ZESPÓŁ ELEKTROWNI PĄTNÓW–ADAMÓW–KONIN SA CAPITAL GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2020

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

29 JUNE 2020

(in thousand PLN)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For a period of 3 months ended 31 March 2020

	Note	*Period ended 31 March 2020 (unaudited)*	*Period ended 31 March 2019 (unaudited)*
Continuing operations			
Revenues, including:	*11.1*	**524 074**	**695 131**
Revenues from the contracts with clients		458 038	657 640
Other revenues		66 036	37 491
Costs of goods sold	*11.6*	(503 128)	(639 769)
Gross profit / (loss)		**20 946**	**55 362**
Other operating revenues	*11.2*	6 112	4 666
Selling and distribution expenses	*11.6*	(1 112)	(1 873)
Administrative expenses	*11.6*	(29 103)	(30 118)
Other operating expenses	*11.3*	(19 917)	(432)
Gross profit / (loss) from operations		**(23 074)**	**27 605**
Finance income	*11.4*	21 968	8 240
Finance costs	*11.5*	(4 542)	(7 727)
Profit / (loss) before tax		**(5 648)**	**28 118**
Income tax expense (taxation)	*12.1*	(5 267)	(16 108)
Net profit / (loss) for the period from continuing operations		**(10 915)**	**12 010**
Net profit / (loss) for the period		**(10 915)**	**12 010**
Net profit/ (loss) attributable to equity holders of the parent		(10 346)	13 280
Net profit/ (loss) attributable to non-controlling interests		(569)	(1 270)

	Note	*Period ended 31 March 2020 (unaudited)*	*Period ended 31 March 2019 (unaudited)*
Profit / loss per share (in zloty):			
Basic/diluted for profit for the period from continuing operations attributable to equity holders of the parent	13	(0,20)	0,26

(in thousand PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For a period of 3 months ended 31 March 2020

	Nota	*Period ended 31 March 2020 (unaudited)*	*Period ended 31 March 2019 (unaudited)*
Net profit / (loss) for the period		**(10 915)**	**12 010**
Other comprehensive income			
Items to be reclassified to the profit / (loss) in subsequent reporting periods:			
Cash flow hedges		-	337
Exchange differences from converting a foreign unit		4	-
Income tax on other comprehensive income		-	(64)
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods		**4**	**273**
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:			
Actuarial gains / (losses) on provisions for post-employment benefits		(112)	(728)
Income tax on other comprehensive income	*12.1*	21	136
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		**(91)**	**(592)**
Net other comprehensive income		**(87)**	**(319)**
Comprehensive income for the period		**(11 002)**	**11 691**
Comprehensive income attributable to equity holders of the parent		(10 433)	12 961
Comprehensive income attributable to non-controlling holders		(569)	(1 270)

(in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Note	*31 March 2020 (unaudited)*	*31 December 2019*
ASSETS			
Fixed assets			
Property, plant and equipment	*14*	1 924 929	1 959 861
Assets due to the right of use	*15*	54 339	56 209
Investment property		2 165	2 172
Intangible assets	*16*	2 720	2 748
Assets of removing overburden and other mining assets (long-term)	*17*	69 171	70 620
Other long-term financial assets	*18.1*	3 685	3 220
Other long-term non-financial assets	*18.2*	2 568	2 608
Deferred tax assets	*12.2*	86 083	84 593
Total fixed assets		**2 145 660**	**2 182 031**
Current assets			
Emission allowances	*16*	201 202	93 218
Inventories	*19*	113 610	104 341
Trade and other receivables	*20*	216 195	228 578
Income tax receivables		11 146	32 782
Derivative short-term financial instruments (assets)	*25.4*	1 942	-
Other short-term non-financial assets	*18.2*	305 792	61 615
Amounts due from customers under long-term construction contracts	*11.7*	1 754	1 047
Cash and cash equivalents	*21*	319 489	414 634
Total current assets		**1 171 130**	**936 215**
TOTAL ASSETS		**3 316 790**	**3 118 246**

(in thousand PLN)

