability determined in the amount of discounted future payments throughout the lease term.

Expenses in connection with the use of leased assets that have been recognized to a large extent under external services, shall from now on be classified as depreciations and interest cost.

The right-to -use assets are depreciated on a straight line basis, while lease contract liabilities are settled based on a fixed interest rate basis.

The Group shall apply IFRS 16 as of 1 January 2019.

Impact of IFRS 16 on the consolidated financial statements

As at the time of preparation of these consolidated financial statements, implementation of the new IFRS 16 standards was in progress. In Q4 2018 the Group reviewed most of its service procurement contracts, regardless of their current classification, with a view to select those contracts which provide for the Group's use of assets owned by suppliers. In addition, the Group performed a review with respect to perpetual usufruct right of land easements on the land and with respect to transmission.

The Group resolved to implement said standard as of 1 January 2019. According to the transition provisions in IFRS 16, the new principles will be adopted retrospectively, with recognition of the cumulative effect of initial implementation of the new standards under equity as at 1 January 2019. Consequently, there will be no adjustment of the comparative data for the financial year 2018 (modified retrospective approach).

Individual adjustments resulting from the implementation of IFRS 16 are listed below:

(a) recognition of lease payables

Once IFRS 16 is implemented, the Group shall recognize lease payables in connection with the lease that was earlier classified under "operating lease" in line with the principles of IAS 17 Leases. Such payables shall be measured at the present value of the outstanding lease payments as at the inception of IFRS 16 application. For impact presentation purposes, the tables on the following pages show discounting using the marginal interest range of the Group as at 31 December 2018.

As at the initial recognition, lease payments included in the lease liability measurement include the following types of payments for the right to use the underlying asset throughout the lease term:

- fixed lease payments less any lease incentives receivable,

- variable lease payments dependent on market indices,

- amounts expected to be paid for guaranteed residual value of the leased asset,

- purchase option exercise price, provided sufficient certainty exists as to such exercise,

- penalties for termination of lease if the lessee may exercise termination option.

In order to derive the discount rates under IFRS 16, the Group has assumed that the discount rate should reflect the cost of such financing as would be incurred to purchase the leased asset. When estimating the discount rate, the Group considered the following contractual features: type, tenor, currency and potential spread the Group would have to pay to any financial institution providing financing.

As at 31 December 2018 the discount rates derived by the Company were within the range of (depending on the terms of contract):

for PLN-denominated contracts: between 3.75% and 6.18%

EUR-denominated contracts: 4.54 %

The risk-free rate (RFR) has been estimated based on treasury bonds.

The Group will apply simplified principles regarding short-term leases (not exceeding 12 months) and such leases where the value of the underlying asset is low - for those leases the Group will not recognize financial liabilities and relevant right-of-use assets. Respective lease payments shall be recognized as an expense over the lease term on a straight-line basis.

(b) recognition of the right-of-use assets

Right-of-use assets are measured at cost.

As at 1 January 2019 the Group adopted asset recognition at the amount of liabilities adjusted for any temporary amounts recognized in the balance sheet.

(c) application of estimates and judgments

Implementation of IFRS 16 requires certain estimates, judgments and calculations which impact on the measurement of finance lease liabilities and right-of-use assets. They include, without limitation:

- assessment whether the contract provides for a lease in line with IFRS 16

- determination of term of contracts (including indefinite term contracts and extendable contracts)

- determination of the discount rate applied in order to discount future cash flows,

- determination of the depreciation rate.

(d) Application of practical expedients

At the initial application of IFRS 16 the Group shall take advantage of the following practical expedients permitted by the standard:

- a single discount rate shall be applied to the lease contract portfolio which share similar characteristics,

- operating lease contracts with the outstanding lease term not exceeding 12 months shall be recognized as short term lease as at 1 January 2019,

Impact on the balance sheet

Estimated impact of IFRS 16 implementation with respect to the contracts under review on the recognition of additional financial liabilities and relevant right-of-use assets is shown in the tables below:

Right-of-use assets/Liabilities under lease	
Land real estate	46 863
Perpetual usufruct of the land	269
Other real estate	4 366
Plant and machinery	1 512
Vehicles	424
Other	13
Total	**53 448**

Impact on equity

Based on the analyses performed it has been corroborated that the implementation of IFRS 16 will have no impact on retained profit and equity as at 1 January 2019 in view of the recognition of the right-of-use assets and lease liabilities in identical amount.

Impact on financial ratios

As practically all lease contracts have been recognized in the Group's balance sheet, implementation of IFRS 16 by the Group will impact its ratios, including debt to equity ratio. In addition, following implementation of IFRS 16 measurement of profit will change (including, without limitation. operating profit, EBITDA), as well as cash flows. The Group reviewed the impact of those changes on the compliance with the covenants in loan agreements to which the Group is a party and identified no risk of breach of said covenants. The Group reviewed the impact of IFRS 16 on the deferred tax and identified to differences.

b) Amendments to IFRS 9: Prepayment Features with Negative Compensation

This amendment to IFRS 9 applies to annual periods commencing on 1 January 2019 or thereafter, with possible early application. As a result of the amendment to IFRS 9 entities will be permitted to measure financial assets with prepayment with negative compensation at amortized cost or at par value using other total revenue provided a specific condition is met - instead of measurement at par value through profit and loss.

The Group shall apply the abovementioned changes as of 1 January 2019.

It is an expectation of the Group that at the initial recognition, such changes will have no material impact on the consolidated financial statements of the Group.

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

c) IFRS 17 “Insurance Contracts”

IFRS 17 “Insurance Contracts” was issued by the International Accounting Standards Board on 18 May 2017 and applies to annual periods commencing on 1 January 2021 or thereafter.

The new IFRS 17 Insurance Contracts will replace the existing IFRS 4 which permits diverse practices with respect to settlement of insurance contracts. IFRS 17 will fundamentally change the accounting of all entities dealing with insurance and investment contracts.

The Group will apply IFRS 17 after it is approved by the European Union.

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

d) Amendments to IAS 28 “Investments in Associates and Joint Ventures””

This amendment applies to annual periods commencing on 1 January 2019 or thereafter. Amendments to IAS 28 “Investments in Associates and Joint Ventures”” clarify that with respect to long-term interests in an associate or a joint venture to which equity method is not applied, the companies shall use IFRS 9. In addition, the Board also published an example illustrating application of the requirements under IFRS 9 and IAS 28 to long-term interests in an associate of a joint venture.

The Group shall apply the abovementioned changes as of 1 January 2019.

It is an expectation of the Group that at the initial recognition, such changes will have no material impact on the consolidated financial statements of the Group.

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

e) IFRIC 23: Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the requirements regarding recognition and measurement under IAS 12 in the context of uncertainties in income tax recognition. Such guidelines apply to annual periods commencing on 1 January 2019 or thereafter.

The Group shall apply the abovementioned changes as of 1 January 2019.

It is an expectation of the Group that at the initial recognition, such changes will have no material impact on the consolidated financial statements of the Group.

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

f) Annual Improvements to IFRS Standards 2015–2017 Cycle

In December 2017 the International Accounting Standards Board published “Annual Improvements to IFRS Standards 2015–2017 Cycle” which amend 4 standards: IFRS 3 “Business Combinations”, IFRS 11 “Joint Arrangements”, IAS 12 “Income Taxes” and IAS 23 “Borrowing Costs”.

The improvements provide clarifications and more specific guidelines under standards with respect to recognition and measurement.

The Group shall apply the abovementioned changes as of 1 January 2019.

It is an expectation of the Group that at the initial recognition, such changes will have no material impact on the consolidated financial statements of the Group.

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

g) IAS 19 "Employee Benefits"

These amendments to IAS 19 apply to annual periods commencing on 1 January 2019 or thereafter. These amendments outline the requirements for accounting recognition of plan amendment, curtailment or settlement.

The Group shall apply the abovementioned changes as of 1 January 2019.

It is an expectation of the Group that at the initial recognition, such changes will have no material impact on the consolidated financial statements of the Group.

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

h) Amendments regarding reference to the Conceptual Framework for Financial Reporting

Amendments regarding reference to the Conceptual Framework for IFRS shall take effect as of 1 January 2020

i) IFRS 3 "Business Combinations",

This amendment to IFRS 3 had modifies the definition of a "business". The newly implemented definition has been narrowed down and is likely to result in more acquisition transactions being classified under obtaining asset control. These amendments to IFRS 3 apply to annual periods commencing on 1 January 2020 or thereafter.

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

j) IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Principles (Policies), Changes in Accounting Estimates and Errors"

The Board published a new definition of "materiality". Amendments to IAS 1 and IAS 8 specify in more detail the definition of materiality and increase consistency among the standards, however they are not expected to have any significant impact on the preparation of financial statements. This amendment is mandatory for annual periods commencing on 1 January 2020 or thereafter.

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

k) IFRS 14 "Regulatory Deferral Accounts"

This standard permits the entities which prepare their financial statements in line with IFRS for the first time (as at 1 January 2016 or thereafter) to recognize regulated activities (with regulated prices) in accordance with the previously applied accounting principles. For the sake of better comparability against entities that have already been applying IFRS and have not been disclosing such amounts, according to the published IFRS 14, the amounts resulting from regulated activities should be presented separately both in the financial standing statement and in the profit and loss account, as well as in the statement of other comprehensive income.

The European Union has decided not to approve IFRS 14.

l) Amendments to IFRS 10 and IAS 28 with respect to Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Said amendments have solved the problem of the existing inconsistency between IFRS 10 and IAS 28. The exact accounting recognition depend on whether the non-cash assets sold or contributed to the associate or a joint venture contain business.

In the event the non-cash assets contain business, the investor shall disclose full gain or loss on transaction. If, however, such assets do not fall under the definition of business, the investor shall recognize gain or loss excepting that part which comprises interests of other investors.

Said amendments were published on 11 September 2014. No effective date of such amended provisions has been determined by the International Accounting Standards Board.

As at the date of these consolidated financial statements, approval of those amendments have been deferred by the European Union.

9.1. The rules underlying the consolidated financial statements

These consolidated financial statements have been prepared in accordance with the International Accounting Standards/ International Financial Reporting Standards (IAS/IFRS) approved by the European Union and cover a 12-month period commencing on 1 January 2018 and ending on 31 December 2018 and a comparable period between 1 January 2017 and 31 December 2017, as well as for the fourth quarter of 2018 and 2017. According to the applicable provisions of law, financial statements for the financial year ended on 31 December 2018 together with the comparable data for the financial year ended on 31 December 2017 were subject to an audit by chartered auditor. Data for Q4 2018 and comparable data for Q4 2017 were not audited by chartered auditor.

These consolidated financial statements have been prepared in accordance with the historical cost method, except for the following material items in the balance sheet:

financial instrument derivatives which have been measured at fair value.

IFRS include standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Some entities within the Group keep their own accounting books in line with the accounting policies (principles) set forth by the Accounting Act of 29 September 1994 (the "Act") as amended and rules issued based on such Act ("Polish Accounting Standards"). These consolidated financial statements include adjustments which have not been included in the Group entities' accounting books, in order to align the financial statements of such entities with the requirements of IFRS.

9.2. Significant measures based on professional judgment

Certain information provided in these consolidated financial statements are based on the Group's assessment and professional judgment. So derived estimates may often not reflect the actual performance. The assumptions and assessments that were of biggest importance during the measurement and recognition of assets and liabilities include:

- lease classification and measurement - the Group as a Lessor - the Group recognizes a lease as operational or financial based on an assessment to what extent the risk and benefits of possessing the leased object are for the benefit of the lessor or the lessee. Such assessment is based on the economic content of each transaction.
- Hookup fee revenues are distinct performance obligation, therefore they are recognized as revenue at the time a hookup invoice is issued. This approach reflects best the economic sense of such transaction. As part of the evaluation of the hookup service and the provision of access to the grid from the perspective whether they are an independent obligation to perform, the Management Board considered the following arguments: (i) the hookup fee amount is regulated by URE, (ii) customers who have paid the hookup fee to Polenergia Dystrybucja Sp. z o.o. are under no obligation to buy energy from Polenergia Sp. z o.o. (they are free to buy from any other provider). As a result, the hookup fee revenue is recognized in a certain point in time when the customer applies to Polenergia Dystrybucja Sp. z o.o. for connecting them to the grid. If the market practice changes, i.e. such revenues are recognized in time throughout the economic useful life of the assets, such practice shall be taken into account when recognizing revenues. As refers recognition of the connection fee revenue under IFRS 15, no market practice has yet been established unequivocally, however an approach has been considered, according to which the connection fees shall be recognized in time, i.e. over the useful life of the assets. According to the Group's estimates, the potential impact of the change of accounting policies in this respect on the consolidated financial statements as at 31 December 2018 would entail reduction of the retained profit balance of PLN 8.6 M corresponding to the recognition of future revenues of PLN 8.6M.

In the year ended on 31 December 2018 no changes were made in determining the Group's judgment with respect to information disclosed in the consolidated financial statements, with the professional judgment-derived amounts being specified in Note 21.

9.3. Significant measures based on estimates

The underlying assumptions regarding the future and other key uncertainty factors as at the balance sheet date have been discussed below. They are connected with a material risk of significant adjustment of balance sheet assets and liabilities in the immediately following financial year and include:

- impairment of non-financial fixed assets (Note 16)
- classification of certificates of origin and the carbon emission reduction units (Note 50),
- depreciation rates - the depreciation rates are determined based on the expected useful economic life of tangible fixed assets and intangibles. The Group performs review of the adopted economic useful life periods annually, based on the current estimates.
- write-downs updating receivables (Note 21),
- provisions for disputes, holiday leaves (Note 27),
- financial assets and liabilities under forward contracts (Note23),
- funds to pay stranded costs and funds to pay consumption cost of received natural gas and cost of non-received natural gas ("gas costs"); a material impact on the Company's future business will be exerted by the Contract Terminating the Long-term Contract for the Supply of Electrical Energy (PL "LTC") executed with PGE Polska Grupa Energetyczna S.A. which

was signed by the Management of Elektrociepłownia Nowa Sarzyna Sp. z o.o. Heat Plant on 28 December 2007. (former Polskie Sieci Elektroenergetyczne S.A.), according to the Act adopted by the Polish Parliament on 29 June 2007 on the terms of paying the costs borne by the producers in connection with accelerated termination of long term contracts for the sale of capacity and electrical energy ("LTC termination Act") By virtue of the Termination Act, the Company's long term contract was terminated on 31 March 2008 against compensation covering the stranded costs and the funds to pay the cost of received natural gas and the gas costs. The Act provides for the compensation capped at PLN 777.5 M for stranded costs and PLN 340.7 M for gas costs. The Company calculates its stranded cost compensation as well as one covering the gas costs based on the formulae specified in articles 30, 31, 45 and 46 of the LTC Termination Act. Given the duration of the period the calculations pertain to, estimates are subject to fluctuation (as described in more detail in Note 45); the amounts recognized as at the balance sheet date are estimates according to the best knowledge of the Company and according to data available as at the end of the reporting period,

- deferred tax - the Group recognized a deferred tax asset based on the assumption that tax gain will occur in the future permitting its application. Less successful tax gain performance in the future could lead to such assumption becoming unfounded (Note 26),
- asset impairment - the Group has performed fixed asset impairment tests. They required estimation of the value in use of the cash generating unit that owns such fixed assets. Estimation of the value in use involves determining future cash flows generated by the cash generating unit and requires determining a discount rate to be applied in order to derive the present value of such cash flows (Note 16).
- trade receivables impairment losses - calculation and measurement of expected tax losses with regard to trade receivables is the area that requires significant judgment on the choice of proper methodology and input data. For a detailed description of the measurement methodology of expected credit losses applied by the Group see Note 9.19. In the models used by the Group mostly the historical information from the market data systems of the Group are used. However, material assumptions regarding adjustments for future factor impact are made.
- The level of compensation in accordance with the adopted Act "on amendments to the Excise Duty Act and certain other Acts" of 28.12.2018, imposing on energy companies the maximum selling price to all customers in 2019, because there is a risk of creating a provision for onerous contracts. This issue may relate to the company Polenergia Dystrybucja sp. z o.o. as regards the sale of electricity, but due to the existence of significant uncertainty as to the final scope of the compensation system, it cannot be stated as at the date of this consolidated financial statement, that due to implementation of the amended law, the company will incur losses. Therefore, in accordance with IAS 37, the Group did not recognize any provisions for this title.

In the year ended on 31 December 2018 no changes were made in determining the Group's estimates that would impact any information disclosed in the consolidated financial statements, with the estimates-derived amounts being specified in the notes referred to hereinabove.

9.4. Measurement currency and currency of the consolidated financial statements

The functional currencies of the parent company and other companies included in these consolidated financial statements as well as the reporting currency of these interim condensed consolidated financial statements are: Polish Zloty and Euro for the Company PPG Pipeline Projektgesselschaft mbH.

9.5. Rules of consolidation

These consolidated financial statements includes the financial statements of Polenergia S.A. and the financial statements of its subsidiaries prepared in each case for the year ended on 31

December 2018. The financial statements of subsidiaries, upon incorporation of adjustments to align them to IFRS, are prepared for the same reporting period as applies to the financial statements of the parent company, using consistent accounting principles and based on single accounting principles applied to transactions and economic events of similar nature. In order to eliminate any discrepancies whatsoever, amendments are made to the applied accounting principles.

Subsidiaries are subject to full consolidation in the period since control has been gained over them by the parent company until such control ceases. The parent company exercises control over a subsidiary in the event it is exposed or is entitled to variable return on its involvement with such entity and is capable of exerting influence on such entity by way of exercising its power over it. Subsidiaries are subject to full consolidation until control is transferred onto the group. Consolidation ceases the day control ceases to be exerted.

Obtaining control over an entity within the meaning of IFRS 3 is accounted for using the acquisition method. Identifiable assets and liabilities of a subsidiary as at the day it is included in the consolidated financial statements are recognized at fair value. The difference between the fair value of such assets and liabilities and the acquisition price determined also at fair value, shares giving no control and the fair value of previously held shares results in goodwill which is disclosed under an individual item of the consolidated balance sheet.

All material balances and transactions between the entities within the Group, including unrealized profits form transactions within the Group have been fully eliminated. Unrealized losses are eliminated, unless they prove any impairment.

9.6. Investments in Associates

Shares and interests in associates are measured using the equity method. These are entities upon over which the parent company has, directly or through subsidiaries, significant influence and which are neither its subsidiaries nor joint ventures. The financial statements of associates are the basis for the measurement of the shares held by the Parent Company using the equity method. The associates and the Parent Company have the same financial year.

Investments in associates are recognized in the balance sheet at purchase price increased to include any subsequent changes of interest of the parent company in the net assets of those entities, less impairment losses, if any. The profit and loss account reflects the share in the business performance of associates. Also, adjustment of the carrying amount may be necessary in view of the change of the proportion of the interest in an associate resulting from any changes in other total comprehensive income of such entity A test of an investment in associates for impairment is held whenever there are indications that such impairment occurred or that any impairment loss disclosed in the preceding years is no longer required.

In case a change is recognized directly under equity of associates, the parent company recognizes its interest in every such change and, if applicable, discloses it in the statement of changes in equity.

9.7. Goodwill

Goodwill arising on acquisition of an entity is initially recognized at acquisition cost, equal to the excess of:

- the consideration transferred,
- the amount of any non-controlling interest in the acquiree, and
- if a business combination takes place in stages, the acquisition date fair value of the equity interest in the acquiree previously held by the acquirer

over net identifiable assets acquired and liabilities assumed as at the acquisition date.

Following the initial recognition, goodwill is carried at acquisition cost less any cumulative impairment losses. Goodwill is tested for impairment annually, or more frequently if there is any conditions for testing are met. Goodwill is not amortized.
As at the acquisition date the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the business combination. Each unit or a group of units to which goodwill has been allocated:

- corresponds to the lowest level in the Group at which goodwill is monitored for internal management purposes, and
- is no greater than a single operating segment defined in accordance with IFRS 8 Operating Segments.

Impairment of goodwill is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill has been allocated. If the recoverable amount of a cash-generating unit is lower than its carrying amount, the impairment loss is recognized. In the event goodwill comprises part of a cash-generating unit and part of the cash-generating unit's business is sold, the goodwill attributable to the sold business is included in the carrying amount of the sold business for the purpose of calculating gains or losses on the sale of such part of business. In such a case goodwill disposed of is measured based on the relative value of the operations disposed of and the value of the part of the cash-generating unit retained.

9.8. Intangible Assets

Intangible assets which have been separately acquired or produced (provided they meet the criteria for being recognized as development expenditure) are initially recognized at acquisition or production cost. The acquisition cost of intangible assets acquired in a business combination transaction is equivalent to their fair value as at the date of the combination. Following initial recognition, intangible assets are recognized at acquisition or production cost less accumulated amortization and impairment losses, if any. With the exception of capitalized development expenditure, expenditure on intangible assets produced by the Company is not capitalized and is charged to expenses in the period it was incurred.

The Group determines whether intangible assets have definite or indefinite useful lives. Intangible assets with definite useful lives are amortized over their useful lives and tested for impairment each time there is an indication of impairment. The amortization period and method with respect to intangibles with a definite useful life are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are disclosed by changing the amortization period or amortization method, as appropriate, and are accounted for as changes in accounting estimates. Amortization charges on intangible assets with definite useful lives are recognized under profit or loss in the category that corresponds to the function of a given intangible asset.

Intangible assets with indefinite useful lives and those which are not used are tested for impairment annually with respect to individual assets or at the level of the relevant cash generating unit.

Expected useful lives are as follows:

Patents, licenses	1 year
Software	2–5 years
Other intangible assets	5 years

Expenditure on research activities is charged to the profit and loss account at the time they are incurred. Development expenditure in connection with a given project are carried forward provided that they may be expected to be recovered in the future. After initial recognition of development expenditure, the historical cost model is applied which requires that assets be disclosed at acquisition cost less accumulated depreciation/amortization and accumulated impairment. Any expenditure carried forward is amortized over the expected period of generating sales revenue under a given project.

The development expenditure is reviewed for impairment annually in case a given asset has not yet been used, or more frequently if an indication of impairment has been identified during the reporting period, which may suggest that the carrying amount may not be recoverable.

Gains or losses from derecognition of an intangible asset in the balance sheet are measured as the difference between net proceeds from the sale of the asset and its carrying amount, and are recognized in the profit and loss account upon their derecognition in the balance sheet.

9.9. Non-current fixed assets

Non-current fixed assets are measured at acquisition cost/production cost less depreciation and impairment losses, if any.

The initial value of non-current fixed assets is represented by their acquisition cost plus all costs directly related to such acquisition and bringing such assets to the working condition for its intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognized when incurred if relevant recognition criteria are fulfilled. Costs incurred after a non-current fixed asset has been placed in service, such as costs of maintenance or repair, are charged to the profit and loss account when incurred.

Upon acquisition, non-current fixed assets are divided into components of material value which can be assigned various economic useful lives. The overhaul cost is also deemed a component thereof.

non-current fixed assets other than land property are depreciated using the straight-line method over their estimated useful lives.

Buildings, structures, premises and civil engineering structures	25 years
Plant and equipment	2.5−25 years
Vehicles	2.5−5 years
Other non-current fixed assets	5−7 years

Residual values, useful lives and methods of depreciation of non-current fixed assets are reviewed annually and, if necessary, adjusted effective as of the beginning of the financial year just ended.