	Note	*31 March 2020 (unaudited)*	*31 December 2019*
LIABILITIES AND EQUITY			
Equity			
Share capital		101 647	101 647
Reserve capital		1 124 376	1 124 376
Other reserve capital		3 472	3 472
Retained earnings / Accumulated losses		(55 438)	389 831
Net profit / (loss)		(10 346)	(445 179)
Exchange differences from converting a foreign unit		4	-
Equity attributable to equity holders of the parent		**1 163 715**	**1 174 147**
Equity attributable to non-controlling interests		1 752	2 321
Total equity		**1 165 467**	**1 176 468**
Long-term liabilities			
Interest-bearing loans and borrowings	*23*	22 332	29 773
Long-term employee benefits		45 421	45 505
Trade liabilities and other long-term financial liabilities	*25.2*	7 487	8 796
Long-term financial derivatives (liabilities)	*15*	50 787	55 016
Long-term subsidies	*25.5*	40 327	41 793
Other long-term provisions and accruals	*24*	413 322	425 129
Deferred tax liability	*12.2*	390 928	382 282
Total long-term liabilities		**970 604**	**988 294**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities	*25.1*	104 104	108 969
Current portion of interest-bearing loans and borrowings	*23*	140 776	46 767
Short-term financial derivatives (liabilities)	*25.4*	107	1 757
Other non-financial liabilities	*25.3*	44 990	102 932
Current income tax liability		45	223
Short-term employee benefits		7 199	6 897
Short-term subsidies	*25.6*	1 502	1 502
Amounts due to customers under long-term construction contracts	*11.7*	1 682	1 730
Other short-term provisions and accruals	*24*	880 314	682 707
Total short-term liabilities		**1 180 719**	**953 484**
Total liabilities		**2 151 323**	**1 941 778**
TOTAL LIABILITIES AND EQUITY		**3 316 790**	**3 118 246**

(in thousand PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

For a period of 3 months ended 31 March 2020

	Note	*Period ended* 31 March 2020 *(unaudited)*	*Period ended* 31 March 2019 *(unaudited)*
Cash flow from operating activities			
Profit /(loss) before tax		(5 648)	28 118
Adjustments for:			
Depreciation and amortization		37 302	46 547
Interests and shares in profits		665	2 441
(Profit) / loss on foreign exchange differences		(1 528)	867
(Profit) / loss on investing activities		(3 505)	(2 070)
(Increase) / decrease in receivables		31 886	52 876
(Increase) / decrease in inventories		(9 269)	(8 195)
Increase / (decrease) in payables except for loans and borrowings		(68 859)	(27 548)
Change in provisions, prepayments, accruals and employee benefits		185 100	141 353
Income tax paid		23 367	(6 143)
Allowances for emission of CO_2		(372 411)	(260 103)
Other		(1 862)	418
Net cash flow from operating activities		**(184 762)**	**(31 439)**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		4 372	17 586
Purchase of property, plant and equipment and intangible assets		(1 883)	(14 151)
Net cash flow from investing activities		**2 489**	**3 435**
Cash flow from financing activities			
Payment of finance lease liabilities		(293)	(396)
Proceeds from loans and borrowings and debt securities		94 292	71 096
Repayment of loans and borrowings and debt securities		(7 724)	(77 029)
Interest paid		(671)	(3 538)
Net cash flow from financing activities		**85 604**	**(9 867)**
Net increase / (decrease) in cash and cash equivalents		**(96 669)**	**(37 871)**
Cash and cash equivalents at the beginning of the period		**414 634**	**303 316**
Cash and cash equivalents at the end of the period	*21*	**317 965**	**265 445**

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

(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For a period of 3 months ended 31 March 2020 (unaudited)