Individual fixed assets are recognized separately and depreciated over their useful lives.

Any item of non-current fixed assets can be derecognized in the balance sheet upon disposal or when no future economic benefits are expected from its further use. Any gains or losses on derecognition of an asset from the balance sheet (derived from the delta between net proceeds from its sale, if any, and the carrying amount of the asset) are disclosed in the profit and loss account of the period in which derecognition took place.

9.10. Non-current fixed assets under construction

Non-current fixed assets under construction are measured at the amount of aggregate costs directly attributable to their acquisition or production, less impairment losses, if any. Investment materials are also recognized as non-current fixed assets under construction. Non-current fixed assets under construction are not depreciated until completed and placed in service. Wind farm development expenditure is also recognized as non-current fixed assets under construction.

9.11. Borrowing costs

The costs of bank and other borrowings resulting from loans and borrowings incurred which may be directly attributed to acquisition, construction or production of a qualifying asset are capitalized as part of the acquisition or production cost of such asset. Borrowing costs comprise interest and foreign exchange gains or losses up to an amount equal to the adjustment to interest expense.

9.12. Impairment losses on non-financial fixed assets

An assessment is made by the Group as at the end of each reporting period whether there is any indication that any of non-financial fixed assets may be impaired. If it is found such indications exist, or if it is required to perform annual impairment test, the Group estimates the recoverable amount of a given asset or a cash-generating unit to which a given asset belongs.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less selling costs of such asset or unit, or its value in use. The recoverable amount is determined for individual assets, unless a given asset does not independently generate cash flows being largely independent from those generated by other assets or asset groups.
In the event the carrying amount of an asset exceeds its recoverable amount, impairment takes place and an impairment loss is recognized, reducing the asset's carrying amount to the established recoverable amount.
In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to a given asset. Impairment losses with respect to assets in continuing operations are recognized in those expense categories which are consistent with the function of the impaired asset.

As at end of each reporting period the Group makes an assessment whether there is any indication that the previously recognized impairment loss of an asset is redundant or whether it should be reduced. If such indication exists, the Group estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if and to the extent there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such event, the carrying amount of the asset is increased up to its recoverable amount. Such increased amount may not exceed the carrying amount of the asset that would have been determined (after accumulated amortization/depreciation) if no impairment losses had been recognized on that asset in the preceding years. Reversal of an impairment loss is immediately recognized as income in the profit and loss account. Following reversal of an impairment loss, in subsequent periods the amortization/depreciation charge related to a given asset is adjusted so that its revised carrying amount, less its residual value, can regularly be written down over the remaining useful life of the asset.

9.13. Financial assets

As of 1 January 2018 the Group has been categorizing financial assets as follows:

- Financial assets measured at amortized cost
- Financial assets measured at fair value through profit or loss,
- Financial assets measured at fair value under other comprehensive income,

The classification depends on the model the Group has adopted for financial instrument management and the terms of contractual cash flows from such instruments. The Group reclassifies investments in debt instruments only when the asset management model changes.

Recognition and derecognition

Financial assets are recognized whenever the Group becomes a party to contractual provisions of a given instrument. Financial assets are excluded from accounting books when the right to generate cash flows on account of such financial assets expired or were transferred and the Group transferred substantially all the risk and all benefits attributable to the ownership title.

Measurement as at the initial recognition

On initial recognition, financial assets are recognized by the Group at fair value plus – in the case of financial assets other than those measured at fair value through profit or loss – any transaction costs directly attributable to the purchase of such financial asset. Transaction costs attributable to financial assets measured at fair value through profit or loss are recognized in profit or loss.

Debt instruments - Financial assets measured at amortized cost

SPPI (solely payment of principal and interest) debt instruments are measured at amortized cost. Interest revenue is measured using the effective interest rate method and disclosed under "interest revenue" under profit or loss. Impairment losses are recognized in line with the accounting principle referred to in Note 9.14 and presented under item "impairment of financial assets". In particular, the Group classifies the following under that category:

- trade receivables,
- loans that meet the SPPI requirement test which are disclosed, in line with the business model, as "

Debt instruments - Financial assets measured at fair value through profit or loss

Those assets which do not meet the measurement criteria at amortized cost or at fair value under other comprehensive income are measured at fair value through profit or loss.

Under this category the Group classifies derivatives, except those allocated to hedge accounting.

Equity instruments - Financial assets measured at fair value through other comprehensive income

Following the initial recognition, the Group measures all equity instrument investments at fair value. The Group chose to present gains and losses from change of the fair value of equity instruments under other comprehensive income. Such choice results in gains and losses on account of changes of the fair value not being reclassified subsequently to profit or loss when the investment is no longer recognized. Dividends on such investments are recognized under profit or loss when the right of the Group to receive distribution is established. Impairment losses (and their reversal) with respect to equity investments measured at fair value thorough other comprehensive income are not presented independently from other changes of fair value.

According to IFRS 9 comparative data in these condensed consolidated financial statements are based on the IAS 39 assumptions referred to hereinbelow:

Financial assets are classified into the following categories:

- Financial assets held to maturity,
- Financial assets at fair value through profit or loss,
- Loans and receivables,
- Financial assets available for sale.

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Group intends to and is able to hold to maturity, other than:

- Financial assets designated to be measured at fair value through profit or loss when recognized for the first time,
- Financial assets designated as available for sale,
- Financial assets that qualify as loans and receivables.

Financial assets held to maturity are measured at amortized cost using the effective interest rate method. Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the final day of the reporting period.

A financial asset measured at fair value through profit or loss is an asset that meets either of the following conditions:

a) It is classified as held for trading. Financial assets are classified as held for trading if they:

- have been acquired principally for the purpose of being sold in the near future,

- are part of a portfolio of identified financial instruments that are managed together and for which there is probability of profit-taking in the near future,
- are derivative instruments (except for those which are part of hedge accounting or financial guarantee contracts),

b) It has been assigned to such category on initial recognition, in accordance with IAS 39.

The entire contract may be designated as financial asset measured at fair value through profit or loss if it contains one or more embedded derivative instruments. This does not apply to situations where an embedded derivative does not materially affect the cash flows of the contract or its separation is expressly prohibited. Financial assets may be designated as financial assets measured at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency when both the measurement and the principles of recognizing gains and losses are subject to different regulations, or (ii) the assets are part of a group of financial assets that are managed and assessed based on fair value, according to a documented risk management strategy, or (iii) the financial assets contain embedded derivative instruments which should be recognized separately.

Loans given and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets unless their maturity exceeds 12 months following the end of the reporting period. Loans given and receivables with maturities exceeding 12 months following the end of the reporting period are classified as non-current assets.

Financial assets available for sale are non-derivative financial assets which have been classified as available for sale, or which do not belong to any of the previous three categories. Financial assets available for sale are recognized at fair value, with no deduction of the sale transaction costs, determined by reference to their market value as at the day marking the end of the reporting period. If no quotations from an active market are available and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at acquisition cost less impairment losses, if any. The positive or negative difference between the fair value of available-for-sale financial assets (if they have a market price derived from an active market or their fair value can be otherwise established in a reliable manner) and their acquisition cost is recognized, net of any deferred tax, under other comprehensive income. Loss of value of available-for-sale financial assets resulting from impairment is recognized under other expenses.

Purchase or sale of financial assets is recognized as at the transaction date. On initial recognition, financial assets are recognized at fair value plus – in the case of financial assets other than those measured at fair value through profit or loss – any transaction costs directly attributable to the purchase.

A financial asset is derecognized from the balance sheet upon expiry or transfer of the rights to cash flows from the asset whereby the Group transferred substantially all risks and rewards related to that financial asset; this usually takes place upon sale of the instrument or where all cash flows attributable to such instrument are transferred to an independent third party.

9.14. Financial asset impairment, excepting trade receivables

The Group performs assessment of expected credit losses in connection with debt instruments measured at amortized cost and at fair value through other comprehensive income, notwithstanding whether or not any indication of impairment occurred.

The Group applies a three-step impairment model to financial assets, excepting trade receivables:

- Step 1: balances for which credit risk has not increased significantly since their initial recognition. The expected credit losses are determined based on the probability of a default within a 12-month period (i.e. the total expected credit loss is multiplied by the probability that such loss will occur within the next 12 months),
- Step 2: deals with the balances for which credit risk has increased significantly since their initial recognition yet there are no objective impairment indications. The expected credit losses are determined based on the probability of a default throughout the entire contractual useful life of a given asset.

- Step 3: deals with the balances with an objective impairment indication.

To the extent an assessment is required, in line with the abovementioned model, whether there has been any significant increase of the credit risk, the Group acknowledges the following indications when performing such assessment:

- The loan is at least 30 days past due,
- Legislative, technological or macroeconomic changes have taken place which have a significant adverse impact on the debtor,
- Information has been obtained about any material adverse event with respect to the loan or other loans of the debtor in question with another lender, e.g. termination of any loan agreement, default thereunder or renegotiations of terms and conditions thereof in view of any financial problems, etc.
- The debtor has lost an important customer or supplier or has experienced other adverse changes in its market.

9.15. Hedge accounting

The Group hedges cash flows against interest rate movements related to future loan repayments (by way of exchanging the floating interest rate under a loan agreement for a fixed interest rate) and against exchange rate volatility related to foreign currency loan repayments. The hedging instruments include derivates, interest rate swap and a currency forward.

For more information on hedge accounting, see Note 40.

During the period ended on 31 December 2018, in accordance with its adopted 'Hedge Accounting Guidelines', the Group measured hedge effectiveness both ex-post (retrospectively) and ex-ante (prospectively), using the dollar offset method.

For accounting purposes, effectiveness is measured using the hypothetical derivative method. Such method compares the changes in the fair value of an Interest Rate Swap (IRS) designated as a hedging instrument and the changes in the fair value of a hypothetical IRS transaction on a cumulative basis from the inception of the hedging relationship. The terms of such hypothetical IRS transaction are identical to those of the hedged item and its fair value at the inception of the hedging relationship is nil.

Hedge ineffectiveness is calculated by comparing the cumulative change in the fair value of the hedging IRS and the cumulative change in the fair value of the 'ideal' hypothetical IRS transaction, in each case starting from the inception of the hedging relationship.

Subsequent to the inception of the hedging relationship, gains or losses arising on remeasurement of the fair value of the hedging instrument are recorded based on determination what portion of the change in its carrying amount reflects the effective portion of the hedge. This is made from time to time as at each date of preparation of financial statements/end of reporting period date on a cumulative basis from the hedge commencement date until a given day. The Company determines the effective and ineffective portions of the hedge taking into account changes in its "pure" fair value, which is its fair value less the accrued portion of the nearest forthcoming interest payments under a derivative.

The effective portion of the change in the fair value of the hedging instrument is recognized in other comprehensive income, while the ineffective portion is recognized in profit and loss account.

For information on the fair value of the financial derivatives disclosed in the balance sheet, see Note 41.

9.16. Joint arrangements

Investments in joint arrangements are classified as either a joint operation or a joint venture, depending on the contractual rights and obligations of each investing party. The Group has

performed an assessment of its joint arrangements and classified them as joint ventures. Joint ventures are measured using the equity method.

According to such method, interests in joint ventures are initially recognized at cost and subsequently adjusted to reflect the share of the Group in the profit or loss and in the changes of other comprehensive income in the period following acquisition. When the Group's share in losses of a joint venture is equal to or exceeds the Group’s interest in such joint venture (including all long-term shares which, in fact, are part of the net investment), the Group ceases to recognize any further losses, unless it has incurred liabilities or has made payments on behalf of the joint ventures.

Unrealized gains on transaction between the Group and its joint ventures are eliminated to the extent reflecting the Group’s shares in such joint ventures. Also unrealized losses are eliminated, unless a transaction provides evidence of impairment of the transferred asset. Where necessary, the accounting principles applied by joint ventures have been changed to align the presentation with the accounting principles applicable by the Group.

9.17. Lease

The Group as a lessee

Finance leases, which transfer substantially all the risks and rewards incidental to the ownership of the leased asset onto the Group, are recognized in the balance sheet at the inception of the lease at the lower of: the fair value of the non-current asset leased or the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability under lease so as to produce a fixed interest rate on the remaining balance of the liability. The finance charge is taken directly to profit and loss account.

Non-current fixed assets in use under finance leases are depreciated over the shorter of their estimated useful life and the lease term.

Lease contracts under which the lessor retains substantially all risks and rewards resulting from the ownership of the leased asset are classified as operating leases. Operating lease payments are recognized as an expense in the profit and or loss account over the lease term on a straight-line basis.

The Group as a lessor

Assets leased out under a finance lease are presented as receivables in an amount equal to the net investment in the lease. Lease payments are apportioned between the finance income and the reduction of the receivables under lease. The finance income and charge are taken directly to the profit and or loss account

9.18. Inventory

Inventories are measured at the lower of acquisition/production cost and net realizable value. Costs incurred in bringing materials inventories to their present location and condition are included in and increase the cost of the inventories and measured at acquisition cost determined using the weighted average formula.

Net realizable value is the selling price realizable as at the end of the reporting period, net of VAT and excise duty, less any rebates, discounts and other similar items and less the costs to complete and costs to sell.

Being assets held for sale in the course of core operations, certificates of origin (see Section 9.28.2) and CO2 emission reduction units are recognized as inventories.

9.19. Short-term and long-term receivables impairment

Trade receivables other than lease receivables described in more detail in Section 9.17 are measured at amounts due less impairment losses.

IFRS 9 requires that the expected loss in trade receivables is estimated notwithstanding whether or not any indications giving rise to such impairment loss occurred. Said standard provides for a 3-step classification of financial assets, impairment-wise. (1) Step 1: balances where no significant increase of credit risk has occurred since the initial recognition and for which expected credit loss has been determined based on the probability of insolvency within a 12-month period, (2) Step 2: balances where a significant increase of credit risk has occurred since the initial recognition and for which expected credit loss has been determined based on the probability of insolvency throughout the entire loan term. (3) Step 3: balances where impairment has been determined. This standard permits certain simplified classification of short-term receivables and recognize them under step 2.

Homogenous/fragmented trade receivables which have been estimated, upon a portfolio analysis, to be unimpaired (Steps 1 and 2) - estimation of write-downs, if any, is based on the application of a write-down matrix against historical data adjusted for future impacts.

Trade receivables from individually significant entities (customers buying large volume of goods in a given segment, cooperation based on long-term contracts) - estimation of write-downs, if any, is based on an analysis of trade receivables from individual customers.

Receivables from the state budget are presented as other short-term receivables, except for corporate income tax receivable, disclosed as a separate item of the balance sheet.

If the effect of the time value of money is material, the receivable is measured by discounting expected future cash flows to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money. If the discount method is applied, any increase in the amount of the receivables reflecting the passage of time is recognized as finance income.

9.20. Foreign currency transactions

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the rate of exchange prevailing on the transaction date.

Cash, bank borrowings and other monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency as at the end of the reporting period date at the exchange rate prevailing on the transaction date (for entities having the Polish zloty as their functional currency, the average rate quoted by the NBP is used). Foreign exchange differences on translation and settlement of items are recognized in finance income or cost, as appropriate. Changes in the fair value of derivatives designated as hedging instruments for hedge accounting purposes are recognized in accordance with the applicable hedge accounting policies (see Note 42).

The following exchange rates were used for measurement purposes:

	31.12.2018	31.12.2017
USD	3.7597	3.4813
EUR	4.3000	4.1709
GBP	4.7895	4.7001

9.21. Cash and cash equivalents

Cash and cash equivalents disclosed in the consolidated statement of cash flows comprise cash in hand, bank deposits maturing in up to three months, treasury bills and bonds not classified as investing activities. Cash at bank deposits meet the SPPI test and the “held to collect” business model test, therefore they are measured at amortized cost less the impairment loss determined as per the expected loss model.

9.22. Prepayments and Accruals

The Group recognizes prepayments where costs relate to future reporting periods. Accrued expenses are recognized at probable amounts of current-period liabilities.

9.23. Share capital

Share capital is recognized at its amount defined in the parent's Statutes and entered in the national court register. Any difference between the fair value of consideration received and the par value of shares is recognized in statutory reserve funds under share premium account. Where shares are repurchased, relevant payment amounts are charged to equity and disclosed in the balance sheet as treasury shares.

9.24. Provisions

Provisions are recognized if Group companies have an obligation (legal or constructive) resulting from past events and when it is certain or highly probable that an outflow of funds embodying economic benefits will be required to settle such obligation, and when a reliable estimate can be made of the amount of such obligation.

Where expenditure required to settle the obligation is expected by the Group to be reimbursed by another party (e.g. under an insurance agreement), the reimbursement is recognized as a separate asset only when virtual certainty exists that it will be actually received. Cost related to a given provision is recognized in profit or loss net of any recoveries.

If the effect of the time value of money is material, the amount of a provision is determined by discounting the projected future cash flows to their present value, using a pre-tax discount rate reflecting the current market estimates of the time value of money, as well as any risk associated with a given obligation. If the discount method is applied, an increase in the provision as a result of the passage of time is recognized as finance costs.

9.25. Provision for length-of-service awards and retirement pays

In accordance with the company remuneration systems, the Group employees are entitled to length-of- service awards and retirement pays. Length-of-service awards are paid after a specific period of employment. Retirement pays are one-off benefits, paid out when an employee retires. Amounts of such benefits and awards depend on the length of service and the average remuneration of the employee. The Company recognizes a provision for future length-of-service award and retirement pay obligations in order to allocate costs to the periods to which they relate. According to IAS 19, length-of-service awards are classified as other long-term employee benefits, whereas retirement pays are classified as defined post-employment benefit plans. Accrued obligations are equal to the amount of discounted future payments, taking into account employee turnover, and relate to the period ending on the reporting date. Information on demographics and employee turnover is based on historical data.

9.26. Interest-bearing bank loans, borrowings and other debt instruments

Accounting policy applied as of 1 January 2018

All bank loans, borrowings and other debt instruments are initially recognized at fair value net of transaction costs associated with such loan or borrowing.

After initial recognition, interest-bearing loans, borrowings and other debt instruments are measured at amortized cost using the effective interest rate method.

Amortized cost includes the cost of obtaining the loan or the borrowing, as well as any discounts or premiums obtained in connection with the liability.

Any gains or losses are taken to profit and loss account when the liability is derecognized or accounted for using the effective interest rate method.

If a modification of contractual terms and conditions of a financial liability does not trigger derecognition of an existing liability, any gain or loss shall be promptly recognized in profit or loss. Gain or loss shall be computed as a difference between the present value of modified and original cash flows, discounted using the original effective interest rate for such liability.

9.27. Trade payables and other payables

Short-term trade payables are recognized at nominal amounts payable. Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading, and financial liabilities initially designated as financial liabilities at fair value through profit or loss. Financial liabilities are classified as held for trading if they have been acquired for the purpose of being sold in the near future. Derivative financial instruments, including separated embedded derivatives, are also classified as held for trading, unless they are considered as effective hedges. Financial liabilities may be designated as financial liabilities measured at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases, (ii) the liabilities are part of a group of financial liabilities that are managed and measured based on fair value, according to a documented risk management strategy, or (iii) the financial liabilities contain embedded derivative instruments which should be presented separately.

Financial liabilities other than financial instruments measured at fair value through profit or loss are measured at amortized cost using the effective interest rate method.

The Group derecognizes a financial liability when it has been extinguished, that is when the obligation specified in the contract has either been discharged or cancelled or has expired. When an existing debt instrument between the same parties is replaced by another instrument whose terms are substantially different, the Group treats such replacement as if the former financial liability was extinguished and recognizes a new liability. Similarly, material modifications to the terms of a contract concerning an existing financial liability are presented by the Group as the original liability being extinguished and a new financial liability being recognized. Any differences in the respective carrying amounts arising in connection with such replacement are charged to the profit and loss account.

Other non-financial liabilities include, in particular, value added tax payable to tax authorities and liabilities under prepayments received, to be settled through the supplies of merchandise, services or fixed assets. Other non-financial liabilities are recognized at their amounts due.

9.28. Recognition of revenue

For the periods commencing on 01.01.2018, the Group applies IFRS 15, while for the comparative period IFRS 18 is applied.

IFRS “Revenue form Contracts with Customers” applies to annual periods commencing on 1 January 2018 or thereafter.

The principles in IFRS 15 refer to any and all contracts yielding revenues. The core principle of the new standard is that revenue is recognized at the moment of transfer of control over the goods or services to a customer in the amount of the transaction price. Any goods or services which are sold in packages but can be identified separately in a package must be recognized individually, on top of that any discounts and rebates affecting the transaction price must in principle be allocated to individual elements of the package. The review showed that the new standards have not changed

the way revenue is recognized. The accounting policies applicable to individual revenue categories have been listed below.

Revenue from connection fees

In the year ended on 31 December 2018 the Group was recognizing connection fee revenue on a one-off basis when such revenue was generated (i.e. utility connection took place), in line with the accounting policy, similarly to previous years.

9.28.1 Sale of merchandise and products

Revenue from sale of products and merchandise, including electricity, heat and pellets, is recognized in time and are a performance obligation. The Group recognizes revenue on a monthly basis.

9.28.2 Certificates of origin

Due to the short operating cycle and high turnover, green certificates of origin and yellow certificates of origin for energy produced by high-efficiency gas-fired cogeneration sources are measured at fair value and recognized as operating income and current assets (inventories) when energy is generated, to the extent it is probable that the Group will receive the related economic benefits. Certificates of origin are classified as inventories (for more details see Note 20), therefore the Group recognizes them at selling price as sales revenue.

9.28.3 Recognition of compensation for stranded costs and cost of gas

Compensation for stranded costs, which the Group is entitled to receive under the LTC Termination Act (for details, see Note 9.3 and Note 44), is recognized in correspondence with revenue from sale of products. Such revenue is recognized on a systematic basis over the accounting period pro rata to the estimated operating profit or loss from sale of electricity, capacity and system-related services, net of accumulated depreciation of the fixed assets employed in such operations.

In any given accounting period the revenue may not exceed the lower of the two: (a) cumulative compensation receivable as determined, estimated in accordance with the rules of final settlement provided for in Art. 31.1 of the LTC Termination Act, and (b) the maximum amount of compensation that an entity may receive in accordance with Schedule 2 to the LTC Termination Act.

In a corresponding entry, compensation for stranded costs is recognized as receivable from Zarządca Rozliczeń S.A Prepayments of compensation for stranded costs, made in equal quarterly instalments in cash, are recognized as a decrease in receivables disclosed in prior periods. The balance shown in the settlement account of Zarządca Rozliczeń S.A. as at each reporting date is the best estimate of receivables owed to or payables due from the Company, reflecting the amounts of compensation actually received.

Compensation for the costs referred to in Art. 44 of the LTC Termination Act that are incurred by gas-fired units ("cost of gas") is recognized in correspondence with revenue from sale of products. The amount of such revenues is recognized on a systematic basis over the reporting period, based on actual quantities of electricity and costs of gas and coal. Whenever actual data is not available as at the reporting date, the most up-to-date estimates are used instead. Other policies of recognizing and accounting for compensation for cost of gas are the same as those applied to recognition of compensation for stranded costs.

9.28.4 Futures and forward contracts

Futures and forward contracts to buy or sell electricity (including physical delivery contracts) entered into by the subsidiary Polenergia Obrót are classified as derivatives and accounted for in accordance with standards applicable to derivative instruments, as electricity traded under the contracts is readily convertible into cash.

Contracts to buy and sell electricity entered into by the other Group companies fall outside the scope of IFRS 9 as they have been exempted from that standard as the ‘own use’ purchase/sale.

In consequence, such contracts are measured at fair value, with changes in fair value recognized in the profit and loss account. Gains or losses on the measurement of outstanding contracts as at the reporting date are recognized on a net basis under revenue or selling expenses, as appropriate. Gains or losses on the measurement of contracts are disclosed on a net basis under revenue or selling expenses. Measurement is performed with respect to the outstanding part of the contracts broken down into current portion to be completed within 12 months from the reporting date, and non-current portion to be completed in subsequent years.

Typically, such transactions are performed through physical delivery of energy and settled on a gross basis.

Transactions under electricity sale contracts which are settled during the year through physical delivery of electricity are disclosed as revenue in the amounts receivable under the contracts (i.e. on contract settlement, revenue is adjusted for the previously recognized gains or losses from remeasurement of the electricity sale derivatives).

Cost of electricity purchase contracts which are settled during the year through physical purchase of electricity is presented under “COGS - cost of goods sold” at the purchase price (i.e. on contract settlement, cost is adjusted for the previously recognized gains or losses from remeasurement of electricity purchase derivatives).

9.28.5 Recognition of carbon emission allowances

Free carbon emission allowances were neither recognized in the balance sheet when they were allotted nor in subsequent periods.

Revenue from sale of allowances acquired for resale is recognized as revenue, and the cost of allowances sold is recognized as COGS (raw materials and energy consumed). If emission allowances held by the Group as at end of the reporting period do not fully cover its actual CO2 emissions in a given year, the Group recognizes a provision for the costs of covering the deficit.

9.28.6 Interest

Interest gains are recognized gradually as interest accrues (using the effective interest rate method, where the effective interest rate is one which discounts future cash flows over the estimated life of the financial instruments) relative to the net carrying amount of a given financial asset.

9.28.7 Dividends

Dividends are recognized when the shareholders’ rights to receive distribution are established.

9.28.8 Grants

If there is reasonable certainty that a grant will be received and that all related conditions will be fulfilled, grants are recognized at fair value.

If a grant relates to a cost item, it is recognized as income in matching with the expenses it is intended to compensate for. Where the grant relates to an asset, its fair value is credited to a deferred income account and subsequently it is released to the profit and loss account over the expected useful life of the relevant asset in equal annual instalments.

9.29. Taxes

9.29.1 Current tax

Current tax asset and income tax payable for the current period and for previous periods are measured at the amount expected to be paid to (or recovered from) tax authorities, using the tax rates and tax legislation that have been enacted or substantively enacted as at the end of the reporting period.

9.29.2 Deferred tax

For the purposes of financial reporting, deferred tax is calculated using the balance-sheet liability method in relation to temporary differences existing as at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts as disclosed in the financial statements.

A deferred tax liability provision is recognized for all taxable temporary differences:

- except where the deferred tax liability provision arises from the initial recognition of goodwill or the initial recognition of an asset or liability attributable to a transaction other than business combination and, at the time of the transaction, affecting neither the pre-tax profit/loss nor the taxable profit or loss, and
- in the case of taxable temporary differences attributable to investments in subsidiaries or associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled by the investor and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, as well as unused tax credits and unused tax losses brought forward, to the extent it is probable that taxable income will be available against which the deductible temporary differences, tax credits and tax losses can be utilized:

- except to the extent that the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability attributable to a transaction other than business combination, and, at the time of the transaction, affects neither the pre-tax profit/loss nor the taxable profit or the tax loss, and
- in the case of deductible temporary differences attributable to investments in subsidiaries or associates and interests in joint ventures, deferred tax asset is only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of a deferred tax asset is reviewed as at the end of each reporting period and is gradually reduced to the extent it is no longer probable that sufficient taxable income will be generated to allow the deferred tax asset to be realized in full or in part. As at the end of each reporting period, any unrecognized deferred tax asset is reassessed and recognized to the extent that it is probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liability provisions are calculated using tax rates expected to be effective at the time of realization of the asset or liability, based on tax rates (and tax legislation)

effective at the end of the reporting period or tax rates (and tax legislation) which at the reporting date are certain to be effective in the future.

Income tax on items posted directly to equity is recognized in equity rather than in the profit and loss account.

Deferred tax assets and deferred tax liability provisions are offset by the Group if and only if has a legally enforceable right to offset current tax asset and income tax payable, and the deferred tax relates to the same taxpayer and the same tax authority.

9.29.3 Value added tax

Revenue, expenses, assets and liabilities are recognized net of VAT, except in the following cases:

- where the value added tax paid on the purchase of assets or services is not recoverable from the tax authorities; in such a case it is recognized as part of the acquisition price of a given asset or as part of the cost item, and
- in the case of receivables and payables which are recognized inclusive of VAT.

The net amount of the value added tax which is recoverable from or payable to tax authorities is disclosed in the balance sheet under receivables or payables, as appropriate.

9.30. Earnings per share

Earnings per share for each reporting period are calculated by dividing the net profit attributable to the shareholders of the parent for a given period by the weighted average number of shares outstanding in the period.

Diluted earnings per share for a period are calculated as the quotient of net profit adjusted for changes in net profit attributable to holders of ordinary shares (net of interest on redeemable preference shares convertible into ordinary shares) and the weighted average number of ordinary shares outstanding in the period (adjusted for the effect of dilutive options and dilutive redeemable preferred shares convertible into ordinary shares, including warrants under the management stock option plan).

9.31. Contingent assets and liabilities

A contingent liability is understood as an obligation to make a payment or provide a service which may arise upon the occurrence or non-occurrence of certain future events. Contingent liabilities are not recognized in the balance sheet, however information on contingent liabilities is disclosed, unless the probability of the outflow of resources embodying economic benefits is negligible.

A contingent liability is:

a) a plausible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

b) a present obligation that arises from past events but is not recognized in the financial statements because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to perform the obligation, or

(ii) the amount of the obligation (liability) cannot be measured with sufficient reliability.

Contingent receivables are not recognized in the balance sheet, but information on contingent receivables is disclosed if the inflow of resources embodying economic benefits is likely to occur.

9.32. Emission allowances

The Group recognizes a provision for emission allowances if it has a deficit of allowances. A surplus of allowances received free of charge over actual emissions, if any, is recognized as an off-balance-sheet item.

9.33. Seasonality and cyclical nature of operations

The Group operates on the industrial power outsourcing market. The Group's key customers use heat and electricity supplied by the Group for production purposes at their industrial facilities. Heat and electricity supply business is not subject to seasonal fluctuations. Wind conditions which determine the output of wind farms are uneven during the year In autumn and winter they are significantly better than in spring and summer The Group resolved to build wind farms in locations selected based on professional wind measurements confirmed by independent and reputable experts. However, there can be no assurance that the actual wind conditions will not be different than those used in the Group’s models for specific investment projects.

10 Adjusted EBITDA and adjusted net profit

The EBITDA level, adjusted EBITDA and adjusted net profit attributable to shareholders of the parent are not defined in the IFRS and may be calculated differently by other entities.

EBITDA AND ADJUSTED EBITDA

			unaudited	unaudited
	For 12 months ended		For 3 months ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Profit /(loss) before tax	40 693	(67 285)	37 573	7 908
Financial revenues	(5 700)	(6 398)	(917)	(1 846)
Financial costs	60 794	60 763	12 957	14 970
Depreciation/Amortization	95 523	97 080	23 723	24 010
Profit on loss of control over subsidiaries	(11 983)	-	-	-
Development-related impairment loss	8 393	90 594	8 809	1 307
Goodwill-related impairment loss	40 000	-	40 000	-
Biomass-related impairment loss	28 886	9 547	13 386	(226)
Reversal of impairment loss related to wind farms in operation	(67 488)	-	(67 488)	-
EBITDA	**189 118**	**184 301**	**68 043**	**46 123**
Purchase price settlement				
Long term contract measurement	(681)	(2 724)	-	(681)
Adjusted EBITDA	**188 437**	**181 577**	**68 043**	**45 442**

ADJUSTED NET PROFIT (LOSS) attributed to parent shareholders

			unaudited	unaudited
	For 12 months ended		For 3 months ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
NET PROFIT (LOSS) attributed to parent shareholders	**3 404**	**(87 726)**	**16 647**	**(3 463)**
Unrealized foreign exchange net (gains)/losses	102	(1 033)	(75)	(293)
Income)/cost from measurement of long-term borrowings	7 108	2 725	343	664
(Net profit) on loss of control over subsidiaries	(7 199)	-	-	-
Development-related impairment loss	8 393	90 594	8 809	1 307
Goodwill-related impairment loss	40 000	-	40 000	-
Biomass-related impairment loss	29 879	9 547	14 379	(226)
Reversal of impairment loss related to wind farms in operation	(54 665)	-	(54 665)	-
Purchase price settlement				
Depreciation/Amortization	10 128	10 128	2 532	2 532
Long term contract measurement	(681)	(2 724)	-	(681)
Tax	(1 791)	(1 404)	(480)	(351)
Adjusted NET PROFIT (LOSS) attributed to parent shareholders	**34 678**	**20 107**	**27 490**	**(511)**

EBITDA, adjusted EBITDA and adjusted net profit attributable to the shareholders of the parent company – performance metrics are not defined in the accounting standards.

The Group presents its EBIDTA, adjusted EBITDA and adjusted net profit attributable to the shareholders of the parent company for the purpose of presenting the Group's performance, excluding the effect of factors which are unrelated to the Group's core business and do not lead to cash flows in the reporting period.

The EBITDA level, adjusted EBITDA and adjusted net profit attributable to the shareholders of the parent company are not defined in the IFRS and may be calculated differently by other entities.

The Group defines EBITDA as profit before tax minus finance income plus finance costs plus depreciation and amortization plus impairment losses on non-financial fixed assets (including goodwill). Such definition aims above all to ensure the comparability of the key parameter in the industry in which the Issuer and its Capital Group operate; in consideration of the above the profit gained as a result of losing control over the subsidiaries was excluded by the Group in the current financial statements.

The EBITDA adjustment ratio is defined by eliminating from EBIDTA the effect of economic events which do not impact the Group's core business and which do not lead to cash flows in the reporting period.

- Accounting for the acquisition price as at the date of acquisition (elimination of the gain recognized as at the acquisition date in relations to the previously existing relations, elimination of costs/income in connection with accounting for futures and forward contracts recognized in fair values as at the acquisition date)
- Costs of obtaining financing other than debt financing at the level of the project companies.
- Operating result generated due to the change of the Group's strategy.

The Group defines adjusted net profit attributable to the shareholders of the parent company as net profit without taking into account the following economic events:

- Accounting for the acquisition price as at the date of acquisition (elimination of the depreciation/amortization of adjustments performed in connection with fair value measurements of acquired fixed assets, elimination of the gain recognized as at the acquisition date on account of the previously existing relations, elimination of costs/income on account of allocating futures and forward contracts recognized at fair values as at the acquisition date, taking into account the impact of deferred tax on the abovementioned items),)
- impairment losses of non-financial fixed assets, including goodwill,
- Effect of the valuation of non-current receivables on account of wind farms sale (discount),
- Net finance income/costs related to valuation of borrowings using the amortized cost method (the spreading over time of historical commissions incurred to obtain the financing),
- Unrealized exchange rate differences (this item was not considered in the forecast),
- Costs of obtaining financing other than debt financing at the level of the project companies,
- Operating result generated due to a change of the Group's strategy,
- Effect of income tax on the above economic events.

In the current financial year, when establishing the adjusted EBITDA and adjusted net profit, the Group eliminated the following transactions/events:

- Effect of accounting for the acquisition price resulting from contributing the assets of Neutron Group in the 3rd quarter of 2014,
- Net finance income costs related to measurement of borrowings using the amortized cost method (the spreading over time of historical commission incurred to obtain financing) in

the following companies: Amon Sp. z o.o., Talia Sp. z o.o., Grupa PEP Farma Wiatrowa 1 Sp. z o.o., Grupa PEP Farma Wiatrowa 4 Sp. z o.o., Grupa PEP Farma Wiatrowa 6 Sp. z o.o., Grupa PEP Farma Wiatrowa Mycielin Sp. z o.o., Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. and Polenergia Dystrybucja Sp. z o.o.,

- Gain on the loss of control in subsidiaries,
- Unrealized exchange rate difference (item not taken into consideration for the purposes of the forecast),
- Effect of impairment losses of non-financial fixed assets, including goodwill,
- Effect of income tax on the above economic events.

11 Operating segments

For management purposes, the Group carried out the analysis to identify operating segments. As a result of such analysis the following operating segment were singled out identical to the reporting segments:

- Conventional energy segment consisting in the generation of heat and electricity,
- Development and Implementation segment consisting in development and construction of wind farms and conventional energy plants,
- Wind Power segment consisting in the generation of electricity and certificates of origin,
- Biomass segment consisting in the production of pellets from energy crops,
- Distribution segment consisting in distribution and sale of electricity to commercial, industry and household customers,
- Trading segment comprising trading in electricity and certificates of origin.

The Management Board monitors individual operating performance of the segments in order to make decisions concerning the allocation of resources and evaluate the results of such allocation and the operating performance of the segments. The evaluation is based operating profit or loss plus depreciation, which to some extent, as explained in the table below, is measured in a way different than the operating profit or loss in the consolidated financial statements. Income tax is monitored on the Group level and no allocation to operating segments is performed. Non-allocated assets constitute the Company cash.

Prices used in transactions between operating segments are defined on an arms' length basis as in the case of transactions with non-related parties. All consolidation adjustments are allocated to relevant segments.
Izba Rozliczeniowa Giełd Towarowych (Commodity Clearing House) is the only customer whose transactions with the Group have reached at least 10% of the Group total revenues in Trading and energy sale segment. 99.9% of the segments' assets are situated in Poland.

For 12 months ended 31.12.2018	Wind Power	Conventional Energy	Trading and energy sales	Distribution	Biomass	Developer and implementation activity	Unallocated cost of Group management*)	Acquisition price settlement	Total
Sales revenue from external customers	149 093	348 104	2 843 241	86 181	17 821	7	3 584	681	3 448 712
Net sales profit (loss)	**36 372**	**95 757**	**(3 798)**	**13 082**	**(1 945)**	**(410)**	**(406)**	**(9 447)**	**129 205**
General overheads	(2 582)	(6 397)	(12 251)	(5 786)	(1 422)	(302)	(12 872)	-	(41 612)
Interest income/(expense)	(43 595)	(1 423)	(5 539)	(1 743)	(142)	112	8 980	-	(43 350)
Gains on loss of control over subsidiaries	-	-	-	-	-	-	11 983	-	11 983
Financial revenue/ (expense) on unrealized f/x differences	(647)	121	317	84	-	(1)	-	-	(126)
Other financial revenue/ (expense)	(10 794)	(790)	(1 255)	(149)	(91)	(54)	1 515	-	(11 618)
Other operating revenue/ (expense)	72 523	(1 107)	(1)	2 545	(29 046)	(8 268)	(435)	(40 000)	(3 789)
Profit/loss before tax	**51 277**	**86 161**	**(22 527)**	**8 033**	**(32 646)**	**(8 923)**	**8 765**	**(49 447)**	**40 693**
Income tax	-	-	-	-	-	-	(39 103)	1 791	(37 312)
Net profit/loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3 381**
EBITDA **)	95 742	109 901	(15 984)	14 459	(2 128)	(587)	(12 966)	681	189 118
Segment assets	1 279 535	267 236	814 570	127 648	11 832	78 879	-	-	2 579 700
Unallocated assets	-	-	-	-	-	-	465 266	9 316	474 582
Total assets	**1 279 535**	**267 236**	**814 570**	**127 648**	**11 832**	**78 879**	**465 266**	**9 316**	**3 054 282**
Segment liabilities	900 184	86 812	770 389	71 368	5 694	2 663	-	-	1 837 110
Unallocated liabilities	-	-	-	-	-	-	3 991	27 440	31 431
Total liabilities	**900 184**	**86 812**	**770 389**	**71 368**	**5 694**	**2 663**	**3 991**	**27 440**	**1 868 541**
Depreciation/Amortization	56 917	21 648	66	4 618	1 399	-	747	10 128	95 523

*) HQ costs not allocated to other segments

**) EBITDA - definition in Note 10

In the period ended on 31 December 2018 main non-cash items include impairment losses in non-financial non-current assets related to the Biomass segment amounting to kPLN 28,886, Development and Implementation Business segment in the amount of kPLN 8,393 and goodwill in the amount of kPLN 40,000. Moreover, in the above indicated period the kPLN 67,488 impairment loss was recognized with reference to non-financial non-current assets in Wind Power segment.

For 12 months ended 31.12.2018		Wind power	Conventional Energy	Trading and energy sales	Distiybution	Biomasa	Developer and implementatio	Unallocated cost of Group	Acquisition price	Total
- revenue from sale and distribution of electricity	continuous revenue	102 868	138 720	2 574 179	78 700	-	-	-	-	2 894 467
- revenue from certificates of origin	continuous revenue	46 201	13 676	16 533	-	-	-	-	681	77 091
- revenue from CO^2 emission allowances	periodic revenue	-	-	8 788	-	-	-	-	-	8 788
- revenue from sale of heat	continuous revenue	-	21 215	-	-	-	-	-	-	21 215
- revenue from consulting and advisory services	continuous revenue	-	-	-	-	-	-	3 415	-	3 415
- revenue from lease and operator services	continuous revenue	-	-	-	937	-	-	-	-	937
- revenue from sale of merchandise	periodic revenue	-	-	-	-	860	-	-	-	860
- revenue from sale of pellets	continuous revenue	-	-	-	-	16 909	-	-	-	16 909
- rental revenue	continuous revenue	14	-	-	-	-	7	140	-	161
- revenue from stranded costs and cost of gas	compensation, see.note 45	-	174 293	-	-	-	-	-	-	174 293
- net revenue from sale and distribution of gas	continuous revenue	-	-	237 778	6 520	-	-	-	-	244 298
- other revenue	periodic revenue	10	200	5 963	24	52	-	29	-	6 278
Total sales revenues		**149 093**	**348 104**	**2 843 241**	**86 181**	**17 821**	**7**	**3 584**	**681**	**3 448 712**

For 12 months ended 31.12.2018	Wind Power	Conventional Energy	Trading and energy sales	Distribution	Biomass	Developer and implementation activity	Unallocated cost of Group management*)	Acquisition price settlement	Total
Sales revenue from external customers	142 848	271 811	2 225 855	86 398	30 349	7	2 386	2 724	2 762 378
Net sales profit (loss)	**28 223**	**57 843**	**23 420**	**17 054**	**(2 050)**	**(423)**	**(1 349)**	**(7 404)**	**115 314**
General overheads	(4 054)	(6 131)	(10 842)	(6 823)	(1 362)	(489)	(6 252)	-	(35 953)
Interest income/(expense)	(47 728)	(1 808)	(1 434)	(1 699)	(219)	61	3 006	-	(49 821)
Gains on loss of control over subsidiaries	-	-	-	-	-	-	-	-	-
Financial revenue/ (expense) on unrealized f/x differences	1 545	(69)	(181)	-	(1)	(19)	-	-	1 275
Other financial revenue/ (expense)	(5 422)	(404)	(1 498)	(146)	(218)	(75)	1 944	-	(5 819)
Other operating revenue/ (expense)	5 058	(497)	529	1 858	(8 628)	(90 630)	29	-	(92 281)
Profit/loss before tax	**(22 378)**	**48 934**	**9 994**	**10 244**	**(12 478)**	**(91 575)**	**(2 622)**	**(7 404)**	**(67 285)**
Income tax	-	-	-	-	-	-	(21 821)	1 404	(20 417)
Net profit/loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**(87 702)**
EBITDA **)	86 122	72 729	13 143	16 371	872	(948)	(6 712)	2 724	184 301
Segment assets	1 345 017	304 651	253 967	130 229	55 446	201 361	-	-	2 290 671
Unallocated assets	-	-	-	-	-	-	354 152	19 441	373 593
Total assets	**1 345 017**	**304 651**	**253 967**	**130 229**	**55 446**	**201 361**	**354 152**	**19 441**	**2 664 264**
Segment liabilities	1 006 894	131 022	222 623	67 741	9 558	1 982	-	-	1 439 820
Unallocated liabilities	-	-	-	-	-	-	4 287	38 169	42 456
Total liabilities	**1 006 894**	**131 022**	**222 623**	**67 741**	**9 558**	**1 982**	**4 287**	**38 169**	**1 482 276**
Depreciation/Amortization	56 895	21 514	36	4 282	3 365	-	860	10 128	**97 080**

*) HQ costs not allocated to other segments

**) EBITDA - definition in Note 10

In the period ended on 31 December 2017 main non-cash items include impairment losses in non-financial non-current assets related to the Development and Implementation Business segment in the amount of kPLN 90,594 and the Biomass segment in the amount of kPLN 9,547.

12 Earnings per share

Basic earnings per share are computed by dividing the net profit attributable to the Group's ordinary shareholders by weighted average number of ordinary shares outstanding in the period.

Diluted earnings per share are computed by dividing net profit attributable to ordinary shareholders (after deducting interest on redeemable preference shares convertible to ordinary shares) by weighted average number of ordinary shares outstanding in the period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares, including warrants under the management stock option plan.)

The data concerning the profit and shares used to compute basic and diluted earnings per share are presented below.