	Issued capital	*Reserve capital*	*Other reserve capital*	*Retained earnings / accumulated losses*	*Exchange differences from converting a foreign unit*	*Total*	*Non-controlling interest*	*Total equity*
As at 1 January 2020	**101 647**	**1 124 376**	**3 472**	**9 258**	**-**	**1 238 753**	**2 321**	**1 241 074**
Adjustment concerning IRFS 16	-	-	-	(64 606)	-	(64 606)	-	(64 606)
Transformed data as of 1 January 2020	**101 647**	**1 124 376**	**3 472**	**(55 348)**	**-**	**1 174 147**	**2 321**	**1 176 468**
Net (Loss)/profit for the period	-	-	-	(10 346)	-	(10 346)	(569)	(10 915)
Total other comprehensive income	-	-	-	(91)	4	(87)	-	(87)
Total income for the period	**-**	**-**	**-**	**(10 437)**	**4**	**(10 433)**	**(569)**	**(11 002)**
Other changes	-	-	-	1	-	1	-	1
As of 31 March 2020	**101 647**	**1 124 376**	**3 472**	**(65 784)**	**4**	**1 163 715**	**1 752**	**1 165 467**

(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For a period of 3 months ended 31 March 2019 (unaudited)

	Issued capital	*Reserve capital*	*Capital from valuation of hedging instruments*	*Other reserve capital*	*Retained earnings / accumulated losses*	*Total*	*Non-controlling interest*	*Total equity*
As at 1 January 2019	**101 647**	**1 124 376**	**(460)**	**3 472**	**454 824**	**1 683 859**	**3 288**	**1 687 147**
Adjustment concerning IRFS 9	**-**	**-**	**-**	**-**	**(63 021)**	**(63 021)**	**-**	**(63 021)**
Transformed data as of 1 January 2019	**101 647**	**1 124 376**	**(460)**	**3 472**	**391 803**	**1 620 838**	**3 288**	**1 624 126**
Net (Loss)/profit for the period	-	-	-	-	13 280	13 280	(1 270)	12 010
Total other comprehensive income	-	-	273	-	(592)	(319)	-	(319)
Total income for the period	**-**	**-**	**273**	**-**	**12 688**	**12 961**	**(1 270)**	**11 691**
Profit share from the previous years	-	-	-	-	(274)	(274)	-	(274)
Transactions with non-controlling shareholders	-	-	-	-	(3 288)	(3 288)	-	(3 288)
Purchase of a non-controlling interest	-	-	-	-	-	-	-	-
Other changes	-	-	-	(1)	(5)	(6)	-	(6)
As at 31March 2019	**101 647**	**1 124 376**	**(187)**	**3 471**	**400 924**	**1 630 231**	**2 018**	**1 632 249**

RULES (POLICIES) OF ACCOUNTANCY AND ADDITIONAL EXPLANATORY NOTES

1. General information

The Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin SA (“the Group”) consists of Zespół Elektrowni Pątnów – Adamów – Konin SA (“the parent company”, “the Company”, “ZE PAK SA”), with its head office in Konin at 45 Kazimierska str., and its subsidiaries (see Note 2).

Interim condensed consolidated financial statements of the Group covers a period of 3 months ended 31 March 2020 and includes comparative data for the period of 3 months ended 31 March 2019 as well as at 31 December 2019.

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

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

The main activities of the Group are:

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

Mr. Zygmunt Solorz indirectly holds shares of the Company representing in total 61.30% of the share capital of the Company.

Through Mr. Zygmunt Solorz, the Company has personal connections with other entities.

(in thousand PLN)

2. Composition of the Group

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

Entity	*Registered office*	*Scope of operations*	*Group's share in the capital in %*	
			As at 31 March 2020	*As at 31 December 2019*
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100,00%	100,00%
„Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric Energy production and distribution from the 464 MW power unit	100,00%	100,00%
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	100,00%	100,00%
„PAK Górnictwo" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Exploration and recognition of lignite	100,00%	100,00%
„PAK Kopalnia Węgla Brunatnego Konin" SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	97,68%*	97,68%
„PAK Kopalnia Węgla Brunatnego Adamów" SA	62-700 Turek Warenka 23	Lignite extraction	99,35%	99,35%
„Aquakon" sp. z o.o. in liquidation	62-610 Sompolno Police	In liquidation	96,20%*	96,20%*
„PAK-Volt" SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%
„PAK Adamów" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Buying and selling real estate	100,00%	100,00%

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

As of 31 March 2020, the share in the general number of votes held by the Group in subsidiaries is equal to the Group's share in capitals of these subsidiaries.

3. Composition of the Management Board of the parent company

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

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

Changes in the composition of ZE PAK SA Management Board

On May 4, 2020, Mr. Henryk Sobierajski resigned from the membership in the Management Board of the Company and from the function of the President of the Management Board. On May 7, 2020, the Supervisory Board of ZE PAK SA entrusted Mr. Maciej Nietopiel - Vice President of the Management Board of the Company, with managing the work of the Management Board of the Company as acting President of the Management Board, until the appointment of a new President of the Management Board of ZE PAK SA. On June 22, 2020, the Supervisory Board of the Company appointed Mr. Henryk Sobierajski to the Management Board, entrusting him with the position of the President of the Management Board. The resolution on the appointment came into force upon its adoption.

Changes in the composition of ZE PAK SA Supervisory Board

On May 25, 2020, Mr. Wojciech Piskorz, Chairman of the Supervisory Board of ZE PAK SA, resigned from the Supervisory Board. On June 9 and 18, 2020, the Company received the resignation of Mr. Piotr Stępniak and Mr. Sławomir Sykucki from being a Member of the Supervisory Board of ZE PAK SA, effective as of the date of the

Ordinary General Meeting of Shareholders for the financial year 2019, which was held on June 19, 2020. On June 19, 2020, at the Ordinary General Meeting of the Company, three new members of the Supervisory Board of ZE PAK SA were appointed:

1) Maciej Stec
2) Piotr Woźny
3) Alojzy Z. Nowak

At the meeting on June 22, 2020, the Supervisory Board of the Company elected Mr. Piotr Woźny as the Chairman of the Supervisory Board.

As at the date of publication of the report, the Supervisory Board of ZE PAK SA includes:

1) Piotr Woźny – Chairman of the Supervisory Board
2) Wiesław Walendziak – Vice Chairman of the Supervisory Board
3) Tomasz Szeląg – Secretary of the Supervisory Board
4) Maciej Stec – Member of the Supervisory Board
5) Alojzy Z. Nowak – Member of the Supervisory Board
6) Grzegorz Krystek – Member of the Supervisory Board
7) Leszek Wysłocki – Member of the Supervisory Board
8) Sławomir Zakrzewski – Member of the Supervisory Board

4. Basis for development of the interim consolidated financial statement

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

The interim condensed consolidated financial statement does not include all information and disclosures required in the annual financial statement and should be read together with the consolidated financial statement of the Group for the year concluded on 31 December 2019 authorised for issue on 3 April 2020.

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

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

4.1. Going concern assumptions

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

1) In the first quarter of 2020, the Group recorded a net loss of PLN (10,915) thousand.
2) As at March 31, 2020, short-term liabilities, including bank loans, exceed the Group's current assets by PLN 9,589 thousand, which means an improvement compared to the end of 2019, when the difference amounted to PLN 17,268 thousand.

In the first quarter of the year, incl. Good weather conditions for wind energy and restrictions imposed on the economy resulting from the state of the COVID-19 pandemic, as well as the deterioration of the relationship between the quoted prices of electricity and carbon dioxide emission allowances adversely affected the Group's ability to sell electricity. There was a 34.20% decrease in the total volume of electricity sales from own production and sales of purchased electricity. In the case of the sale of electricity from own production, the decrease was only 3.45% and the decrease in the sale of purchased energy was as much as 65.22%. The decrease in electricity sales and the realized lower margins contributed to the deterioration of the Group's financial results compared to the results recorded in 2019. The

Management Board analyzed the phenomena that occurred in the first quarter in terms of verification of the adopted estimates and assumptions for impairment tests and decided not to change the existing assumptions.

In addition, the increased volatility of prices of carbon dioxide emission allowances resulted in the need for companies in the Group producing electricity to provide additional security for the concluded forward transactions for the purchase of emission allowances, which may have an impact on the liquidity situation. In order to minimize the impact of establishing collaterals on liquidity, efforts are made to replace, as far as possible, the deposits securing the current positions with non-cash instruments.