	For 12 month period ended	
	31.12.2018	31.12.2017
Net profit (loss)	3 404	(87 726)
Average weighted number of ordinary shares	45 443 547	45 443 547
Loss per ordinary share (in PLN)	0,08	(1,93)

	For 12 month period ended	
	31.12.2018	31.12.2017
Average weighted number of ordinary shares	45 443 547	45 443 547
Effect of dilution	-	-
Diluted weighted average number of ordinary shares	45 443 547	45 443 547

13 Tangible fixed assets (property, plant and equipment)

31.12.2018	Land	building, premises and civil and water engineering	plant and machinery	vehicles	other non-current fixed assets	non-current fixed assets under construction	prepayments for non-current fixed assets under construction	total non-current fixed assets
1. Gross value of non-current fixed assets at beginning of period	**7 797**	**589 682**	**1 397 655**	**4 829**	**459**	**431 466**	**626**	**2 432 514**
a) increases (due to)	**-**	**7 315**	**15 643**	**462**	**239**	**21 317**	**-**	**44 976**
- purchase	-	2 193	8 963	450	225	21 317	-	33 148
- transfers	-	5 122	6 680	12	14	-	-	11 828
b) reductions (due to)	**(771)**	**(9 003)**	**(18 730)**	**(1 938)**	**(1 040)**	**(185 613)**	**(626)**	**(217 721)**
- sale and retirement	(771)	(9 003)	(19 116)	(1 552)	(255)	-	-	(30 697)
- other	-	-	-	-	(767)	(173 578)	(626)	(174 971)
- transfers	-	-	386	(386)	(18)	(12 035)	-	(12 053)
2. Gross value of non-current fixed assets at end of period	**7 026**	**587 994**	**1 394 568**	**3 353**	**(342)**	**267 170**	**-**	**2 259 769**
3. Cumulative depreciation at beginning of period	**-**	**(94 137)**	**(283 261)**	**(3 035)**	**347**	**(106)**	**-**	**(380 192)**
- current period depreciation	-	(22 353)	(61 710)	(536)	5	-	-	(84 594)
- reductions (due to)	-	1 725	7 470	1 212	643	-	-	11 050
- sale and retirement	-	3 373	12 052	1 212	236	-	-	16 873
- other	-	(1 648)	(4 587)	-	412	-	-	(5 823)
- transfers	-	-	5	-	(5)	-	-	-
4. Cumulative depreciation at end of period	**-**	**(114 765)**	**(337 501)**	**(2 359)**	**995**	**(106)**	**-**	**(453 736)**
5. Impairment losses at beginning of period	**-**	**(24 771)**	**(58 715)**	**(24)**	**(11)**	**(177 951)**	**-**	**(261 472)**
- increase	-	(8 303)	(8 184)	(157)	(50)	(24 795)	-	(41 489)
- reduction	-	24 719	60 049	135	17	1 279	-	86 199
6. Impairment losses at end of period	**-**	**(8 355)**	**(6 850)**	**(46)**	**(44)**	**(201 467)**	**-**	**(216 762)**
7. Net value of non-current fixed assets at beginning of period	**7 797**	**470 774**	**1 055 679**	**1 770**	**795**	**253 409**	**626**	**1 790 851**
8. Net value of non-current fixed assets at end of period	**7 026**	**464 874**	**1 050 217**	**948**	**609**	**65 597**	**-**	**1 589 271**

In the 12 months period ended on 31 December 2018 the costs of external financing incurred in the Group classified for capitalization as initial value of tangible fixes assets, in the total amount of kPLN 225.
In the 12 months period ended on 31 December 2018 the land and buildings amounting to kPLN 464.685 were mortgaged to secure the repayment of credits.
The carrying amount of the means of transportation used as at 31 December 2018 in virtue of lease agreements amounted to kPLN 1,491.
On 23 May 2018 the Group acquired the infrastructure consisting in Krzęcin wind farm. As at 31 December 2018 the value of property, plant and equipment in that project amounted to kPLN 2,135.
In relation to the sale described in note 18, the value of property, plant and equipment was reduced by kPLN 130,835,

31.12.2017	Land	building, premises and civil and water engineering	plant and machinery	vehicles	other non-current fixed assets	non-current fixed assets under construction	prepayments for non-current fixed assets under construction	total non-current fixed assets
1. Gross value of non-current fixed assets at beginning of period	**7 797**	**587 606**	**1 402 300**	**5 202**	**1 114**	**442 656**	**13 146**	**2 459 821**
a) increases (due to)	**-**	**4 938**	**10 400**	**574**	**18**	**37 589**	**-**	**53 519**
- purchase	-	623	4 081	574	9	30 061	-	35 348
- transfers	-	4 315	6 319	-	9	7 528	-	18 171
b) reductions (due to)	**-**	**(2 862)**	**(15 045)**	**(947)**	**(673)**	**(48 779)**	**(12 520)**	**(80 826)**
- sale and retirement	-	(325)	(14 500)	(815)	(94)	-	-	(15 734)
- other (including financial lease)	-	-	100	(132)	(524)	(38 207)	(4 050)	(42 813)
- transfers	-	(2 537)	(645)	-	(55)	(10 572)	(8 470)	(22 279)
2. Gross value of non-current fixed assets at end of period	**7 797**	**589 682**	**1 397 655**	**4 829**	**459**	**431 466**	**626**	**2 432 514**
3. Cumulative depreciation at beginning of period	**-**	**(71 470)**	**(223 287)**	**(2 991)**	**134**	**(107)**	**-**	**(297 721)**
- current period depreciation	-	(22 693)	(62 534)	(890)	(89)	1	-	(86 205)
- reductions (due to)	-	26	2 560	846	302	-	-	3 505
- sale and retirement	-	26	2 560	762	73	-	-	3 421
- other (including financial lease)	-	-	-	84	-	-	-	84
- transfers	-	-	-	-	229	-	-	229
4. Cumulative depreciation at end of period	**-**	**(94 137)**	**(283 261)**	**(3 035)**	**347**	**(106)**	**-**	**(380 192)**
5. Impairment losses at beginning of period	**-**	**(20 062)**	**(55 207)**	**-**	**-**	**(87 126)**	**-**	**(162 395)**
- increase	-	(4 709)	(4 710)	(24)	(11)	(90 825)	-	(100 279)
- reduction	-	-	1 202	-	-	-	-	1 202
6. Impairment losses at end of period	**-**	**(24 771)**	**(58 715)**	**(24)**	**(11)**	**(177 951)**	**-**	**(261 472)**
7. Net value of non-current fixed assets at beginning of period	**7 797**	**496 074**	**1 123 806**	**2 211**	**1 248**	**355 423**	**13 146**	**1 999 705**
8. Net value of non-current fixed assets at end of period	**7 797**	**470 774**	**1 055 679**	**1 770**	**795**	**253 409**	**626**	**1 790 851**

In the year ended on 31 December 2017 the costs of external financing incurred in the Group and classified for capitalization as initial value of tangible fixes assets totaled kPLN 100.
As at 31 December 2017 the land and buildings of value amounting to PLN 471.070 were mortgaged to secure the repayment of credits.
The carrying amount of the means of transportation used as at 31 December 2017 in virtue of lease agreements amounted to kPLN 1.130.
In the year ended on 31 December 2017 the Group decided to extend to 25 years the service life of tangible fixes assets related to wind farms. The decision was made upon the analysis of the current wear and tear level of tangible fixed assets related to wind farms, the opinion presented by market experts (including the manufacturer and service provider of the turbines used by the Group).

14 Intangible fixed assets

31.12.2018	development	concessions, patents, licenses and similar entitlements obtained, including:		prepayments for intangibles	intangible assets from acquisition price settlement	total intangibles
			software			
1. Gross value of intangible assets at beginning of period	**865**	**8 349**	**728**	**-**	**58 000**	**67 214**
a) increases (due to)	-	356	35	-	-	356
- purchase	-	122	35	-	-	122
- other	-	234	-	-	-	234
b) reductions (due to)	(865)	(8)	-	-	-	(873)
- sale and retirement	(865)	(8)	-	-	-	(873)
2. Gross value of intangible assets at end of period	**-**	**8 697**	**763**	**-**	**58 000**	**66 697**
3. Cumulative depreciation at beginning of period	**(727)**	**(3 461)**	**24**	**-**	**(32 880)**	**(37 068)**
- current period depreciation	(39)	(1 026)	(80)	-	(9 864)	(10 929)
- reductions (due to)	766	-	-	-	-	766
- sale and retirement	766	-	-	-	-	766
4. Cumulative depreciation at end of period	**-**	**(4 487)**	**(56)**	**-**	**(42 744)**	**(47 231)**
5. Impairment losses at beginning of period	**-**	**-**	**-**	**-**	**-**	**-**
- increase	(99)	-	-	-	-	(99)
- reduction	99	-	-	-	-	99
6. Impairment losses at end of period	**-**	**-**	**-**	**-**	**-**	**-**
7. Net value of intangible assets at beginning of period	**138**	**4 888**	**752**	**-**	**25 120**	**30 146**
8. Net value of intangible assets at end of period	**-**	**4 210**	**707**	**-**	**15 256**	**19 466**

31.12.2017	development	concessions, patents, licenses and similar entitlements obtained, including:		prepayments for intangibles	intangible assets from acquisition price settlement	total intangibles
			software			
1. Gross value of intangible assets at beginning of period	**865**	**6 805**	**97**	**1**	**58 000**	**65 671**
a) increases (due to)	-	1 553	631	39	-	1 592
- purchase	-	103	19	39	-	142
- other	-	1 450	612	-	-	1 450
b) reduction (due to)	-	(9)	-	(40)	-	(49)
- sale and retirement	-	(9)	-	-	-	(9)
- transfers	-	-	-	(40)		(40)
2. Gross value of intangible assets at end of period	**865**	**8 349**	**728**	**-**	**58 000**	**67 214**
3. Cumulative depreciation at beginning of period	**(640)**	**(2 547)**	**84**	**-**	**(23 016)**	**(26 203)**
- current period depreciation	(87)	(924)	(60)	-	(9 864)	(10 875)
- reductions (due to)	-	10	-	-	-	10
- sale and retirement	-	10	-	-	-	10
- transfers	-	-	-	-		-
4. Cumulative depreciation at end of period	**(727)**	**(3 461)**	**24**	**-**	**(32 880)**	**(37 068)**
5. Impairment losses at beginning of period	**-**	**-**	**-**	**-**	**-**	**-**
- increase	-	-	-	-	-	-
- reduction	-	-	-	-	-	-
6. Impairment losses at end of period	**-**	**-**	**-**	**-**	**-**	**-**
7. Net value of intangible assets at beginning of period	**225**	**4 258**	**181**	**1**	**34 984**	**39 468**
8. Net value of intangible assets at end of period	**138**	**4 888**	**752**	**-**	**25 120**	**30 146**

15 Goodwill

	31.12.2018	31.12.2017
- Goodwill from consolidation at beginning of period	**184 613**	**184 625**
- Increase (decrease) of goodwill at consolidation	-	(12)
- Decrease of goodwill from impairment losses	40 000	-
- Decrease of goodwill from sale of assets	75 000	-
Total goodwill	**69 613**	**184 613**

As at 31 December 2018 the goodwill amounted to MPLN 69 and concerned the following cash-generating units (segments):

- MPLN 25 – distribution – including Polenergia Dystrybucja and Polenergia Kogeneracja;
- MPLN 44 – trading – including Polenergia Obrót.

The goodwill of MPLN 75 concerning development business, including Polenergia Bałtyk I, MFW Polenergia Bałtyk II and MFW Polenergia Bałtyk III, was disclosed in the consolidated profit and loss account in connection with the sale of the above companies (detailed in note 18).

As at 31 December 2018, upon analyzing the premises for loss of value, the MPLN 40 impairment was stated of the asset consisting in Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. company in the conventional energy segment
The impairment of goodwill in conventional energy segment results from the forthcoming termination of the operation of Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. („ENS") in the scope of the system of compensation to cover stranded costs. ENS shall remain the participant to the system until May 2020. After such date ENS shall be a participant to the capacity market and shall continue business in the scope of heat and electricity production in the then current market conditions.

Goodwill impairment test as at 31 December 2018

The test was carried out for tangible fixed assets and intangible fixed assets plus the goodwill for operating segments to which the goodwill was allocated as at 31 December 2018. The valuation of recoverable amount of specific cash-generating units was based on their value in use.

The test was carried out based on the present value of estimated cash flows in activity. The calculations were performed based on detailed forecasts for the entire period of companies' operation. Macroeconomic and segment assumptions adopted for forecasts are updated in each case the premises for changing such assumptions are observed in the market. The forecasts also take into account the changes in the legal environment known as at the date of the test.

The key assumptions impacting the determination of value in use adopted in the test as at 31 December 2018 for specific segments are presented below:

- Energy prices: Energy wholesale prices shall be based on futures/forward contracts from 2021 on (CAGR about -1%). After 2021 an average annual increase is expected at the level of about 2.8% based on the available forecasts by an independent business consultant.
- Prices of green certificates: The prices in the years 2019 – 2020 are based on in-house forecasts of the Company After 2021 an average annual increase is expected at the level of about 1.9% based on the available forecasts by an independent business consultant.
- Gas prices: In the years 2019-2020 the prices are based on contracts traded on the Polish Power Exchange (drop down by an average of -4.7% annually compared to the 2018 price), and from 2021 until 2030 an average annual growth is assumed at the level of 3.6%.
- The prices of CO2 emission allowances: in connection with the climate policy reform continued increase of prices is expected to PLN 91.5 /t in 2021, and from 2022 onwards an average annual increase is assumed at the level of 7.7%.

Goodwill in segment	Key assumptions	Level of discount rate adopted in the tests as at 31 December 2018	Level of discount rate adopted in the tests as at 31 December 2017
Conventional energy	ENS operation until 2040 was assumed, as follows: – Until May 2020 inclusive the CHP plant would operate based on the support system providing for stranded costs and gas compensation, completed with revenues from sale of electricity and heat – From 2021 the CHP plant would obtain revenues from capacity market, sale of heat and system services provision. Heat sale projections are based on tariff-based revenue to cover reasonable costs and obtain the return on capital employed at a reasonable level. A 5% reduction in heat volume was assumed in the years 2018-2020, to be maintained after 2020. Revenues from sale of electricity are based on forecast electricity prices adopted for the entire Group in consideration of the scheme of compensation of stranded costs which is reversely correlated to the level of margin on the production of electricity. Revenues from power market in the years 2021-2023 were based on the result of auctions performed in 2018. In the years 2024-2040 revenues are assumed to be maintained at a constant level in real approach. The level of electricity volume produced in 2018 was assumed to be maintained in 2019. In the successive years a significant drop down in electricity production is assumed due to the change of business model from permanent work to the system providing for limited production and provision of power availability services and system services. The cost of capital was assumed at the level characteristic for regulated businesses. Guided by market practice and the fact that non-current forecasts are more reliable in view of specific nature of tested assets (compared to residual value model), the Issuer's management adopted a forecast period exceeding 5 years for the analysis. In case of conventional energy segment detailed forecasts cover the period 2019-2040.	6.31% (WACC)	Flows until 2020: 8.00% (shareholder's fund cost); Flows after 2020: 5.20% (WACC)
Distribution	The RAV value adopted for the forecasts takes into account historic expenditure plus the capital expenditure resulting from the investment plan approved by the Supervisory Board for the years 2019 - 2022. In case of distribution activity the average weighted cost of capital is adopted at regulatory WACC level published by URE. In the successive years a gradual increase of regulatory WACC is assumed reflecting expected increase in interest rate in the market. The average real margins on energy sales were assumed at the historical level. As per market practice and because non-current forecasts are more reliable in view of specific nature of tested assets (compared to residual value model), the Issuer's	5.48% (Polenergia Dystrybucja) / 5.06% (Polenergia Kogeneracja)	5,7%

	management adopted the forecast period exceeding 5 years. In case of the Distribution segment the detailed forecasts cover the period from 2019 to 2050.		
Trading	The margin on trading in 2019 is forecast assuming the implementation of business strategy based on short term business and structured transactions. The plan for 2020 and the following years includes a partial effect of restarting prop trading activity. The margin on assets includes the extension of PPA agreements onto other wind assets and takes into account the margin on new assets in the portfolio of wind farms under construction. As per market practice and because non-current forecasts are more reliable in view of specific nature of tested assets (compared to residual value model), the Issuer's management adopted the forecast period exceeding 5 years. In case of Trading segment the period of detailed forecasts is 2019-2050.	9,65%	9.2%

The test was carried out based on non-current finance forecasts based on assumed evolution of market prices of electricity, coal, natural gas, CO2 emission allowances and the assumed revenues from capacity market. The adopted assumptions are consistent with the non-current forecast used by the Group.

As a result of the test carried out the Group decided on a MPLN 40 impairment loss in the company goodwill allocated to conventional energy segment.

The recoverable value of distribution and trading segments is higher than the value of tangible fixed assets and intangible fixed assets plus the company goodwill. The impairment test carried out as at 31 December 2018 did not show any loss of the balance sheet goodwill in such segments.

The analysis found that the value in use of the tested assets mainly depends on the changes in discount rate (WACC) and the changes in electricity prices or revenues from power market (in case of ENS) during the forecast period.
In the opinion of the Management Board the goodwill attributed to the conventional energy segment (WAAC, revenues from power market) was adopted for the impairment test using prudent approach. As a result of the test the Group decided to recognize impairment loss on the entire goodwill allocated to such segment.
The table below presents the sensitivity of the goodwill assigned to Distribution and Trading segments to the change of key assumptions, as per the analysis results.

Segment	Parameter	Change	Effect of goodwill (m PLN)	
			Value reduction	Value increase
Trading	Change in electricity prices during forecast period	- 1%	*none*	
		+ 1%		*none*
	Change of WACC	+ 0.1 p.p.	*none*	
		- 0.1 p.p.		*none*
Distribution	Change in electricity prices during forecast period	- 1%	*none*	
		+ 1%		*none*
	Change of WACC	+ 0.1 p.p.	*none*	
		- 0.1 p.p.		*none*

16 Impairment of non-financial fixed assets

The Group monitors the financial condition of its projects on an on-going basis, in particular the macroeconomic environment, legal and market situation of cash-generating units and analyses their recoverable values. In line with the applied policy in the Group recognized impairment losses as follows:

Reversal of the impairment loss regarding wind power segment

On 20 December 2018 the Group decided to reverse the impairment loss of tangible fixed assets in the wind power segment in the amount of MPLN 67.5. The decision results from the changes in regulatory and market environment, and the related update of the prices of electricity and green certificates. The main premises for reversing impairment loss recognized before for tangible fixed assets concerning the wind power segment were as follows:

- increase of electricity prices in 2018 from 160.92 PLN/MWh (average price in SPOT in January) to 229.08 PLN/MWh (average price in SPOT in December), such changes being reflected in futures and forward contracts
- increase of prices of green certificates in 2018 from 45.53 PLN/MWh (price of 2.01.2018) to 135.20 PLN/MWh (price of 27.12.2018), such changes being reflected in bilateral future/forward contracts
- Increase of the prices of the rights to carbon dioxide emissions from 7.77 EUR/T to 24.82 EUR/T

Impairment loss in biomass segment

During the year 2018 the Group made the decision to recognize a MPLN 14.8 impairment loss in tangible fixed assets which, in compliance with the adopted definition, does not effect EBITDA and MPLN, and a MPLN 0.4 impairment loss in inventory. The above impairment loss refers to the three cash-generating units: Grupa PEP – Biomasa Energetyczna Południe, Polenergia Biomasa Energetyczna Północ and Polenergia Biomasa Energetyczna Wschód. The recoverable value of the assets was determined as their fair value less the costs borne to perform the sale. The decision came as a consequence of the changes in regulatory environment resulting from the adopted amendment on renewable energy sources and the business and economic situation of the biomass segment. The impairment loss was a non-cash charge. The impairment loss was charged to the Group’s other operating costs item, in compliance with the adopted definition, but had no impact on EBITDA.

On 13 June 2018 Polenergia Biomasa Energetyczna Południe sold the company assets with movable property (mainly machines and plant).

On 30 October 2018 Polenergia Biomasa Energetyczna Północ sold movable property (mainly machines and plant). As a result of the sale of assets Polenergia Biomasa Energetyczna Północ terminated the operating activity consisting in the production of pellets from biomass.

On 20 December 2018 the Group decided to recognize impairment loss of tangible fixed assets under construction related to the performance of the Wińsko Project („Project”), developed by a subsidiary: Grupa PEP Bioelektrownia 2 Sp. K („Wińsko”). The impairment loss amounted to MPLN 15.1 The impairment loss was a non-cash charge. The impairment loss was accounted for in the Group’s operational profit/loss, under other operating costs item, in compliance with the adopted definition, without effect on EBITDA.

Making the impairment loss decision the Management Board considered the market and economic conditions of the project. In consideration of the intention to dispose of the rights to the Project or the shares in Wińsko, the Group shall maintain the appropriate status of the Project development, and in particular the process of obtaining necessary permits, in each case taking into account the economic viability of the adopted action.

Wińsko is included in the „Biomass” operating segment, constitutes a cash-generating unit, and its recoverable value corresponding to the fair value minus the costs of arranging the sale equals 0 as at 31.12.2018.

Impairment loss recognized in the development and implementation segment during the year

On 20 December 2018 the Group decided to recognize impairment loss of tangible fixed assets under construction related to the performance of the Piekło wind farm Project („Piekło Project"), developed by the Company subsidiaries, i.e. Polenergia Farma Wiatrowa Piekło sp. z o.o. and Polenergia Farma Wiatrowa 16 sp. z o.o. („FW Piekło"). The impairment loss amounted to MPLN 8.8. The impairment loss was a non-cash charge. The impairment loss was charged to the Group's other operating costs item, in compliance with the adopted definition, and had no impact on EBITDA.

Making the impairment loss decision the Management Board considered the market and economic conditions of the project. In consideration of the intention to dispose of the rights to the Project or the shares in Piekło, the Group shall maintain the appropriate status of the Project development, and in particular the process of obtaining necessary permits, in each case taking into account the economic viability of adopted action.

Piekło Project included in the „Development and implementation activity" operating segment, constitutes a cash-generating unit, and its recoverable value corresponding to the fair value minus the costs of arranging the sale equals 0 as at 31.12.2018.

Asset impairment test carried out as at 31 December 2018

In the opinion of the Group, the changes in the regulatory environment and the market situation, in particular the increase of market prices of electricity and green certificates which took place in 2018, materially change the non-current forecasts of the Group.

The Group performed impairment tests with respect to tangible and intangible fixed assets. The tests were performed at the level of individual cash-generating units, and the conclusions are presented below. In case of cash-generating units in which the company goodwill was recognized as a result of bringing Neutron Group structures into the Group, the process of performing impairment tests was presented hereinabove.

The test carried out as at 31 December 2018 required estimation of the value in use of the cash flow generating units based on their future cash flows, which were then adjusted to their present values using the discount rate.