An important source of risk in the context of the continuation of the Group's operations and the valuation of its assets remains the balance of planned electricity production with coal supplies from exploited and planned opencasts. Currently, efforts are being made to extend the licenses held on Pątnów IV and Drzewce fields. Without their extension, the exploitation period of Pątnów IV deposit ends on August 31, 2020 and Drzewce deposit on December 4, 2020. Hopes in this aspect are raised by successful efforts to extend the exploitation of Adamów deposit. Another unknown is the final of the efforts to obtain a mining license for Ościsłowo deposit. The process of obtaining environmental decisions for this project has been going on since 2015. The current date for settling the case was set by GDOŚ in Warsaw on June 30, 2020. One should be aware that the current model of the Group's functioning constituting the basis for drawing up tests for impairment of assets assumes the extension of the exploitation of currently used deposits, as well as obtaining a license for Ościsłowo deposit. This means that if it is not possible to obtain coal from the currently used deposits or the new Ościsłowo opencast, the service life of coal-fired blocks in the Pątnów and Pątnów II power plants will be shortened.

Companies operating in the coal industry face a whole host of challenges regarding future operations and risks related to, inter alia, with the ever tightening of the generally understood climate policy, the decreasing scale of operations and fluctuations in the ratio of electricity prices to prices of CO2 emission allowances. Undoubtedly, the current business model of companies producing electricity from conventional sources will have to be transformed towards low-emission generation technologies. Only the pace of this process remains unknown. The Management Board, being aware of the challenges related to the current business model, takes steps to reduce the Group's dependence on high-emission technologies. However, increasing operating costs, significant fluctuations in the level of CO2 emission allowances, the level of short-term debt and the uncertainty regarding market regulations determining the prices of generated energy and obtained certificates contribute to the uncertainty of the implementation of the plans adopted by the Management Board.

As a consequence, the Management Board draws attention to the existence of significant uncertainty which may raise serious doubts as to the Group's ability to continue as a going concern.

The Management Board has carried out a detailed analysis of cash flow forecasts and confirms that the analysis of cash flows indicates the possibility of generating sufficient, positive cash flows at least in the next 12 months from the date of these financial statements. This analysis assumes renewal of existing credit limits regarding the financing of current operations of the companies in the Group and obtaining financing for new investments. Talks are underway with financial institutions to renew loans and raise new investment funds. In the opinion of the Management Board, the risk of unsuccessful talks is limited.

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

- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – as per the decision of the European Committee, the approval process for the standard in the preliminary version will not be initiated prior to the standard being issued in the final version – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2016 or later,
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014) – works leading to the approval of these changes were delayed indefinitely by the EU - the effective date was delayed indefinitely by IASB,
- *Amendments to IAS 1 „Presentation of financial statements”* Classification of financial liabilities as short-term or long-term. - applicable for annual periods beginning on or after 1 January 2023.

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

6. Significant principles (policy) of accounting

The principles (policy) of accounting used to prepare the interim condensed consolidated financial statements are coherent with those used for preparing the annual consolidated financial statements of the Group for the year beginning on 1 January 2019.

The introduction of the following changes to the standards did not have a significant impact on the accounting policy:

- *Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"* - Definition of materiality (effective for annual periods beginning on or after January 1, 2020).
- *Amendments to the References to the Conceptual Framework included in the International Financial Reporting Standards (published on March 29, 2018)* - not approved by the EU until the date of approval of these financial statements - applicable to annual periods beginning on or after January 1, 2020.
- *Amendments to IFRS 9, IAS 39 and IFRS 7-* interest rate benchmark reform - *(effective for annual periods beginning on or after January 1, 2020)*,
- *Amendments to IFRS 3 "Business combinations"* - definition of a business (applicable to business combinations for which the acquisition date is at the beginning of the first annual period beginning on or after January 1, 2020, and to acquisitions of assets that occurred on the inception date) in the above-mentioned annual period or later),

7. Significant values based on professional judgment and estimates

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

7.1. Impact of a COVID-19 disease pandemic on the Group's operations

In the first quarter of 2020, the first cases of COVID-19 disease caused by the SAR-CoV-2 virus were reported in many European countries. In Poland, the first case of infection was confirmed on March 4. In connection with the emergence of subsequent infections, in March in Poland a pandemic was declared and strict sanitary rules and restrictions on certain types of economic activity were introduced. At the same time, the Polish government introduced a package of solutions (anti-crisis shield) to protect citizens and entrepreneurs from the effects of the crisis caused by the pandemic. Currently in Poland the process of lifting the introduced restrictions is being carried out in stages. However, there are still outbreaks of infections, hence the further development of the situation is difficult to predict.

It should be expected that the effects of the pandemic and the measures taken to counteract it will have a significant impact on the economic situation in Poland and will lower GDP growth, as well as the level of industrial production and investments, contributing to a reduction in domestic electricity consumption, and thus influencing the reduction of its production. The increased level of volatility in the financial and commodity markets, including the changing price relationships on individual markets (in particular electricity prices and carbon dioxide emission allowances), is also of great importance for the Group. Dynamic changes in prices on commodity markets, primarily on the main market, which is the crude oil market, have an indirect impact on other goods related to the broadly understood energy sector, e.g. gas and electricity prices, and indirectly also carbon dioxide emission allowances. The Group is not able to precisely estimate the impact of increased volatility on the energy commodity markets, however, the risk related to increased volatility should be considered as key in the process of forecasting the Group's potential future financial results and its financial condition.

In the first quarter of the year, incl. Good weather conditions for wind energy and the restrictions imposed on the economy resulting from the pandemic, as well as the deterioration of the relationship between the quoted prices of electricity and carbon dioxide emission allowances adversely affected the Group's ability to sell electricity. There was a 34.20% decrease in the total volume of electricity sales from own production and sales of purchased electricity. In the case of the sale of electricity from own production, the decrease was only 3.45% and the decrease in the sale of purchased energy was as much as 65.22%. The decrease in electricity sales and the realized lower margins had a negative impact on the financial results achieved in the Group. In addition, the increased volatility of prices of carbon dioxide emission allowances resulted in the need for companies in the Group producing electricity to provide additional security for the concluded futures purchase of emission allowances, which may affect the liquidity situation. In order to minimize the impact of establishing collaterals on liquidity, efforts are made to replace the deposits securing the current positions with non-cash instruments as far as possible.

In connection with COVID-19, the Management Board appointed a team to monitor the situation and prevent the negative effects of the pandemic. The team's tasks include proposing organizational changes to protect employees and at the same time guarantee the continuity of production.

In view of the deterioration of the situation in the field of sales and trade in electricity caused by the effects of the pandemic, agreements were signed with trade unions on a temporary reduction in working time and a symmetrical reduction of employee benefits by 5% in June, July and August in ZE PAK SA, Elektrownia Pątnów II Sp. z o.o. and PAK-Volt SA.

7.2. Other significant values based on professional judgement and estimates

Valuation of energy certificates

For the production of energy in renewable, gas and high cogeneration sources, the Group recognizes energy origin certificates (green and red certificates) at fair value at the end of the month in which they were produced. As at the balance sheet date, the Group measures certificates of origin to the net realizable value - for green certificates as at 31 March 2020 at the price of 136.87 PLN / MWh. Data on prices come from listing on the Polish Power Exchange. A revaluation write-off of certificates is created when the obtainable sale price less the costs of sale is lower than the historical cost of production. The amount of the write-down is PLN 1,697 thousand. The value of the write-down reduces the value of inventories due to certificates of origin and increases the cost of sales. The source of uncertainty is legal regulations regarding the Renewable Energy Sources market (RES).

Provision for liabilities for the emission of greenhouse gases (EUA)

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

Emission in ZE PAK SA Group in 2019 amounted to 6 609 742 tons of CO_2.

In April 2020 the Group redeemed CO_2 emissions for 2019.

Details regarding the provision for liabilities for greenhouse gas emissions are presented in Note 24.3.1.

8. Changes of estimates

Within the 3-month period concluded on 31 March 2020, except for these described in the financial statement, there were no significant changes in estimated sizes and the methodology of estimates that would affect the current period or future period.