The tests were carried out based on the present value of estimated cash flows in activity. The calculations were performed based on detailed forecasts for the entire period of companies' operation. Macroeconomic and segment assumptions adopted for forecasts are revised whenever in each case there is an indication in the market that such revision is required. The forecasts also take into account the changes in the legal environment known as at the date of the test.
The discount rate adopted for calculations reflects the weighted average cost of capital (WACC) reflecting a risk-free rate corresponding to the yield of 10-year State Treasury bonds at the level of 3.25% and the market risk premium depending on the Segment at the following level:

Premium for market risk:	
Wind farms	6.00%
Conventional energy	5.00%
Distribution	5.40%
Trading	6.00%
Wind farms under construction	6.00%
Wińsko project	6.00%

Segment	Key assumptions	Discount rate level adopted in the tests as at 31 December 2018	Discount rate level adopted in the tests as at 31 December 2017
Wind farms, including: - Dipol Sp. z o. o. - TALIA Sp. z o.o. - AMON Sp. z o.o. - Polenergia Farma Wiatrowa 1 Sp. z o.o. - Polenergia Farma Wiatrowa 4 Sp. z o.o. - Polenergia Farma Wiatrowa 6 Sp. z o.o. - Polenergia Farma Wiatrowa Mycielin Sp. z o.o. - Polenergia Farma Wiatrowa 23 Sp. z o.o.	Energy wholesale prices shall be based on future/forward contracts until 2021. After 2021 we assume the change in the price level based on the available forecast of an independent business advisor and on the Group's in-house analysis. The green certificates path adopted for the test is based on the available forecasts of an independent business advisor and on the Group's in-house analysis. Green energy and black energy production volumes resulting from manufacturing capacities and productivity adopted based on historical data and the windiness reports. For green energy the support periods were defined in compliance with the assumptions of the law on renewable energy sources ("OZE law"). The support period was limited to 15 years starting from the moment of the first introduction to the distribution grid of electricity under certificate of origin. It was assumed that the manufacturing capacities of the existing tangible fixed assets shall be maintained as a result of investment of replacement nature. Guided by market practice and the fact that non-current forecasts are more reliable in view of specific nature of tested assets (compared to residual value model), the issuer's management adopted the forecast period exceeding 5 years. 25-30 years period of operation of wind farms was assumed, starting from the moment of putting into operation (depending on the farm parameters).	6,97%	5.8%(FW Dipol) / 6.8% (Other)
Conventional energy	ENS operation until 2040 for assumed, as follows: - until May 2020 inclusive the heat and power plant shall operate based on the support system in a form of stranded costs compensation and gas compensation, completed with revenues from sale of electricity and heat - from 2021 the heat and power plant shall obtain revenues from the capacity market and the provision of system services. Forecast revenues from sale of heat are based on tariff revenue to cover justified costs and obtain the return on capital employed at a reasonable level. A 5% reduction in heat volume was taken into account in the years 2018-2020, to be maintained after 2020. Revenues from the sale of electricity are based on forecast prices of electricity adopted for the entire Group in consideration of the scheme of compensation of stranded costs which is reversely correlated to the level of margin on the production of electricity. Revenues from power market in the years 2021-2023 were based on the results of auction performed in 2018. The revenues were assumed to remain at the fixed level in the years 2024-2040 adopting real approach. The level of electricity volume produced in 2018 was assumed to be maintained in 2019. In the successive years a significant drop down in electricity production is assumed due to the change of business model from permanent work to the system providing for limited production and provision of power availability services and system services.	6.31% (WACC)	Flows until 2020: 8.00% (shareholder's fund cost);Flows after 2020: 5.20% (WACC)

	The cost of capital was assumed at the level characteristic for the regulated activity. Guided by market practice and the fact that non-current forecasts are more reliable in view of specific nature of tested assets (compared to residual value model), the issuer's management adopted the forecast period exceeding 5 years. In case of conventional energy segment the period of detailed forecasts is 2019-2040.		
Distribution	The RAV value adopted for the forecasts takes into account historic expenditure plus the capital expenditure resulting from the investment plan approved by the Supervisory Board for the years 2019 - 2022. In case of distribution activity the average weighted cost of capital is adopted at regulatory WACC level published by URE. In the successive years a gradual increase of regulatory WACC is assumed reflecting expected increase in interest rate in the market. The average real margins on energy sales were assumed at the historical level. Guided by market practice and the fact that non-current forecasts are more reliable in view of specific nature of tested assets (compared to residual value model), the issuer's management adopted the forecast period exceeding 5 years. In case of the Distribution segment the detailed forecasts cover the period from 2019 to 2050.	5.48% (Polenergia Dystrybucja) / 5.06% (Polenergia Kogeneracja)	5.7%
Trading	The margin on trading in 2019 is forecast assuming the implementation of business strategy based on short term business and structured transactions. The plan for 2020 and the following years includes a partial effect of restarting prop trading activity. The margin on assets includes the extension of PPA agreements onto other wind assets and takes into account the margin on new assets in the RTB wind farms portfolio. Guided by market practice and the fact that non-current forecasts are more reliable in view of specific nature of tested assets (compared to residual value model), the issuer's management adopted the forecast period exceeding 5 years. In case of Trading segment the period of detailed forecasts is 2019-2050.	9.65%	9.2%
Wind farms under construction, including: Polenergia Farma Wiatrowa 3 Sp. z o.o., Polenergia Farma Wiatrowa Dębice/ Kostomłoty Sp. z o.o., Polenergia Farma Wiatrowa Szymankowo Sp. z o.o., Polenergia Farma Wiatrowa Piekło sp. z o.o., Polenergia Farma Wiatrowa 16 sp. z o.o.)	Energy wholesale prices shall be based on future/forward contracts until 2021. After 2021 we assume the change in the price level based on the available forecast of an independent business advisor and on the Group's in-house analysis. Energy production volumes resulting from manufacturing capacities and productivity adopted based on windiness reports. The activity based on market prices was assumed (no support). It was assumed that the manufacturing capacities of the existing tangible fixed assets shall be maintained during the project life as a result of investments of replacement nature. Guided by market practice and the fact that non-current	8.18%	-

	forecasts are more reliable in view of specific nature of tested assets (compared to residual value model), the issuer's management adopted the forecast period exceeding 5 years. 25-30 years period of operation of wind farms was assumed, starting from the moment of putting into operation (depending on the farm parameters).		
Wińsko	The forecast revenues from the sale of energy are based on the support system in operation for 15 years (guaranteed fixed price indexed by inflation rate every year), and after that period – based on market prices. The volume of the energy produced is maintained on the fixed level, while taking periodical overhaul into account. Irrespective of the time passing, the operational capacity of the plant shall not drop down. The forecast costs are based on fixed and reproducible values, increased by the inflation rate, with the planned expenses for service and repairs. The plant requires major overhaul every 10 years amounting to 10 times the cost of annual service. The 51%margin is forecast in the period of the support system, followed by 35% thereafter. CAPEX amounting to MPLN 314 shall be paid before 2022 in its entirety. Further extension of the scope of activity or new expenses for development and investment are not taken into account in the forecast.	6.97%	-

As a result of impairment tests the Group decided to reverse the impairment loss recognized in 2016 in wind power segment (Dipol Sp. z o. o., Polenergia Farma Wiatrowa 4 Sp. z o.o., Polenergia Farma Wiatrowa 6 Sp. z o.o., Polenergia Farma Wiatrowa Mycielin Sp. z o.o.) in the amount of MPLN 54.7. The recoverable value of the assets concerned with the reversal of impairment loss amounted to MPLN 920.6 as at 31 December 2018. The Group also decided to recognize impairment losses in the wind energy segment concerning the Wińsko project (biomass segment) in the amount of MPLN 15.1 and the Piekło project (development and implementation segment) in the amount of MPLN 8.8.

The analysis found that the value in use of assets mainly depends on the changes in discount rate (WACC) and changes in electricity prices or revenues from power market (in case of ENS) during the forecast period.

The estimated changes in assets' valuation based on a change in key assumptions are presented below.

Segment	Parameter	Change	Effect on the valuation of assets MPLN)	
			Value reduction	Value increase
Conventional energy	Change of revenues from power market after 2023	-10 kPLN/MW/year	(1,1)	
		+10 kPLN/MW/year		*None*
	Change in WACC	+ 0.1 p.p.	*None*	
		- 0,1 p.p.		*None*
Wind farms	Change of electricity prices during the forecast period	- 1%	*None*	
		+ 1%		*None*
	Change in WACC	+ 0.1 p.p.	*None*	
		- 0.1 p.p.		*None*
Trading	Change of electricity prices during the forecast period	- 1%	*None*	
		+ 1%		*None*
	Change in WACC	+ 0,1 p.p.	*None*	
		- 0.1 p.p.		*None*
Distribution	Change of electricity prices during the forecast period	- 1%	*None*	
		+ 1%		*None*

	Change in WACC	+ 0,1 p.p. - 0.1 p.p.	*None*	*None*
Wind farms under construction	Change of electricity prices during the forecast period	- 1% + 1%	*None*	0.9
	Change in WACC	+ 0.1 p.p. - 0.1 p.p.	*None*	0.8

Test for impairment of financial asset evaluated using the equity method

The tests were carried out based on the present value of estimated cash flows in activity. The calculations were performed based on detailed forecasts for the entire period of companies' operation. Macroeconomic and operational assumptions adopted for forecasts are revised in each case the indications for revision are observed in the market. The forecasts also take into account the changes in the legal environment known as at the date of the test.

Company	**Key assumptions**	**Level of discount rate adopted in the tests as at: 31 December 2018**	**Level of discount rate adopted in the tests as at: 31 December 2017**
MFW Bałtyk II sp. z o.o. („Bałtyk II") and MFW Bałtyk II sp. z o.o. („Bałtyk III")	The Group holds 50% of the shares in the companies implementing the sea wind farms project in the Baltic Sea of the total capacity up to 1,200 MW and has continued development works jointly with Equinor, the partner. Guided by market practice and the fact that non-current forecasts are more reliable in view of specific nature of tested assets (compared to residual value model), the issuer's management adopted the forecast period exceeding 5 years. It was assumed that the sea wind farms shall operate during 23 years from the date of commencing the operation (January 2024 for Bałtyk III; January 2026 for Bałtyk II). The operation will start following the 2-year construction period. The total capacity installed was adopted at the level of 1,200 MW. The cost of capital for the project in the phase of making the investment decision was assumed at the level expected by investors in the sea wind farm sector in Europe. The risks related with the early phase of the project progress and lack of regulatory certainty were reflected by way of the discount adjusting the valuation in view of the progress status. The value of discount expressed as the percentage of the present value of future cash flows was reduced by 10 p.p with respect to the test as at the end of 2017 in connection with the progress of development works and assessment of regulatory risk.	11%	11%

For all the above assets the recoverable value exceeds their carrying amount. In case of Polenergia Bałtyk I the price of MPLN 33 for 50% of the shares defined in the preliminary sale agreement exceeds the value of the financial assets determined using the equity method.

17 Non-current financial assets

	31.12.2018	31.12.2017
- held in other entities	22 538	14 609
- shares or stock in non-listed companies	226	147
- loans given	3 419	3 367
- long term contracts	18 893	11 095
Total long term financial assets	**22 538**	**14 609**

*) measured at fair value through profit/loss

**) measured at amortized cost

18 Financial assets valued using the equity method

On 22 May 2018 the Company and Statoil Holding Netherlands B.V. („Statoil") entered into the final agreement providing for the transfer of 50% of shares (Shares) held by the Company in each of the following companies: (i) MFW Bałtyk II Sp. z o.o. (former: Polenergia Bałtyk II sp. z o. o.) and (ii) in MFW Bałtyk III Sp. z o.o. (former: Polenergia Bałtyk III sp. z o. o.) (jointly „SPV" or „Bałtyk II", „Bałtyk III"), which implement sea wind farm construction projects („Project") in the Baltic Sea. The sale of shares in SPV is to be performed in the scope of the co-operation agreed by the parties under the joint implementation of the Project ("Transaction")

On the same day the ownership title to the Shares in SPV was transferred to Statoil Holding Netherlands. At the same time and on the same day the following were entered into: Agreements concerning the development and further performance of the sea wind farm construction projects (the so-called Development and Execution Services Agreements) between each of SPV and Statoil New Energy Service Centre B.V. (the member of Statoil capital group), (ii) service agreements between each of SPV and the Company, and (iii) memoranda of understanding of the shareholders concerning each of SPV between the Company, Statoil Holding Netherlands and each of SPV, respectively.

The terms and conditions of the transaction of sale of the shares in SPV by Polenergia, including the final agreement transferring the shares in SPV to Statoil Holding Netherlands. The shares in SPV and other indicated agreements are as follows:

- The total base selling price of the Shares in SPV amounting to kPLN 94 275 defined based on actual costs borne by the Company for the Project implementation, in consideration of the standard mechanism of adjusting such amount based on the financial standing of SPV as at the moment of transfer of the ownership title to the Shares plus EUR 5,000,000 (i.e. PLN 4.2991 according to the exchange rate as at the sale date) payable in instalments by 30 September 2019.
- The Parties have also defined additional contingent payments by Statoil in favor of Polenergia depending on the performance of defined phases or parameters of the Project. Due to such contingent remuneration, the receivables were not accounted for in view of lack of certainty as to the fulfilment of the conditions for receiving such remuneration.
- Two memoranda of understanding concerning SPV were entered into by the shareholders ("Shareholders' Memorandum of Understanding"). The Shareholders' MoU defines mutual rights and obligations of Polenergia and Statoil as the SPV shareholders and the principles of co-operation in the performance of the Transaction. The memoranda of understanding entered into define the joint control over SPV, as all material decisions concerning the activity of Bałtyk II and Bałtyk III require the unanimous consent of both investors.

- In addition, a number of agreements on development and implementation of the Project by each of SPV were entered into between SPV and the indicated entity of the Statoil capital group (which will provide specific services in favor of SPV as the Project Manager) (the so-called Development and Execution Services Agreements and Operation and Maintenance Services Agreements), defining, without limitation, the scope of services provided by the Project Manager, duties, scope of responsibility and the remuneration of the Manager and the principles of engagement of subcontractors for service provision. The Parties agreed that Polenergia (or the designated entities of the Polenergia capital group) shall act in favor of SPV in agreement with the Project Manager in performing the defined scope of services for the Project. In the scope concerning the rights and obligations of the parties as SPV shareholders, the Shareholder's Memorandum of Understanding defines, without limitation, (i) principles concerning the SPV internal organization and business activity and (ii) principles concerning the disposal and acquisition of the shares in SPV and the limitations pertaining thereto. In the scope concerning the principles of the Project implementation, the Shareholders' Memorandum of Understanding defines main phases of development and the principles of the Project management, the rights and obligations of the parties in the scope of planning, budgeting and financing of the Project, and the procedures of solving any decision impasses concerning the Project. The Shareholders' Memorandum of Understanding shall be governed by Polish Law.
- The option of purchase by Statoil of 50% of the shares of the successive subsidiary of Polenergia. Under the Shareholders' Memorandum of Understanding, Polenergia issued in favor of Statoil Holding Netherlands the option for the purchase of 50% of the shares in the successive subsidiary of Polenergia, i.e. Polenergia Bałtyk I S.A., the option being enforceable in the period from 22 May 2018 until 31 December 2018 with the option exercise price defined as 50% of the carrying amount of the capital expenditure borne by Polenergia for the construction of Bałtyk I wind farm.

The above described transaction of the sale of shares in Bałtyk II and Bałtyk was disclosed in the consolidated financial statements of the Group as the disposal of subsidiaries consolidated using a complete consolidation method, because as a result of such transaction the Polenergia Group lost control over these entities. The Group retained 50% of the shares in such entities, such shares and the right to vote resulting therefrom in virtue of the agreement entered into between the investors give to the Polenergia Group a joint control (all material decisions concerning the activity of Bałtyk II and Bałtyk III require the unanimous consent of both investors. The 50% of SPV shares remaining were accounted for at fair value as at the date of losing control, and are valued after the initial disclosure using the equity method. The shares are disclosed in Financial Assets item and values using the equity method in the consolidated balance sheet.

In consideration of the option for the purchase of 50% of the shares in the Polenergia Bałtyk I S.A. subsidiary issued by Polenergia in favor of Statoil, the control over Bałtyk I company was considered to be lost, as the option constitutes a material potential right of vote held by Statoil. The option constitutes a material potential right of vote because Statoil has the right to exercise such option at any moment from 22 May 2018 until 31 December 2018 at a price not exceeding the fair value of the shares subject to the option, and in addition Statoil would obtain purchase synergy benefits and that exist no barriers in the exercise of such option by Statoil. In connection with the loss of control as a result of issuing a call option in favor of Statoil, the carrying amount of net assets of Bałtyk I was reversed, and the fair value of the retained shares (100% of the retained shares) was defined at their fair value as at the moment of losing the control. The shares are valued as at the balance sheet date using the equity method and are disclosed in the Financial Assets item in the consolidated balance sheet. The retained investment in Bałtyk I constitutes joint venture, because Polenergia and Statoil hold joint control (all material decisions concerning the activity of Bałtyk I require the unanimous consent of both investors.)

The option issued by Polenergia in favor of Statoil for the purchase of 50% of shares in Polenergia Bałtyk I S.A is a derivative instrument which after initial booking is measured at fair value through profit / loss according to IFRS 9. As at 31 December 2018 the impairment loss for the above derivative was

close to 0 and was not included in the profit and loss account. As at 31 December 2018 the above option was not exercised, but on 20 December 2018 a preliminary conditional agreement on sale of 50% of the shares in subsidiary Polenergia Bałtyk I S.A. was entered into. The entry into the final sale agreement depends on fulfilling conditions precedent including (i) obtaining unconditional consent of the President of the Office for Protection of Competition and Consumers for the performance of the transaction and (ii) obtaining valid registration by the Registry Court of the resolution concerning the transformation of SPV from joint stock company into limited liability company. The total base selling price of the Shares in SPV amounts to kPLN 33 351.

The profit on the loss of control over the subsidiaries amounted to kPLN 11,983 and was presented in the consolidated profit and loss account under a separate item "Profit on the loss of control over subsidiaries" in the scope of continued activity. The companies disposed of did not run activity, therefore they did not meet the criteria of recognizing a discontinued activity as per IFRS 5.

The profit on the loss of control over the subsidiaries was defined in the following way:

Selling price of 50% interest in Bałtyk III and Bałtyk II subsidiaries	115 771
- cash received	94 275
- cash received (EUR 1,667 K)	7 167
- deferred instalment (EUR 3.333 K)	14 329
- contingent remuneration	-
Measurement of retained interest in co-controlled entities at fair value, including	141 138
- 50% interest in Bałtyk III*	57 886
- 50% interest in Bałtyk II*	57 886
- 100% interest in Bałtyk I*	25 366
Net assets of subsidiaries as at the day of losing control	244 926
Profit on loss of control over subsidiaries, including	**11 983**
- - Gain from measurement of retained interest at fair value	5 992

*fair value of the retained shares in MFW Bałtyk II S. z o.o. and MFW Bałtyk III Sp. z o.o. was defined based on the transaction price of sale of 50% of the shares (transaction price with unrelated party), and the fair value of 100% shares in Polenergia Bałtyk I S.A. was defined based on the price of exercise of the call option. As at 31 December 2018 the value of the shares in co-subsidiaries amounted to kPLN 161,838 and takes into account the additional financing of the companies after the date of losing control.

As at the date of losing control the net assets of the subsidiaries (MFW Bałtyk II sp. z o. o. MFW Bałtyk III sp. z o. o., Polenergia Bałtyk I S.A.) included:

	Bałtyk III	Bałtyk II	Bałtyk I	Total
Non-current fixed assets - capital expenditure for wind farms under contruction	83 379	65 543	25 374	**174 296**
Other receivables	438	477	90	**1 005**
Cash	2 017	2 048	72	**4 137**
Provision for deferred tax	4 624	3 633	-	**8 257**
Liabilities for deliveries and services	385	354	149	**888**
Accruals	168	180	19	**367**
Total net assets, excl. Goodwill				**169 926**
Goodwill allocated to CGU Bałtyk I, Bałtyk II, Bałtyk III				**75 000**
Total net assets				**244 926**

As at 31 December 2018 net assets of the subsidiaries (MFW Bałtyk II sp. z o. o. MFW Bałtyk III sp. z o. o., Polenergia Bałtyk I S.A.) included:

	Carrying amount as at 31 December 2018			
	Bałtyk III	Bałtyk II	Bałtyk I	Total
Non-current fixed assets - capital expenditure for wind farms under construction	64 266	52 028	27 813	**144 107**
Other receivables	1 166	1 264	680	**3 110**
Cash	17 515	12 646	58	**30 219**
Trade liabilities	2 095	2 043	249	**4 387**
Prepayments	50	28	39	**117**
Total net assets				**172 932**

In the year ended on 31 December 2018 the subsidiaries (MFW Bałtyk II sp. z o. o.. MFW Bałtyk III sp. z o. o., Polenergia Bałtyk I S.A.) did not run operating activity and therefore did not generate any material profit/loss; and as a consequence the subsidiaries had not effect on the evaluation of the shares using the equity method.

19 Long term receivables

	31.12.2018	31.12.2017
- receivables from other entities	4,146	4,489
- finance lease	2,160	2,503
- other receivables	1,986	1,986
Net long term receivables	**4,146**	**4,489**

20 Inventories

	31.12.2018	31.12.2017
- materials and merchandise	12 806	8 827
- certificates of origin	22 136	17 345
- prepayments for deliveries	29	42
Total net inventories	**34 971**	**26 214**
- inventory remeasured write-downs	559	148
Total gross inventories	**35 530**	**26 362**

21 Short term receivables

	31.12.2018	31.12.2017
- trade receivables	116 010	123 091
- from related entities	3 579	4 781
- from other entities	112 431	118 310
- income tax receivable	5 849	1 319
- other receivables	59 863	39 995
- budget payments receivable	11 673	19 429
- finance lease	362	347
- LTC settlement	22 475	-
- other	25 353	20 219
Total net short-term receivables	**181 722**	**164 405**
- receivables remeasured write-downs	2 077	2 340
Total gross short-term receivables	**183 799**	**166 745**

Transactions with related entities are presented in note 44.

Trade receivables are not subject to interest, and the due date is usually 7 to 45 days.

As at 31 December 2018 the impairment loss for unrecoverable receivables dropped down to the amount of kPLN 2 077, compared to kPLN 2 340 as at 31 December 2017. The changes to impairment loss in receivables were as follows:

	31.12.2018	31.12.2017
As at the beginning of the period	**2 340**	**2 281**
- Increase	276	259
- Application	(193)	(150)
- Reversal	(346)	(50)
As at the end of the period	**2 077**	**2 340**

The classification of trade receivables into specific stages of impairment model is presented below:

	Total	Step 1	Step 2
31.12.2018	116,010	114,824	1,186
31.12.2017	123,091	122,748	343

Changes in carrying amount of gross trade receivables in the current reporting period were presented in the table below:

Trade receivables	
Gross value as at 1.1.2018	125 431
Arisen	114 929
Paid	(122 273)
Gross value as at 31.12.2018	118 087

Coefficients of non-fulfillment of the obligation and calculation of impairment loss as at 31 December 2018 are presented in the table below:

		Receivables from individual customers			
	Total	Current 0-30 days	30-60 days	60-90 days	>90 days
Receivables as at 31 December 2018	11 614	10 971	229	70	344
Expected credit losses	1 083	-	-	-	1 083

		Receivables from corporate customers			
	Total	Current 0-30 days	30-60 days	60-90 days	>90 days
Receivables as at 31 December 2018	104 396	100 369	3 144	41	842
Expected credit losses	994	-	-	-	994

22 Short term prepayments and accrued income

	31.12.2018	31.12.2017
- insurance	2 790	3 649
- subscriptions	32	39
- wind turbine maintenance	1 232	981
- real estate tax, perpetual usufruct charges, lease payments	42	85
- accrued revenue	738	772
- accrued commissions	649	169
- other	444	1 244
Total prepayments and accrued income	**5 927**	**6 939**

23 Current financial assets

	31.12.2018	31.12.2017
- futures and forward contracts measurement	642 383	119 301
Total short term financial assets	**642 383**	**119 301**

Futures and forward contracts to buy or sell electricity entered into by Polenergia Obrót S.A., a subsidiary, are classified as derivatives and are accounted for in accordance with standards applicable to derivative instruments.. As a result such contracts are measured at fair value, with changes in fair value reflected in profit and loss account. The valuation gains and losses are presented on a net basis in the revenues or costs of sale. Valuation is performed with respect to outstanding part of the contracts broken down into current portion (to be settled within 12 months from the balance sheet date, and non-current portion (to be settled in successive years.

	For 12 months ended	
	31.12.2018	31.12.2017
Result of measurement of derivatives	3 456	(5 373)

	31.12.2018	31.12.2017
Short term assets	642 383	119 301
Long term assets	18 893	11 095
Total	**661 276**	**130 396**

	31.12.2018	31.12.2017
Short term liabilities	628 377	111 293
Long term liabilities	11 916	7 645
Total	**640 293**	**118 938**

The financial assets and liabilities measured by the Group at fair value and classified to a defined level in the fair value hierarchy are presented in the table below:

- Level 1 – quoted prices (without adjustments) in active markets for identical assets and liabilities,
- Level 2 – input data for valuation of assets and liabilities, other than quoted market prices included in level 1, observable for the assets and liabilities in active markets,
- Level 3 – input data for valuation of assets and liabilities not observable for assets and liabilities in active markets.

Derivative instruments are pairs of futures or forward contracts of long and short position entered into at stock market for speculative purposes, measured with the model using market parameters i.e. market price of the instrument discounted using interest rates (level 2). The impact of any unobservable input data, if any, was not material for the valuation of derivative instruments.

Financial instrument category

31.12.2018	Poziom 2	Razem
Short term assets	642 383	642 383
Long term assets	18 893	18 893
Total	**661 276**	**661 276**

31.12.2018	Poziom 2	Razem
Short term liabilities	628 377	628 377
Long term liabilities	11 916	11 916
Total	**640 293**	**640 293**
Net fair value	**20 983**	**20 983**

The analysis of sensitiveness of the profit/loss with reference to a potential fluctuation of market prices of electricity and gas is presented below. The calculation was made based on futures or forward contracts for purchase/sale of energy, classified as derivatives valued at fair value.

Impact on profit/loss	31.12.2018	31.12.2017
Market price increase by 1%	5	(165)
Market price decrease by 1%	(5)	172

24 Cash and cash equivalents

	31.12.2018	31.12.2017
Cash and equivalent	311 857	297 898
- cash at hand and in bank	311 857	297 898
Total cash and equivalent	**311 857**	**297 898**

Restricted cash amounting to kPLN 40,049 was described in detail in note 38 (2017: kPLN 42,363).

Cash at banks earns interest at floating rates depending on the interest rate for overnight deposits. Current deposits are placed for various periods, from one day to one month, depending on the immediate cash requirements of the Group and earn interest at the interest rates agreed for such deposits.

25 Share capital and statutory reserve funds/capital reserve

25.1 Share capital

Series/Issue	Type of shares	Quantity	Par value of series/issue
A	bearer	2 213 904	4 428
B	bearer	2 304 960	4 610
C	bearer	515 256	1 031
D	bearer	566 064	1 132
E	bearer	1 338 960	2 678
F	bearer	544 800	1 090
G	bearer	683 376	1 367
H	bearer	288 000	576
I	bearer	856 704	1 713
J	bearer	3 835 056	7 670
K	bearer	1 640 688	3 281
L	bearer	3 144 624	6 289
M	bearer	182 359	365
N	bearer	69 922	140
O	bearer	70 908	142
P	bearer	89 500	179
R	bearer	37 560	75
S	bearer	147 026	294
U	bearer	125 300	251
W	bearer	143 200	286
T	bearer	945 800	1 891
Y	bearer	1 570 000	3 140
Z	bearer	24 129 580	48 259
Total quantity		**45 443 547**	
Total share capital			90 887
Par value per share (PLN)			2

Shares of all series carry equal rights and are fully paid.

25.2 Significant shareholders

Shareholders holding at least 5% of the total number of shares as at the date of submission of the present consolidated financial statements:

No.	Shareholder	Number of shares held	Number of votes	Shareholding
1	Masa Investments Sp.z o.o.. *)	23 467 043	23 467 043	51.64%
2	China - Central and Eastern Europe Investment Co-operation Fund SCS SICAV-SIF**	7 266 122	7 266 122	15.99%
3	Nationale Netherlanden	2 576 969	2 576 969	5.67%
4	Generali OFE	2 981 728	2 981 728	6.56%
5	Aviva OFE	3 732 000	3 732 000	8.21%
6	Other	5 419 685	5 419 685	11.93%
	Total	**45 443 547**	**45 443 547**	**100.00%**

*) On 3 July 2018 Dominika Kulczyk entered into the agreement in virtue whereof she purchased from Kulczyk Investments S.A., a company formed under the law of Luxembourg („KI") 100% of the shares of Kulczyk Holding S.à r.l., a company formed under the law of Luxembourg, holding 100% of Mansa Investments sp. z o.o which has 23 467 043 shares in Polenergia S.A., constituting 51.64 % of share capital of Polenergia S.A. and giving right of 23 467 043 votes at the general meeting of Polenergia S.A., corresponding to 51.64 % of the total number of votes at the general meeting of shareholders of Polenergia S.A.

**) through Capedia Holdings Limited, a subsidiary, with the registered address in Nicosia,Cyprus

25.3 Other capital reserves

Other capital reserves have been set up from profits generated in previous financial years and recognition of upward valuation of the derivative instruments hedging future cash flows (further information on hedging instruments are presented in Note 42).

25.4 Undistributed profit and limitations of dividend payment

In compliance with the Commercial Companies' Code, the parent company is obliged to set up statutory reserve to cover losses. At least 8% of the profit obtained in a given financial year disclosed in the financial statements of the parent company should be transferred to statutory reserve funds until the funds reach at least one third of the share capital of the parent company. While it is for the General Meeting of Shareholders to resolve how to use statutory reserve funds and capital reserves; a part of statutory reserve funds amounting to one third of the share capital, i.e. kPLN 30.296 may be used solely to cover a loss disclosed in the financial statements of an entity, and may not be used for any other purposes. The 2017 loss was covered from the statutory reserve funds, i.e. from the share premium.

25.5 Non-controlling interests

	31.12.2018	31.12.2017
As at the beginning of period	**926**	**902**
- - share in subsidiaries profit/loss	(23)	24
As at the end of period	**903**	**926**

25.6 Dividends paid and proposed to be paid

In the 12 months period ended on 31 December 2018 the parent company did not make any payments of dividend. The parent company does not plan any dividend payments in the year 2019.

26 Income Tax

	Za okres 12 miesięcy zakończony		Za okres 3 miesięcy zakończony	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Current income tax	19 698	7 580	2 958	5 330
Current income tax charge	19 678	7 580	2 958	5 325
Adjustments to prior years current income tax	20	-	-	5
Deffered income tax	17 614	12 837	17 987	6 041
Related to temporary differences and their reversal	17 614	12 837	17 987	6 041
Income tax charged to the profit and loss account	37 312	20 417	20 945	11 371

	Balance sheet	Profit and loss account	Capital	Tax on loss of control over subsidiaries	Balance sheet
Deferred income tax	**01.01.2018**				**31.12.2018**
Deferred income tax provision					
Tangible fixed assets	86 922	306	-	(8 257)	78 971
Intangible Assets	5 398	(1 874)	-	-	3 524
Receivables	11 602	13	-	-	11 615
Cash	(704)	106	-	-	(598)
Loans and borrowings	(1 114)	(2 890)	-	-	(4 004)
Lease receivables	298	(62)	-	-	236
Liabilities	(3 282)	(1 412)	-	-	(4 694)
Other	1 501	669	-	-	2 170
Inventories	307	628	-	-	935
Deferred income tax provision before tax	**100 928**	**(4 516)**	**-**	**(8 257)**	**88 155**
Compensation					**(18 959)**
Deferred income tax provision					**69 196**
Deferred income tax assets					
Tangible fixed assets	16 926	(12 091)	-	-	4 835
Inventories	6	(194)	-	-	(188)
Receivables	1 073	35	-	-	1 108
Borrowings	(3 807)	(291)	-	-	(4 098)
Liabilities	9 181	(7 240)	(115)	-	1 826
Provisions	3 162	923	-	-	4 085
Leased assets	8	(8)	-	-	-
Retained loss	14 975	(2 627)	-	-	12 348
Prepayments	10 187	(637)	-	-	9 550
Deferred income tax assets before tax	**51 711**	**(22 130)**	**(115)**	**0**	**29 466**
Compensation					**(18 959)**
Deferred income tax asset					**10 507**
Deferred income tax expense		**17 614**			
Net deferred tax (assets)/ provision	**49 217**		**115**	**(8 257)**	**58 689**

	Balance sheet	Profit and loss account	Capital	Balance sheet
Deferred income tax	**2017-01-01**			**2017-12-31**
Deferred income tax provision				
Tangible fixed assets	86 586	336	-	86 922
Intangible Assets	7 272	(1 874)	-	5 398
Receivables	14 135	(2 533)	-	11 602
Cash	(605)	(99)	-	(704)
Loans and borrowings	(813)	(301)	-	(1 114)
Lease receivables	358	(60)	-	298
Liabilities	(3 412)	130	-	(3 282)
Other	2 830	(1 329)	-	1 501
Inventories	571	(264)	-	307
Deferred income tax provision before tax	**106 922**	**(5 994)**	**-**	**100 928**
Compensation				**(26 955)**
Deferred income tax provision				**73 973**
Deferred income tax assets				
Tangible fixed assets	16 063	863	-	16 926
Inventories	36	(30)	-	6
Receivables	1 074	(1)	-	1 073
Borrowings	(3 120)	(687)	-	(3 807)
Liabilities	24 541	(14 819)	(541)	9 181
Provisions	2 810	352	-	3 162
Leased assets	3	5	-	8
Retained loss	19 136	(4 161)	-	14 975
Accruals	10 540	(353)	-	10 187
Deferred income tax assets before tax	**71 083**	**(18 831)**	**(541)**	**51 711**
Compensation				**(26 955)**
Deferred income tax asset				**24 756**
Deferred income tax expense		**12 837**		
Net deferred tax (assets)/ provision	**35 839**		**541**	**49 217**

The transitory difference related to property, plant and equipment and intangible fixed assets follows from the revaluation of assets at fair value and accelerated tax depreciation/amortization.

	31.12.2018	31.12.2017
Deferred income tax liability		
with maturity following 12 months	90 342	103 106
with maturity within 12 months	(2 187)	(2 178)
Deferred income tax asset		
with maturity following 12 months	14 911	37 275
with maturity within 12 months	14 555	14 436
Deferred income tax liabilities (assets) (net)	**58 689**	**49 217**

EFFECTIVE TAX RATE

	For 12 months ended	
	31.12.2018	31.12.2017
Income tax charged to the profit and loss account, including	**37 312**	**20 417**
Current tax	19 698	7 579
Deferred tax	17 614	12 838
Profit before tax	**40 693**	**(67 285)**
Tax on gross profit at effective tax rate of 19%	7 732	(12 784)
Adjustments to prior years current income tax	329	-
Non-deductible costs:	**29 281**	**33 218**
- permanent differences	679	768
- asset from tax losses in the Special Economic Zone	629	280
- temporary difference on which no tax asset/provision is established*)	27 973	32 170
Non-taxable income:	**(30)**	**(17)**
- other	(30)	(17)
Income tax in the profit and loss account	**37 312**	**20 417**

*) mainly concerns the non-recognition of an asset on account of impairment losses for non-financial non-current assets, non-recognition of an asset in case of risk of deducting losses in future and the effect of the sale of MWF Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o.

27 Provisions

	31.12.2018	31.12.2017
Long term provisions		
- pension plan and related provision	1 163	1 087
- litigation provision	21 139	21 820
Total long term provisions	**22 302**	**22 907**
Short term provisions		
- pension plan and related provision	214	514
- accrued holiday leave provision	1 298	1 349
- litigation and grid losses provision	1 793	1 793
- other provisions	7 282	-
Total short term provisions	**10 587**	**3 656**

Change in long term and short term provisions

	31.12.2018	31.12.2017
Provisions at beginning of period	**26 563**	**28 572**
- recognition of provisions	7 463	782
- reversal of provisions	(1 094)	(2 791)
- application provisions	(43)	-
Provisions at end of period	**32 889**	**26 563**

The long term provision for litigation in connection with the court proceedings involving Eolos Sp. z o.o., resulting from adopting a prudent approach (for more information, see note 31.2.

28 Liabilities under borrowings

31.12.2018

Bank	Company	Long term liability	Short term liability	Interest rate	Maturity	Security
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	-	11 450	3M WIBOR + margin	04.2019	Mortgage over real property, pledge over assets, pledge over Borrower's shares, statement of voluntary submission to enforcement.
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	-	26 200	3M WIBOR + margin	04.2019	Mortgage over real property, pledge over assets, pledge over Borrower's shares, statement of voluntary submission to enforcement.
PEKAO SA	Polenergia Obrót S.A.	-	28 894	1M WIBOR + margin	30.09.2019	Assignment of claims under sale agreements, powers of attorney over bank accounts, statement of voluntary submission to enforcement
ING Bank Śląski S.A.	Polenergia Dystrybucja Sp. z o.o.	40 619	1 964	3M WIBOR + margin	19.11.2027	Pledge over assets, pledge over Borrower's shares, statement of voluntary submission to enforcement.
Raiffeisen Bank Polska SA	Dipol Sp. z o.o.	14 921	4 519	1M WIBOR + margin	31.12.2021	Mortgage over real property, registered pledge over assets, pledge over Borrower's shares, powers of attorney over bank accounts, assignment of claims under project contracts, frozen funds in the special-purpose reserve account, surety of up to PLN 6,338 thousand issued by Polenergia S.A. (yet in the relevant documentation Polenergia S.A. made a carve-out that in the sponsor's opinion said surety was not effective). EUR denominated facility.blokada środków na rachunku rezerwy celowej, poręczenie Polenergia SA do kwoty 6.338 tys. PLN (przy czym w samej dokumentacji Polenergia S.A. zastrzegła, że w opinii sponsora poręczenie to nie obowiązuje). Kredyt ten jest walutowy w EUR.
Bank syndicate (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Amon Sp. z o.o.	106 731	1 308	3M WIBOR + margin	31.12.2026	Registered pledge over assets, pledge over shares of the Borrower and Talia Sp. z o.o., assignment of claims (under project contracts, lease contracts, maintenance contract), financial and registered pledge on receivables on bank accounts and powers of attorney for such accounts, contract for transfer of the right to funds on Agent's Account, surety issued by Polenergia S.A. (jointly with Talia Sp. z o.o.), up to PLN 6,700 thousand, mutual surety issued by Talia Sp. z o.o., subordination of Polenergia S.A.'s claims and Talia S.A.'s claims to Lender's claims, statement of voluntary submission to enforcement.
Bank syndicate (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Talia Sp. z o.o.	67 032	875	3M WIBOR + margin	31.12.2026	Registered pledge over assets, financial and registered pledge over shares of the Borrower and Amon Sp. z o.o., assignment of claims (under project contracts, lease contracts, maintenance contract), financial and registered pledge on receivables on bank accounts and powers of attorney for such accounts, contract for transfer of the right to funds on Agent's Account, surety issued by Polenergia S.A. (jointly with Amon Sp. z o.o.), up to PLN 6,700 thousand, mutual surety issued by Amon Sp. z o.o., subordination of Polenergia S.A.'s claims and Amon S.A.'s claims to Lender's claims, statement of voluntary submission to enforcement.
PEKAO SA	Grupa PEP - Biomasa Energetyczna Wschód Sp. z o.o.	-	4 823	1M WIBOR + margin	30.09.2022	Mortgage over real property, registered pledge over assets, pledge over Borrower's shares, assignment of claims under project contracts, powers of attorney over bank accounts, statement of voluntary submission to enforcement.oświadczenie o poddaniu się egzekucji.
European Bank for Reconstruction and Development	Grupa PEP - Farma Wiatrowa 1 Sp. z o.o.	117 991	5 609	3M WIBOR + margin	29.12.2032	Mortgage over real property, registered pledge over assets, pledge over Borrowers' shares, assignment of claims under project contracts, equity contribution agreement and sponsors' support agreement, subordination of equity contribution agreement, statement of voluntary submission to enforcement.sponsorskiego, umowa podporządkowania wkładu własnego, oświadczenie o poddaniu się egzekucji.
Bank syndicate (EBRD, BOŚ S.A.)	Grupa PEP - Farma Wiatrowa 4 Sp. z o.o.	211 323	10 185	3M WIBOR + margin	29.12.2032	Mortgage over real property, registered pledge over assets, pledge over Borrowers' shares, assignment of claims under project contracts, equity contribution agreement and sponsors' support agreement, subordination of equity contribution agreement, statement of voluntary submission to enforcement.sponsorskiego, umowa podporządkowania wkładu własnego, oświadczenie o poddaniu się egzekucji.
European Bank for Reconstruction and Development	Grupa PEP - Farma Wiatrowa 6 Sp. z o.o.	63 562	3 022	3M WIBOR + margin	29.12.2032	Mortgage over real property, registered pledge over assets, pledge over Borrowers' shares, assignment of claims under project contracts, equity contribution agreement and sponsors' support agreement, subordination of equity contribution agreement, statement of voluntary submission to enforcement.
Bank syndicate (EBRD, BOŚ S.A., Bank of China, ALIOR BANK S.A.)	Polenergia Farma Wiatrowa Mycielin Sp. z o.o.	170 080	14 270	3M WIBOR + margin	15.09.2029	Mortgage over real property, registered pledge over assets, pledge over Borrower' shares, assignment of claims under project contracts, equity contribution agreement and sponsors' support agreement, subordination of equity contribution agreement, statement of voluntary submission to enforcement.
Total		**792 259**	**113 119**			

31.12.2017

Bank	Company	Long-term liabilities	Short-term liabilities	Interest rate	Maturity date	Security
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	11 449	36 847	WIBOR 3M + margin	04.2019	Mortgage over property, pledge over assets, pledge over shares in the borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	-	660	WIBOR 3M + margin	07.2018	Mortgage over property, pledge over assets, pledge over shares in the borrower, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Elektrociepłownia Nowa Sarzyna Sp. z o.o.	-	1 100	WIBOR 3M + margin	29.07.2017	Mortgage over property, pledge over assets, pledge over shares in the borrower, statement on voluntary submission to enforcement
PEKAO SA	Polenergia Obrót S.A.	-	4 088	WIBOR 1M + margin	31.08.2017	Assignment of claims under sale agreements, powers of attorney over bank accounts, statement on voluntary submission to enforcement
ING Bank Śląski S.A.	Polenergia Dystrybucja Sp. z o.o.	39 394	2 203	WIBOR 3M + margin	20.11.2024	Pledge over assets, pledge over shares in the borrower, statement on voluntary submission to
Raiffeisen Bank Polska SA	Dipol Sp. z o.o.	18 698	4 272	EURIBOR 1M + margin	31.12.2021	Mortgage over property, registered pledge over assets, pledge over shares in the borrower, powers of attorney over bank accounts, assignment of claims under project contracts, block on funds in the special-purpose reserve account, surety of up to PLN 6,338 thousand issued by Polenergia S.A. EUR denominated facility
Konsorcjum bankowe (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Amon Sp. z o.o.	-	112 431	WIBOR 3M + margin	31.12.2026	Registered pledge over assets, pledge over shares in the borrower and Talia Sp. z o.o., conditional assignment of claims under project contracts, block on funds in the special-purpose reserve account, surety of up to PLN 6,758 thousand issued by Polenergia S.A. (jointly with Talia Sp. z o.o.), mutual surety of up to PLN 312,739.5 thousand issued by Talia Sp. z o.o., subordination of Polenergia S.A.'s claims to Lender's claims, statement on voluntary submission to enforcement
Konsorcjum bankowe (Raiffeisen Bank Polska S.A., PKO BP S.A., BZ WBK S.A., DNB NORD S.A.)	Talia Sp. z o.o.	-	70 736	WIBOR 3M + margin	31.12.2026	Registered pledge over assets, pledge over shares in the borrower and Amon Sp. z o.o., conditional assignment of claims under project contracts, block on funds in the special-purpose reserve account, surety of up to PLN 6,758 thousand issued by Polenergia S.A. (jointly with Amon Sp. z o.o.), mutual surety of up to PLN 227,440.50 thousand issued by Amon Sp. z o.o., subordination of Polenergia S.A.'s claims to Lender's claims, statement on voluntary submission to enforcement
PEKAO SA	Grupa PEP - Biomasa Energetyczna Wschód Sp. z o.o.	4 714	1 142	WIBOR 1M + margin	30.09.2022	Mortgage over property, registered pledge over assets, pledge over shares in the borrower, assignment of claims under project contracts, powers of attorney over bank accounts, statement on voluntary submission to enforcement
Europejski Bank Odbudowy i Rozwoju	Grupa PEP - Farma Wiatrowa 1 Sp. z o.o.	131 493	22 966	WIBOR 3M + margin	29.06.2029	Mortgage over property, registered pledge over assets, pledge over shares in the borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Konsorcjum bankowe (EBOR, BOŚ S.A.)	Grupa PEP - Farma Wiatrowa 4 Sp. z o.o.	235 243	19 729	WIBOR 3M + margin	29.06.2029	Mortgage over property, registered pledge over assets, pledge over shares in the borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Europejski Bank Odbudowy i Rozwoju	Grupa PEP - Farma Wiatrowa 6 Sp. z o.o.	70 788	8 772	WIBOR 3M + margin	29.06.2029	Mortgage over property, registered pledge over assets, pledge over shares in the borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Konsorcjum bankowe (EBOR, BOŚ S.A., Bank of China, ALIOR BANK S.A.)	Polenergia Farma Wiatrowa Mycielin Sp. z o.o.	193 725	13 067	WIBOR 3M + margin	15.09.2029	Mortgage over property, registered pledge over assets, pledge over shares in the borrowers, assignment of claims under project contracts, equity contribution and sponsor support agreement, equity contribution subordination agreement, representation on submission to enforcement
Total		**705 504**	**298 013**			

On 28 June 2018 the Company subsidiaries i.e. Amon Sp. z o.o. with the registered address in Łebcz („Amon") i Talia Sp. z o.o. with the registered address in Łebcz („Talia") agreed upon and executed with the consortium of financing banks (Raiffeisen Bank Polska S.A., Bank Zachodni WBK S.A., DNB Bank Polska S.A. Powszechna Kasa Oszczędności Bank Polski S.A.) the agreements amending investment credits agreements of 1 June 2010, entered into at that time in connection with the project of construction of Łukaszów wind farm and Modlikowice wind farms of the total installed capacity of 58 MW. The purpose of the implemented changes was to stabilize the financial condition of Amon and Talia in a non-current time horizon by a partial credit reimbursement prior to the scheduled date from the funds gathered in the Debt Service Reserve Account („DSRA"), reduction of capital and interest instalment defined in the investment credit service schedule and adapting the established securities to the currently binding regulations and the Borrowers' situation. Upon entering into the above amending agreements and the earlier payment from DSRA provided for in the documents, the amount remaining to be reimbursed totals ca. MPLN 179. The financial documents provide for the credit service schedule until December 2026. The interest rate on the credit equals WIBOR rate plus the banks' margin. The above modifications were required in view of the market situation, in particular the level of prices of green certificates and electricity. As a result of the above agreement the credits of Amon and Talia are presented as non-current liabilities, in the part reimbursable from 31 December 2019. Amon and Talia were parties to long term agreements for the delivery of electricity and green certificates to the subsidiary belonging to Tauron Polska Energia S.A. („Tauron").

On 12 July 2018 the Company's subsidiaries, i.e. PEP Group – Farma Wiatrowa 1 Sp. z o.o. with the registered address in Warsaw, Grupa PEP – Farma Wiatrowa 4 Sp. z o.o. with the registered address in Warsaw, Grupa PEP – Farma Wiatrowa 6 Sp. z o.o. with the registered address in Warsaw, (jointly: „GSR") entered with the consortium of financing banks (European Bank of Reconstruction and Development, Bank Ochrony Środowiska S.A.) into agreements amending the investment credits agreements of 4 October 2013 contracted by GSR in connection with the performance of the project consisting in the construction of Gawłowice wind farm, Skurpie wind farm and Rajgród wind farm, of the total installed capacity of 117.3 MW. The companies are parties to long term agreements for the delivery of electricity and green certificates to Polenergia Obrót S.A.

In view of the change in market situation, in particular the reduction in prices of green certificates, low electricity prices and lack of certainty as to the real property tax burden, the Companies commenced the process of renegotiating the above credit agreements. The negotiations allowed for reducing total prices binding in the intergroup agreements for the delivery of electricity and green certificates, and for changing the credit service time schedule, which will eventually improve the Issuer's situation.

The agreement entered into on 12 July 2018 between the European Bank for Reconstruction and Development, Bank Ochrony Środowiska S.A., the Company and GSR amended the credit agreements with other respective financing documents in the scope of investment credit contracted by the Companies. Upon the effective date of the above agreement and debt reimbursement prior to the scheduled date in the amount of MPLN 23.7 resulting from the provisions of the above agreement, the credit balance to be reimbursed totals MPLN 434.5. The financial documents provide for the extension of the credit service schedule as described above by three years until December 2032. The interest rate on the credit equals WIBOR rate plus the bank's margin.

Moreover, in connection with the change of the GSR credit service time schedule, as a result of concluding the above agreement, on 12 July 2018 the following agreements between Polenergia Obrót S.A. and GSR were amended: the agreements concerning the sale of electricity generated in renewable energy sources, the agreements for the sale of green certificates resulting from property rights vested in GSR as a result of generating electricity from renewable energy sources and the agreements on trade balancing services. The prices of delivered electricity, green certificates and trade balancing cost changed, as did the contractual terms which were extended by 3 years.

In consideration of the situation in the biomass market, Grupa PEP – Biomasa Energetyczna Wschód Sp. z o.o. company with the registered address in Warsaw running the pellets production plant in Zamość did not achieve the DSCR financial ratio level required in compliance with the investment credit agreement. The project investment credit, in view of the accounting standards

requirements, was disclosed in the Polenergia Group balance sheet in its entirety in the Group's short term liabilities.

29 Liabilities

SHORT TERM LIABILITIES

	31.12.2018	31.12.2017
- bank loans and borrowings	113 119	298 013
- trade payables	129 391	129 613
- from related entities	-	576
- from other entities	129 391	129 037
- income tax payable	345	290
- other liabilities	646 593	139 972
- budget payments receivable	7 232	7 746
- prepayments for deliveries	6 006	226
- other financial liabilities	186	339
- futures and forward contracts measurement	628 377	111 293
- payroll payable	1 374	1 414
- special funds	32	43
- LTC settlement	-	16 436
- other	3 386	2 475
Total short term liabilities	**889 448**	**567 888**

As at 31 December 2018 the bank credit facilities granted to Amon Sp. z o.o. and Talia Sp. z o.o. were presented in long term liabilities in the part reimbursable from 31 December 2019; for more information see note 28.

OTHER LONG TERM LIABILITIES

	31.12.2018	31.12.2017
- LTC settlements **)	-	21 776
- futures and forward contracts measurement *)	11 916	7 645
- risk hedges	3 472	4 543
- investment obligations	1 500	1 500
- other financial liabilities	377	433
Total other long term liabilities	**17 265**	**35 897**

*) the valuation of futures and forward contracts was discussed in detail in note 23.

**) the liabilities on account of LTC settlements were discussed in detail in note 45.

Trade liabilities do not bear interest and are usually payable within 14 days. Other liabilities do not bear interest.

30 Accruals and deferred income

ACCURALS

	31.12.2018	31.12.2017
Long term accruals and deferred income		
- deferred income - grants	53 367	56 565
Total long term accruals and deferred income	**53 367**	**56 565**

Short term accruals and deferred income

	31.12.2018	31.12.2017
- future bonuses, salaries and wages	6 694	8 690
- third party services	2 713	2 767
- accrued holiday	420	481
- deferred income - grants	3 196	3 197
- capex for non-current fixed assets	500	284
- other	594	467
Total short term accruals and deferred income	**14 117**	**15 886**

31 Contingent liabilities

31.1 Guarantees and sureties issued

As at 31 December 2018 the Group did not issue any external guarantees.

31.2 Litigation

The Company's subsidiaries Amon Sp. z o.o. and Talia Sp. z o.o., each of them separately, in the year 2015 brought court actions to declare invalid the termination notices issued by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. (a Tauron Group company) under:

1) the agreement on sale of property rights incorporated in certificates of origin for electricity generated in renewable energy source –Łukaszów Wind Farm of 23 December 2009 and the agreement on dale of electricity generated in a renewable energy source – Łukaszów Wind Farm dated 23 December 2009, with respect to Amon;

2) the agreement on sale of property rights incorporate in certificates of origin for electricity generated in renewable energy source – Modlikowice Wind Farm of 23 December 2009 and the agreement on sale of electricity generated in a renewable energy source – Modlikowice Wind Farm dated 23 December 2009, with respect to Talia;

Subsequently, Amon Sp. z o.o. and Talia Sp. z o.o. changed their actions by adding a new claim to the initial claim, demanding payment of compensation for non-performance or improper performance of the abovementioned agreements, and then extended the demand to include subsequent periods of non-performance of the abovementioned agreements by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. As a result Amon Sp. z o.o. is currently claiming the payment of kPLN 40,478, and Talia Sp. z o.o. is claiming the payment of kPLN 26,769. It is assumed that an analogous extension will take place to include further claims covering subsequent periods resulting from the above agreements.

The above issue did not cause Amon and Talia to lose their ability to sell electricity and certificates of origin, because electricity can be sold to an obliged seller at a price published by the President of URE, and green certificates can be sold through the power exchange or in another way to other parties. Moreover, the market prices are variable. As it is impossible to foresee future market prices, the consequences of a potential change of the customer for electricity and green certificates sold by Talia and Amon cannot be reliably predicted. The proceedings are pending.

At the end of April the Company's subsidiaries – Amon Sp. z o.o. and Talia Sp. z o.o., brought an action against Tauron Polska Energia S.A. in connection with the breach of long term agreements on sale of energy and property rights entered into between Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. (a Tauron subsidiary) and Amon and Talia.

Amon demands the payment of kPLN 47,556 compensation plus interest and court proceedings cost and the establishment of Tauron responsibility for future losses estimated at over kPLN 158,000; in such context the total claim pursued by Amon exceeds kPLN 205,000.

Talia demands the payment of kPLN 31,299 as compensation plus interest and court proceedings cost and the establishment of Tauron responsibility for future losses estimated at almost kPLN 107,000; in such context the total claim pursued by Talia exceeds kPLN 138,000.

In the opinion of Amon and Talia, Tauron is responsible for the loss borne by Amon and Talia at present and the loss which will be borne by the above companies in future as a consequence of breaching long term agreements. Tauron, as the only shareholder of PKH, is held liable for taking steps aiming at the expiration of long term agreements and submitted groundless statements concerning the termination of such agreements and discontinuation by PKH of purchase of energy and property rights in virtue of such agreements. Also, Tauron caused PKH and its liquidators to take determined actions, and intentionally benefited from the loss incurred by Amon and Talia. As a consequence in the opinion of Amon and Talia their claims are grounded and merit adjudication as per the action brought by them.

Eolos Polska Sp. z o.o. filed for joint and several payment by the Company's subsidiaries. Certificaty Sp. z o.o. and Polenergia Obrót S.A. for the payment of contractual penalties totaling kPLN 27,895 on account of alleged breach of agreements which expired on 5 January 2016. It should be pointed out that the plaintiff indicated in its statement of claim that its claim could be higher in view of the fact that the contractual penalties would increase in subsequent years. The companies reject the claim in its entirety. Moreover, Polenergia Obrót S.A. maintains that the alleged joint and responsibility for the liabilities of Certyfikaty Sp. z o.o. is groundless. The Group maintains a provision on such account in the financial statements (note 27).

The Company's subsidiary – Grupa PEP – Biomasa Energetyczna Północ Sp. z o.o. claims the payment of receivables in the amounts of approximately kPLN 420, kPLN 146 and kPLN 65. The above accounts receivable are not reflected in the company's balance sheet.

Due to the specific nature of its business consisting in the delivery of electricity to end consumers, Polenergia Dystrybucja Sp. z o.o. as the Company's subsidiary is enforcing claims against a number of customers for sale and distribution of electricity for the total amount of. ca kPLN 360. The above accounts receivable are not reflected in the company's balance sheet. Moreover, Polenergia Dystrybucja Sp. z o.o. lodged a claim against one of the electricity suppliers for the return of the overpayment for the delivered energy. The amount of the claim is ca kPLN 550. The defendant recognized the claim as grounded, but also filed for a set-off of receivables for energy supplied in a different period. Polenergia Dystrybucja Sp. z o.o. regards the defendant's counterclaim as groundless. In the Company's opinion the entire amount due to the supplier for the supplied energy has been paid. On 4 September 2018 the Regional Court in Gdańsk adjudged the entire pursued claim in favor of Polenergia Dystrybucja Sp. z o.o. The appeal was filed against a part of the above judgment, as a consequence the remaining part of the claim amounting to over kPLN 171 was finally adjudged in favor of Polenergia Dystrybucja Sp. z o.o.

Polenergia Obrót S.A., the Company's subsidiary, holds enforceable title against one contracting party for the amount of kPLN 5,000 and the enforcement proceedings are pending with respect to such amount. The above accounts receivable are not reflected in the company's balance sheet.

Moreover, Polenergia Elektrownia Północ Sp. z o.o., the Company's subsidiary, is in dispute with the other party to the preliminary property sale agreement, seeking to oblige that party to execute the final agreement. On 5 September 2018 the Regional Court in Gdańsk issued the judgment dismissing the claim. The proceedings were instituted against the same party by Polenergia Elektrownia Północ Sp. z o.o. for the payment of contractual penalties for the breach of contract in the amount of kPLN 100. The proceedings ended with the judgment of the Court of Appeal in Gdańsk of 7 February 2018 dismissing the defendant's appeal, based whereupon almost the entire amount of receivables, less kPLN 8, was collected in the enforcement procedure.

The Group is in dispute at court for the determination of real property tax for the year 2017.

Pursuant to adverse interpretations, since the year 2017 the real property tax on wind farms should have been calculated in compliance with new rules. In the Group's opinion the legal grounds for the above adverse interpretations are defective, as a consequence the Group filed the appeal against such grounds to the Regional Administrative Court, and next to the Supreme Administrative Court.

The Supreme Administrative Court (NSA) resolved negatively in the two projects, the remaining appeals shall be settled in the year 2019. Most probably the Group will be imposed higher real property tax for the year 2017 in the amount of MPLN 7 (including interest), unless the Group obtains a favorable decision in court proceedings (currently in the NSA phase) run in parallel to establish the taxable base for the purpose of real property tax for the year 2017. If NSA accepts that the basis for determining real property tax for the year 2017 is the market value of wind farms as at 1 January 20117, the group will not be in any arrears in real property tax.

31.3 Tax settlements

Tax settlements and other regulated areas of activity (for example customs or foreign exchange control) are subject to inspection by administrative bodies which are authorized to impose high penalties and sanctions. As the legal regulations regarding these issues in Poland are relatively new, they are often unclear and inconsistent, Differences in the interpretations of tax legislation are frequent, both within public administration bodies, and between those bodies and businesses, giving rise to uncertainty and conflicts. Consequently, tax risk in Poland is substantially higher than in countries with more mature tax system.

Tax settlements may be subject to inspection during five years' period, starting from the year in which tax was paid. Such inspections may result in additional tax liabilities for the Group companies. As at 31 December 2018 the Group did not identify any tax risk which would require a provision to be set up.

Given the very unclear wording of the regulations, a doubt arose as to the basis for computing real property tax on wind power plants. Although, in compliance with the experts' opinions held by the Group the Law should not affect the amount of real property tax paid by the Group, the majority of the companies received adverse interpretations confirming that the taxable basis for the purpose of real property tax increased since the beginning of the year 2017. In view of the level of risk related to the determination of real property tax for the year 2017, the Group set up a provision for the estimated amount of costs.

The law of 7 June 2018 on the amendment of the Act on renewable energy sources and other acts (Polish Official Journal of 2018 item 1276), hereinafter referred to as „Amendment Act" changed art. 3 item 3 of the Building Law of 7 July 1994 (i.e. Polish Official Journal of 2018, item 1202), hereinafter "Building Law" in the scope of definition of structures. Art. 3 item 2 of the Building Law indicated that a structure shall include, without limitation, constructible parts of technical appliances (boilers, industrial furnaces, nuclear power plants, wind power plants and other appliances).
Moreover, art. 2 item 6 of the Amendment Act modifies the appendix to the Building Law in line "Category XXIX – stand-alone chimneys and masts and wind power plants". The line now reads as follows: "Category XXIX – stand-alone chimneys and masts and construction parts of wind power plants".

In virtue of art. 17 item 2 of the Amendment Act, all the above presented modifications came into effect on the day following the date of publication, in force as of 1 January 2018. The Group performed adjustments of the real property tax declaration in compliance with the above regulations.

31.4 Capital Expenditure

As at 31 December 2018 the Company plans MPLN 77 total capital expenditure in the Polenergia Group for the year 2019 (in a form of outlays for fixed assets and capitalization of assets valued using the equity method). The amount will largely be allocated to an investment programme in the Distribution segment and on project development, including offshore and onshore wind power generation.

31.5 Contractual liabilities

Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. subsidiary

On 20 March 1998 Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. (Company) entered into a long term agreement with PGNiG S.A. under which it is obliged to order annual contractual gas volumes no less than 180 million cm and not more than 210 million cm. In each contractual year the Company is obliged to pay for a minimum annual volume of gas equal to 90% of the ordered annual volume. The agreement shall be valid until 24 December 2019.

On 21 March 2008 the Company entered into the agreement for the sale of electricity with GET EnTra Sp. z o.o. Annex no 11 of 6 December 2017 provides for the sale of electricity of the volume no less than 732,000 MWh annually starting from 2017, and no less than 335,000 MWh in the summer period. The contractual term expires on 31 December 2019.

Under the agreement entered into on 25 March 1998 with Ciech Sarzyna S.A. the subsidiary is obliged to deliver heat energy. In the event of failure to supply the agreed heat volumes, the subsidiary shall be obliged to compensate for losses incurred and documented by the customer up to MUSD 2 annually (the amount has been indexed to CPI starting from 1996). In virtue of the agreement amended under Annex No 10 of 24 January 2017, the subsidiary is obliged to supply, and Ciech Sarzyna S.A. is obliged to receive 370.000 GJ/year (Minimum Required Purchase Volume).

On 24 January 2017 the subsidiary and Ciech Sarzyna S.A. entered into the agreement under which the subsidiary is obliged to supply Ciech Sarzyna S.A. with heat energy in the period from 04.06.2020 to 30.11.2030, thus upon the expiration of the abovementioned agreement of 25 March 1998. In the event of failure to supply the agreed heat volumes, the subsidiary shall be obliged to compensate for the losses incurred and documented by the customer, up to MPLN 8 over the entire contractual term. The agreement does not provide for any minimum required purchase volume.

On 24 January 2017 the subsidiary and Ciech Sarzyna S.A. entered into the agreement under which Ciech Sarzyna S.A. commits to provide local services in the period from 04.06.2020 to 30.11.2030. The services under such agreement include supplies of water and steam condensate, collection of wastewater and access to a railroad siding, such services are used by the Company to run business related to the generation of electricity and heat.

On 30 October 2013 the Company renewed the agreement for heat energy supply with Zakład Gospodarki Komunalnej Nowa Sarzyna Sp. z o. o. The contractual term expires on 3 June 2020. In virtue of the agreement, in each contractual year the customer is obliged to receive and pay, and the Supplier is obliged to supply at least 55.000 GJ/year of heat energy (minimum required purchase volume), with the reservation that the customer has the right to change the minimum required purchase volume starting from the fourth contractual year. In addition, the Supplier (the subsidiary) is not obliged to supply in any contractual year more than 120.000 GJ of heat energy (maximum required purchase volume). In virtue of Annex no 2 of 18 January 2019 the minimum required purchase volume for the year 2018 was defined at the level of 54,000 GJ/year.

31.6 Liabilities under operating lease

The Group is a party to operating lease agreements, related in particular to land, technical infrastructure and office space. Total amounts of future minimum lease fees as at 31 December 2018 are presented in the table below.

Up to one year	**6 574**
1 - 5 years	**28 050**
In excess of 5 years	**55 820**
Total	**90 444**

32 Revenues

	For 12 months ended		For 3 moths ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
- revenue from sale and distribution of electricity	2 894 467	2 224 098	743 273	588 167
- revenue from certificates of origin	77 091	62 173	33 263	20 656
- revenue from CO2 emission allowances	8 788	23 025	8 506	22 707
- revenue from sale of heat	21 215	20 267	5 766	5 416
- revenue from consulting and advisory services	3 415	2 155	1 303	27
- revenue from lease and operator services	937	1 986	156	688
- revenue from sale of merchandise	860	3 955	389	1 108
- revenue from sale of pellets	16 909	26 368	3 781	6 086
- lease revenue	161	224	13	46
- revenue from stranded costs and cost of gas	174 293	109 086	54 717	20 198
- net revenue from sale and distribution of gas	244 298	277 238	34 633	81 008
- other revenue	6 278	11 803	2 155	5 348
Total sales revenues	**3 448 712**	**2 762 378**	**887 950**	**751 455**

In the revenues from sale and distribution of energy, the amount of revenues from derivative instruments in energy sale is shown.

GEOGRAPHICAL DISTRIBUTION OF REVENUES

	For 12 months ended		For 3 months ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
- Poland	3 077 754	2 405 623	751 305	655 869
- Czech Rebublic	52 694	66 198	22 814	19 259
- Luksembourg	70 862	9 296	37 603	1 896
- Germany	172 322	183 795	46 021	38 100
- Switzerland	412	1 746	-	601
- Hungary	284	-	-	-
- United Kingdom	33 100	82 971	13 196	27 740
- Spain	995	2 119	995	190
- Slovakia	36 000	4 003	13 072	1 444
- Slovenia	4 041	6 627	2 882	6 356
- Norway	248	-	62	-
Total revenue	**3 448 712**	**2 762 378**	**887 950**	**751 455**

33 Expenses, by nature of expense

	For 12 months ended		For 3 months ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
- depreciation	95 523	97 080	23 723	24 010
- materials and power consumption	194 884	188 501	43 105	48 606
- third party services	50 548	56 113	13 298	14 770
- taxes, duties and fees	29 267	29 757	12 089	9 839
- salaries	32 992	32 807	9 445	8 968
- social security and other benefits	4 303	4 744	757	1 174
- other cost by type	3 224	3 304	896	921
Total cost by type	**410 741**	**412 306**	**103 313**	**108 288**
- merchandise and materials sold (+)	2 951 101	2 271 163	742 506	620 768
- selling expenses (-)	(723)	(452)	(216)	53
- general overheads (-)	(41 612)	(35 953)	(11 585)	(12 136)
Total cost of goods sold	**3 319 507**	**2 647 064**	**834 018**	**716 973**

34 Other operating income

	For 12 months ended		For 3 months ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
- reversal of impairment losses, including:	70 214	590	67 632	519
- receivables remeasured write-downs	120	329	-	258
- inventory remeasured impairment losses	-	115	-	115
- non-current fixed assets impairment losses	70 094	146	67 632	146
- reversal of provisions, including:	565	129	-	57
- litigation provision	-	50	-	50
- site reclamation	300	-	-	-
- other	265	79	-	7
- other, including:	9 141	10 036	4 070	737
- compensation and additional payments	4 460	4 016	2 222	(332)
- grant settlement	3 202	3 257	804	808
- revenue from lease of non-current fixed assets	38	-	8	-
- gains on disposal of non-financial fixed assets	38	504	2	42
- reinvoicing	-	6	-	-
- other	1 403	2 253	1 034	219
Total other operating revenues	**79 920**	**10 755**	**71 702**	**1 313**

35 Other operating expenses

	For 12 months ended		For 3 months ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
- asset impairment losses, including:	80 749	100 599	62 630	1 513
- receivables	305	166	126	154
- inventories	559	146	165	(94)
- non-current fixed assets	79 885	100 287	62 339	1 453
- other, including:	2 237	1 985	1 590	1 167
- penalties, fines compensation payable	-	15	-	13
- other development-related cost	277	193	95	64
- loss on disposal of non-financial fixed assets	47	766	10	306
- other	1 913	1 011	1 485	784
Total other operating costs:	**82 986**	**102 584**	**64 220**	**2 680**

36 Finance income

	For 12 months ended		For 3 months ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
- financial income from interest on deposits and loans	4 734	4 543	1 063	1 014
- interest from finance lease	122	136	29	32
- f/x differences, including:	682	1 673	67	787
- unrealized	402	1 569	185	726
- realized	280	104	(118)	61
- valuation of financial liabilities	146	1	(244)	-
- other surety-related fees	10	-	1	-
- other	6	45	1	13
Total financial revenue	**5 700**	**6 398**	**917**	**1 846**

37 Finance costs

	For 12 months ended		For 3 months ended	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
- interest expenses	48 206	54 500	11 806	13 235
- f/x differences, including:	1 265	771	422	345
- unrealized	528	294	93	365
- realized	737	477	329	(20)
- commission and other fees	2 104	1 851	356	408
- measurement of financial liabilities*)	8 921	3 365	179	820
- other	298	276	194	162
Total financial cost	**60 794**	**60 763**	**12 957**	**14 970**

*) refers to bank borrowings measured at amortized cost

On 28 June 2018 the Company subsidiaries i.e. Amon Sp. z o.o. („Amon") and Talia Sp. z o.o. („Talia") agreed upon and signed with the consortium of financing banks (Raiffeisen Bank Polska S.A., Bank Zachodni WBK S.A., DNB Bank Polska S.A. Powszechna Kasa Oszczędności Bank Polski S.A.) the agreements amending investment credits agreements of 1 June 2010 (for more information see note 28). The Group assessed the contractual provisions as fundamentally departing from the previous agreement, which according to IFRS 9 results in a single write-off of such liability in the amount of kPLN 7 913 accounted for in the profit/loss.

38 Cash flows

	For 12 months ended	
Restricted cash	30.06.2018	30.06.2017
- cash frozen for loan repayment	19 067	24 189
- frozen cash for deposit	17 879	14 604
- frozen cash for long-term and mid-term refurbishment	2 780	3 533
- other frozen cash	323	37
Total	**40 049**	**42 363**

39 Reconciliation of changes in liabilities arising from financial activities

31.12.2018	Bank lonas	Finance lease	Total
As at the beginning of the period	**1 003 517**	**875**	**1 004 392**
Inflows from debt incurred	58 652	298	58 950
financing received	58 652	298	58 950
Interest accruing	45 645	(85)	45 560
Debt payments	(210 960)	(500)	(211 460)
principal repayments	(165 520)	(585)	(166 105)
interest paid	(45 383)	85	(45 298)
Exchange rate differences on debt denominated in foreign currency	692	-	692
Valuation	7 615	-	7 615
Other	217	-	217
As at the end of the period	**905 378**	**588**	**905 966**

40 Objectives and policies of financial risk management

Apart from derivative instruments, the key financial instruments used by the Group include bank credits, cash and short term deposits. The primary purpose of such financial instruments is to secure financial resources for the Group activity. The Group also holds other financial instruments such as trade receivables and payables arising directly in the course of its business.

Moreover, the Group enters into transactions involving derivative instruments, forward type contracts to hedge currency and market price risk). Such transactions are aimed at managing the currency risk and market price risk (in particular in case of electricity trading) arising in the course of the Group's business and resulting from the sources of funding used by the Company.

The key types of risk resulting from the Group financial instruments include the interest rate risk, liquidity risk, currency risk and credit risk. The Management Board verifies and establishes the principles of managing each above type of risk, as briefly discussed below. The Group also monitors the risk of market prices concerning all the financial instruments held by the Company.

Interest rate risk

The Group is exposed to the risk resulting from the change of interest rates mainly with reference to non-current financial liabilities.

The Group manages its interest expense by way of using debt financing based on floating rates. The Group hedges the payments of interest on credit using derivative financial instruments.

In the table below the sensitivity of gross profit/loss on an annual basis is presented with respect to reasonably possible changes in interest rates assuming that other factors remain unchanged (in connection with the floating rate liabilities). The effect on the Group's equity is not presented.

period ended 31 December 2018	Change	Change in profit/loss before tax within the consecutive 12 months in PLN K
1M WIBOR	1%	(6 955)
1M EURIBOR	1%	(170)
1M WIBOR	-1%	6 955
1M EURIBOR	-1%	170

period ended 31 December 2017	Change	Change in profit/loss before tax within the consecutive 12 months in PLN K
1M WIBOR	1%	(7 964)
1M EURIBOR	1%	(214)
1M WIBOR	-1%	7 964
1M EURIBOR	-1%	214

Currency risk

Currency risk in the Group mainly involves the risk related to EUR rate changes with reference to the short currency position under: bank deposits, investment commitments and investment credit facilities. As at 31 December 2018 the position was valued at MEUR 4.5. The position is not hedged against changes of currency exchange rate.

Except in case of the above unhedged currency position, when negotiating the conditions of hedging derivative instruments, the Group strives to match such conditions to those of the hedged item, to ensure maximum effectiveness of hedging; for more detailed information, see Note 42.

In the table below the sensitivity of the Group's profit/loss before tax is presented (in connection with the change of fair value of cash assets and liabilities) with respect to reasonably possible movements in EUR exchange rate, assuming that other factors remain unchanged.

	Currency exchange rate fluctu	Impact on profit/loss
31 December 2018 - EUR	+ 0,01 PLN/EUR	(45)
	- 0,01 PLN/EUR	45
31 December 2017 - EUR	+ 0,01 PLN/EUR	(56)
	- 0,01 PLN/EUR	56

In the year ended on 31 December 2018 the Group incurred kPLN 126 of financial costs on account of unrealized foreign exchange rate differences.

In the period from 31 December 2018 until 31 March 2019 the PLN/EUR exchange rate changes may affect the amount of unrealized exchange rate gains/losses. Net result on unrealized exchange rate differences as at 31 March 2019 will mostly depend on the difference of the exchange rate of 31 December 2018 to the exchange rate of 31 March 2019, while appreciation/depreciation of the Polish zloty with respect to EUR will have positive/negative effect on net profit in the amount of ca kPLN 45 per each PLN 0.01 of the difference with respect to the exchange rate of 31 December 2018 (EUR/PLN 4.3000).

Credit risk

The Group enters into transactions exclusively with reputable companies enjoying sound credit standing. All customers wishing to use trade credit are subject to credit verification procedure. Moreover, owing to on-going monitoring of receivable balances, the Group's exposure to unrecoverable receivables' risk is insignificant.

With respect to the Group's other financial assets such as cash and cash equivalents, financial assets available for sale and some derivative instruments, the Group's credit risk arises as a result of the contracting party's inability to pay and the maximum exposure to such risk is equal to the carrying amount of such instruments.

As the Group's investment projects rely to a large extent on external financing, a material debt concentration is found in the Group. The credit agreements entered into provide for a number of financial covenants to be met by the individual projects.

In consideration of the current market environment possible effects of the Act on Wind Farm Projects and the prevailing situation in the green certificates market, there exists a risk of breaching covenants by the Group in case of certain projects,

The Group monitors the debt levels and compliance with covenants level in individual companies, remaining in contact with the financing institutions.

Cash at bank accounts is held with well-rated banks.

Trade receivables are due mainly from customers with good credit ratings with whom the Group continues business relations.

Liquidity risk

The Group has been monitoring the risk of missing funds using the periodical liquidity planning tool. Such tool takes into account the due/maturity dates of both investments and financial assets (e.g. accounts receivable, other financial assets) and forecast cash flows in operating activity.

The purpose of the Group is to maintain balance between the continuity and flexibility of financing by using various financing sources such as overdraft in current account bank credits, financial lease agreements and lease agreements with purchase option.

The Group's financial liabilities as at 31 December 2018 and 31 December 2017 as per maturity date based on the contractual non discounted payments are presented in the table below.

31.12.2018	Up to 3 months	From 3 months to 12 months	From 1 year to 5 years	In excess of 5 years	Total
Interest bearing loans and borrowings	84 523	177 057	398 166	675 205	**1 334 951**
Other liabilities	640 197	390	23 271	-	**663 858**
Liabilities for deliveries and services	129 391	-	-	-	**129 391**

31.12.2017	Up to 3 months	From 3 months to 12 months	From 1 year to 5 years	In excess of 5 years	Total
Interest bearing loans and borrowings	64 384	432 656	405 121	505 731	**1 407 892**
Other liabilities	139 587	386	14 120	-	**154 093**
Liabilities for deliveries and services	129 613	-	-	-	**129 613**

41 Financial instruments

Fair values of individual classes of financial instruments

The comparison of carrying amounts and fair values of all financial instruments of the Group, split into classes and categories of assets and liabilities, is presented in the table below.

	Category	Carrying amount		Fair value	
		31.12.2018	31.12.2017	31.12.2018	31.12.2017
Financial assets					
Futures and forward contracts	Level 2	661 276	130 404	661 276	130 404
Financial liabilities					
Bank	Level 2	905 378	1 003 517	905 378	1 003 517
SWAP	Level 2	3 472	4 544	3 472	4 544
Futures and forward contracts	Level 2	640 293	118 938	640 293	118 938

Level 2: Fair value is established based on other directly or indirectly observable data. Similar agreements are subject to trading in active market, thence the amounts reflect the result of actual transaction in similar derivative instruments. The fair value of credits is established using amortized cost that is the analysis of discounted cash flows at the effective interest rate adopted as the discount rate.

The fair value of receivables, short term and non-current liabilities is close to the carrying amount.

Interest rate risk

The carrying amount of the Group's financial instruments exposed to the interest rate risk, split into specific age categories, is presented in the table below. The credit maturity date is shown split into individual years.

31.12.2018

INTEREST RATE RISK

Variable interest rate	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Bank credits in PLN	108 600	40 381	43 057	79 934	49 094	564 872	885 938
Bank credits in EUR	4 519	4 971	9 950	-	-	-	19 440
Fixed interest rate	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash assets	311 857	-	-	-	-	-	311 857
Financial lease	318	333	350	367	385	725	2 478

31.12.2017

INTEREST RATE RISK

Variable interest rate	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Bank credits in PLN	293 741	61 248	53 410	88 811	56 838	426 500	980 548
Bank credits in EUR	4 271	4 326	4 764	9 608	-	-	22 969
Fixed interest rate	*<1year*	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash assets	297 898	-	-	-	-	-	297 898
Financial lease	303	318	333	350	367	1 135	2 806

The interest rate on financial instruments with variable interest rate is updated in the period of less than one year.

42 Hedging instruments

Maturity date of hedging instrument	Hedged value in k PLN	Interest rate hedged	Instrument
2019-04-29	9 108	4,95%	IRS
2021-06-15	124 975	3	IRS
	134 083		

The fair value of the hedging instrument as at the balance sheet date amounts to kPLN 3,581 and is presented in non-current liabilities.

The purpose of entering into hedging transactions is to limit the effect of the changes of interest rate on the amount of future highly probable payments of credit instalments.

The purpose of hedging accounting is to eliminate accounting mismatch between the moment of recognizing the effect of the hedging instrument on net profit (loss) and the hedged item. The result of the performance of such transaction shall be disclosed in the profit and loss account at the moment of such performance.

As at 31 December 2018, in other total income forming part of the shareholders' funds, the Group recognized kPLN 642 (2017: kPLN 2 311) as effective part of evaluation of the hedging instrument to the fair value.

43 Capital management

The primary objective of the Group capital management is to maintain good credit worthiness and safe capital ratios to support the Group's operational activity and increase the value for its shareholders.

The Group manages the capital structure and modifies it depending on the changes in the economic environment. In order to maintain or adjust the capital structure, the Group may change the payment of dividend to the shareholders, return the capital to the shareholders or issue new shares. In the year ended 31 December 2018 and in the financial year ended on 31 December 2017 no modifications were made to the capital structure objectives, policies and processes.

The Group monitors the capital balance using the leverage ratio, computed as the net debt to total equity plus net debt. The net debt includes interest-bearing borrowings minus cash and cash equivalents.

	31.12.2018	31.12.2017
Interest under borrowings	905 378	1 003 517
Less cash and cash equivalents	(311 857)	(297 898)
Net debt	**593 521**	**705 619**
Share capital	1 185 741	1 181 988
Total capital	**1 185 741**	**1 181 988**
Capital and net debt	**1 779 262**	**1 887 607**
Leverage ratios	33%	37%

44 Significant related party transactions

Key transactions with related parties for the period ended 31 December 2018:

31.12.2018	Revenues
Polenergia Bałtyk I S.A.	113
MFW Bałtyk II sp. z o.o.	964
MFW Bałtyk III Sp. z o.o.	1 018
Total	**2 095**

Key transactions with related entities for the period ended 31 December 2018:

31.12.2018	Revenues	Costs	Receivables
KI ONE Spółka Akcyjna	-	278	-
Krucza Inwestycje KREH 1 Sp. z o.o. S.K.	-	1 143	-
Kulczyk Holding Sarl	1 082	-	154
Polenergia Usługi Sp. z o.o.	109	-	-
Ciech Sarzyna S.A.	11 245	1 008	-
Autostrada Eksploatacja S.A.	1 060	-	-
Polenergia International Sarl	423	-	706
Beyond.pl sp. z o.o.	654	113	-
Total	**14 573**	**2 542**	**860**

Transactions with the members the Management Board and the Supervisory Board of the parent company were presented in notes 47 and 48.

Transactions with related parties were performed on arms' length basis.

Ms. Dominika Kulczyk exercises the final control over the group.

Kulczyk Holding Sarl is the controlling party preparing the financial report.

45 Compensation for stranded costs and costs of gas

Compensation for stranded costs

ENS Sp. z o.o., a subsidiary calculates stranded costs for the period from April 2008 until May 2020 ("adjustment period") based on the formulas specified in art. 30 and art. 31 LTC Termination Act. The estimates value results from the following items:

- revised net carrying amount of property, plant and equipment related to the generation of electricity as at 1 January 2007,
- depreciation of power, plant and equipment related to the generation of electricity for the purpose of corporate income tax in the period from 1 January 2007 until 31 March 2008,
- operating profit/loss in the adjustment period calculated based on the realized and forecast revenue from the sale of electricity and operating expenses activity, related to sales of electricity, adjusted for depreciation and amortization for the purposes of corporate income tax,
- net carrying amount of property, plant and equipment related to the generation of electricity after the adjustment period.

The maximum amount of stranded costs computed according to the above principles is allocated to specific years (including the year 2018) in compliance with the allocation method adopted by the Company (based on operating profit/loss for a given year).

In view of the length of the period concerned by the calculations, the estimated values may change; the amounts disclosed as a at the balance sheet date are estimated based on the Company's best knowledge and data available on that date.

	For 12 month period ended 31.12.2018
booked compensation of stranded costs	107 878
	For 12 month period ended 31.12.2018
Advances for I - IV quarter of 2018	29 000
clearance for the previous year	28 504
Total	**57 504**

Funds to cover gas costs

The Company estimates the amount of compensation to cover gas costs as the product of gross volume of electricity generated by the Company in a given period using gas fuel volumes covered with "minimum take" clause, the difference between the Company's average cost of gas and the average cost of coal in centrally dispatched generating units burning coal, and the adjustment coefficient mentioned in the LTC Termination Act.

	For 12 month period ended 31.12.2018
booked compensation of gas costs	66 415
	For 12 month period ended 31.12.2018
Advances for I - IV quarter of 2018	37 000
clearance for the previous year	19 102
Total	**56 102**

46 Workforce

As at 31 December 2018 and 31 December 2017 the workforce in the Capital Group split into professional groups presented as full time jobs was as follows:

	31.12.2018	31.12.2017
Parent company Management Board	3	3
Parent company employees	53	49
Subsidiaries employees	139	150
Total headcount	**195**	**202**

The persons in maternity leave were taken into account

47 Information on total amount of remuneration and awards (in cash and in kind), paid or payable to members of the Management and Supervisory Boards of the parent company

In the period ended on 31 December 2018 and in the year ended 31 December 2017 the remuneration of the Management Board of the Parent company and the Subsidiaries, and the members of the Supervisory Board was as follows:

	31.12.2018	31.12.2017
Jacek Głowacki	2 208	1 970
Michał Michalski	1 330	792
Robert Nowak	325	-
Bartłomiej Dujczyński	1 567	1 293
Jacek Suchenek	444	-
Total	**5 874**	**4 055**

Certain members of the Management Board are party to a mutual agreement concerning the termination of employment within successive 6-12 months. In case of resignation from the position by a member of the Management Board, the Company is obliged to make severance payment in the amount of 30%-100% of the remuneration received by the Management Board member during the last 12 months. In connection with the resignation from their function performed in the Management Board, Mr. Bartłomiej Dujczyński and Mr. Jacek Suchenek received the appropriate severance payments.

	31.12.2018	31.12.2017
Tomasz Mikołajczak	29	54
Mariusz Nowak	19	36
Łukasz Rędziniak	19	36
Dawid Jakubowicz	19	36
Dominik Libicki	19	36
Orest Nazaruk	36	36
Arkadiusz Jastrzębski	36	36
Brian Bode	36	36
Dagmara Gorzelana	20	36
Total	**233**	**342**

48 Transactions with members of the Management Board and the Supervisory Board of the Group, their spouses, siblings, ascendants, descendants or other closely related persons

In the year ended on 31 December 2018 no transactions were entered into with members of the Management Board and the Supervisory Board of the Group, their spouses, siblings, ascendants, descendants or other closely related persons.

49. Fees paid or payable to the auditor or auditing firm

The remuneration of the entity authorized to audit financial statements, paid or due for the year ended on 31 December 2018 and for the year ended on 31 December 2017 are presented in the table below, split into types of services:

Type of service	31.12.2018	31.12.2017
Audit and review of financial statements	553	496
Other services	12	30

50. Carbon dioxide (CO_2) emission allowances

Trade in emission allowances counts among the environmental policy instruments serving to limit pollutant emission. Poland's participation to the system is required in the implementation of the Kyoto protocol provisions and the EU membership. The emissions trading mechanism was introduced on 1 January 2005 upon entry into effect of Directive 2003/87/EC of the European Parliament and the Council, transposed into Polish legislation by virtue of the Act of 22 December 2004 on Trading in Allowances for Emissions of Greenhouse Gases and Other Substances. The Act was superseded by the Act of 28 April 2011 Trading in Greenhouse Gas Emission Allowances. The 2013-2012 trading period is governed with the Act of 12 June 2015 on Trading in Greenhouse Gas Emission Allowances.

The facilities belonging to Polenergia Group: Mercury Power Plant (number in the National Allocation Plan of Carbon Dioxide (CO_2) Emission Allowances (KPRU number: PL 0879 05) and EC Nowa Sarzyna (KPRU number: PL 0472 05) are combustion installations of the rated thermal input above 20 MW, participating in the EU emissions trading system.

In the current trading period 2013-2020, in compliance with the Directive 2003/87/CE of the European Parliament and of the Council amended with the Directive 2009/29/EC of 23 April 2009:

In virtue of art. „10c" by way of derogation – the Mercury power plant as the electricity producer and the installation included in the list of the so-called National Investment Plan (Krajowy Plan Inwestycyjny KPI) received allocations of emission allowances which according to the EC decision shall be reduced to 0 in the year 2020. The Mercury Power Plant did not obtain the allocation of allowances for the year 2013-2017 in view of non-performance of the plant upgrades specified to the National Investment Plan (KPI).

The same holds for EC Nowa Sarzyna: pursuant to art. „10c" The Nowa Sarzyna CHP P also obtained the allocation of CO2 emission allowances. However, as no investments were included in the National Investment Plan (KPI), free allowances were not transferred to the account of the plant operator.

The Nowa Sarzyna CHP Plant was allocated free allowances in virtue of article „10a", for the years 2013-2020, for emission volumes of 34 256 (in the year 2013) and 22 495 (in the year 2020), respectively. EUA.

At the date of the transaction CO_2 emission allowances were measured at the fair value and presented as intangible assets.

According to the CO_2 emission reports (verified reports have to be submitted to the National Centre for Emission Balancing and Management („KOBIZE") by 31 March each year for the previous calendar year) for the Mercury Power Plant, and the Nowa Sarzyna CHP Plant, in the year 2018 the plants emitted the following emissions volumes:

Mercury Power Plant– 33 664 tons (planned report verification: February 2018, by Polcargo as verifier),

Nowa Sarzyna CHP Plant – 338 783 tons, (the report was verified by DNV independent verifier).

As of 1 January 2013 both plants have operated under new CO_2 emission monitoring plans compliant with the requirements and approved by competent authorities: Commission Regulation (UE) no 601/2012 of 21 June 2012 on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council and the Commission Regulation (UE) no 600/2012 of 21 June 2012 concerning the verification of greenhouse gas emission reports and tonne-kilometre reports and the accreditation of verifiers pursuant to Directive 2003/87/EC of the European Parliament and of the Council.

In compliance with the Act of 12 June 2015 on greenhouse gas emission allowance trading system, the Plants covered by the system were obliged to submit, within 12 months from the effective date of the Act (9 September 2016) the application to issue permits for emission trading which were to replace the current authorizations and monitoring plans. On 3 November 2016 Nowa Sarzyna CHP Plant obtained the decision of the Leżajsk County Governor granting a new permit for greenhouse gas emissions. Mercury Power Plant obtained such decision issued by the Mayor of the city of Wałbrzych on 30 May 2016.

51. Concessions held

The concession for the production of electricity for Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. No WEE/58/8004/W/1/2/99/MS, issued by the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] on 29 November 1999 (as amended), was extended until December 31, 2030 - by the decision of the President of Urząd Regulacji Energetyki no. OKR.4111.20.2018.UJN dated November 14, 2018.

The concession for the heat generation for Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. No WCC/817/8004/W/1/99/MS, issued by the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] on 29 November 1999 (as amended), was extended until December 31, 2030 - by the decision of the President of Urząd Regulacji Energetyki no. OKR.4110.33.2018.UJN dated November 14, 2018.

The concession for the trade in electricity for Polenergia Elektrociepłownia Nowa Sarzyna Sp. z o.o. No OEE/540/8004/W/2/2009/PJ, issued by the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] on 11 March 2009 (as amended), was extended until December 31, 2030 - by the decision of the President of Urząd Regulacji Energetyki no. OKR. 4111.51.2018.RF dated December 21, 2018.

On 4 October 2001 Polenergia Obrót S.A. received a decision of the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trade in electricity for the period from 10 October 2001 until 10 October 2021. The concession holder is authorized to conduct, for profit and on its own behalf, commercial business activity consisting in sale of electricity to customers in Poland in an organized and continuous manner

On 8 October 2007 Dipol Sp. z o.o obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trade in electricity for the period from 10 January 2007 until 10 January 2022. The business activity permitted under the concession consists in generation of electricity in renewable energy source of 22 MW capacity in ,,Zespół Elektrowni Wiatrowych Gnieżdżewo" [Gnieżdżewo Wind Farms Complex].

On 22 December 2008 Polenergia Dystrybucja Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trade in electricity for the period from 29 December 2008 until 3 December 2025.

On 27 February 2009 Polenergia Kogeneracja Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trading gas fuels for the period from 1 March 2009 until 31 December 2025. The concession covers business activity consisting in natural gas trading to customers situated in the territory of the city and commune of Tomaszów Mazowiecki. On 14 October 2015 Polenergia Kogeneracja Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on amending the a/m concession in the scope of extending the business activity onto the territory of the Republic of Poland.

On 27 February 2009 Polenergia Kogeneracja Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for distributing gas fuels for the period from 1 March 2009 until 31 December 2025. The concession covers business activity consisting in natural gas trading to customers situated in the territory of the city and commune of Tomaszów Mazowiecki using medium and high pressure network.

On 20 July 2009 Polenergia Dystrybucja Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trade in electricity for the period from 20 July 2009 until 31 December 2025.

On 1 February 2012 Amon Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trade in electricity for the period from 1 February 2012 until 31 December 2030. The concession covers business activity consisting in generation of electricity in renewable energy source of 34 MW capacity in ,,Farma Wiatrowa Łukaszów" [Łukaszów Wind Farm].

On 1 February 2012 Talia Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trade in electricity for the period from 1 February 2012 until 31 December 2030. The concession covers business activity consisting in generation of electricity in renewable energy source of 24 MW capacity in ,,Farma Wiatrowa Modlikowice" [Modlikowice Wind Farm].

On 13 February 2014 Polenergia Obrót S.A. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trade gas fuels for the period from 17 February 2014 until 31 December 2030. The concession covers business activity consisting in natural gas trading to customers situated in the territory of the Republic of Poland.

On 27 May 2014 Polenergia Obrót S.A. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trade natural gas abroad for the period from 1 June 2014 until 31 December 2030. The concession covers business activity consisting in natural gas trading abroad.

On 21 October 2014 Polenergia Farma Wiatrowa 6 Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trade in electricity for the period from 21 October 2014 until 31 December 2030. The concession covers business activity consisting in generation of electricity in renewable energy source of 25.3 MW capacity in ,,Farma Wiatrowa Rajgród" [Rajgród Wind Farm].

On 12 December 2014 Polenergia Farma Wiatrowa 1 Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trade in electricity for the period from 12 December 2014 until 31 December 2030. The concession covers business activity consisting in generation of electricity in renewable energy source of 41.1 MW capacity in ,,Farma Wiatrowa Gawłowice" [Gawłowice Wind Farm]. On 12 January 2016 Grupa PEP – Farma Wiatrowa 6 Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on amending the a/m concession in the scope of increasing the installed capacity to 48.300 MW.

On 31 August 2015 Polenergia Farma Wiatrowa 4 Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trade in electricity for the period from 31 August 2015 until 31 December 2030. The concession covers business activity consisting in generation of electricity in renewable energy source of 36.8 MW capacity in ,,Farma Wiatrowa Skurpie" [Skurpie Wind Farm]. On 17 December 2015 Grupa PEP – Farma Wiatrowa 4 Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on amending the a/m concession in the scope of increasing the installed capacity to 43,700 MW.

On 12 February 2016 Polenergia Farma Wiatrowa Mycielin Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trade in electricity for the period from 12 February 2016 until 31 December 2030. The concession covers business activity consisting in generation of electricity in renewable energy source of 48 MW capacity in ,,Farma Wiatrowa Mycielin" [Mycielin Wind Farm].

On 23 May 2018 Polenergia Farma Wiatrowa 23 Sp. z o.o. obtained from the President of Urząd Regulacji Energetyki [Energy Regulatory Authority] the decision on granting the concession for trade in electricity for the period from 24 May 2018 until 31 December 2030. The concession covers business activity consisting in generation of electricity in renewable energy source of 6.000 MW capacity in ,,Farma Wiatrowa Krzęcin" [Krzęcin Wind Farm].

52 Events after the reporting period

Until the date of preparing these consolidated financial statements in 4 March 2019, there occurred no events that would not have been disclosed in the accounting books of the reporting period.