9. Seasonality of the activities

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

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

(in thousand PLN)

10. Operating segments

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

Therefore, there are following operating segments:

- The Generation Segment covering production of electricity both from conventional sources (including cogeneration) and by combustion and co-combustion of biomass. Basic fuels used by the Generation Segment are lignite and biomass. The Generation Segment covers following entities:
    - Zespół Elektrowni „Pątnów – Adamów – Konin” SA
    - „Elektrownia Pątnów II” sp. z o.o.
    - „PAK Infrastruktura” sp. z o.o.
- The Mining Segment covering the extraction of lignite. In the Mining Segment, within the Capital Group ZE PAK SA:
    - „PAK Kopalnia Węgla Brunatnego Konin” SA
    - „PAK Kopalnia Węgla Brunatnego Adamów” SA
- The Renovation Segment performing services in the scope of construction and renovation services. The Segment covers activities of Przedsiębiorstwo Remontowe „PAK Serwis” sp. z o.o.
- The Sales Segment performing services of the sale of electricity. The Sales Segment also includes the “PAK – Volt” SA company.

ZE PAK SA Group also conducts other types of activities that have been included in the "Other" column. Within the period of 3 months ended 31 March 2020, the activities of PAK Górnictwo sp. z o.o., Aquakon sp. z o.o. in liquidation and PAK Adamów sp.z o.o.

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

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

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

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

EBITDA for the entire Capital Group of ZE PAK SA:

	Period of 3 months ended 31 March 2020 (unaudited)	*Period of 3 months ended 31 March 2019 (unaudited)*
Net profit / (loss)	(10 915)	12 010
Financial revenues	- 21 968	- 8 240
Financial costs	+ 4 542	+ 7 727
Income tax	+ 5 267	+ 16 108
Depreciation and impairment write-down	+ 38 770	+ 46 689
EBITDA	15 696	74 294

The segment results for the periods ended 31 March 2020 and 31 March 2019.

(in thousand PLN)

Period of 3 months ended 31 March 2020 (unaudited)

	Generation	**Mining**	**Renovation**	**Sale**	**Other**	**Consolidation adjustment**	**Total**
Sales revenue to external customers	414 238	1 004	9 191	98 974	667	-	524 074
Sales revenue between segments	23 282	120 832	21 938	-	42 412	(208 464)	-
Sales revenue	**437 520**	**121 836**	**31 129**	**98 974**	**43 079**	**(208 464)**	**524 074**
Cost of goods sold	(404 436)	(128 960)	(29 819)	(100 570)	(49 162)	209 819	(503 128)
Gross profit / (loss)	**33 084**	**(7 124)**	**1 310**	**(1 596)**	**(6 083)**	**1 355**	**20 946**
Other operating income	2 891	3 811	91	1	21	(703)	6 112
Selling and distribution expenses	(490)	-	-	(507)	(115)	-	(1 112)
Administrative expenses	(14 874)	(9 586)	(2 509)	(613)	(1 521)	-	(29 103)
Other operating expenses	(19 382)	(382)	(118)	(18)	(17)	-	(19 917)
Finance income	21 859	174	55	134	7	(261)	21 968
Finance costs	(1 068)	(3 632)	(67)	(2)	(34)	261	(4 542)
Profit before tax	**22 020**	**(16 739)**	**(1 238)**	**(2 601)**	**(7 742)**	**652**	**(5 648)**
Income tax expense	(8 921)	1 284	1 843	558	93	(124)	(5 267)
Net profit/loss for the period from continuing operations	**13 099**	**(15 455)**	**605**	**(2 043)**	**(7 649)**	**528**	**(10 915)**
Profit / (loss) from operating activities, without financial operations and income tax	**1 229**	**(13 281)**	**(1 226)**	**(2 733)**	**(7 715)**	**652**	**(23 074)**
Depreciation / Amortization	23 857	12 743	802	1	1 057	310	38 770
Change in impairment	-	-	-	-	-	-	-
EBITDA	**25 086**	**(538)**	**(424)**	**(2 732)**	**(6 658)**	**962**	**15 696**

(in thousand PLN)

Period of 3 months ended 31 March 2019 (unaudited)

	Generation	Mining	Renovation	Sale	Other	Consolidation adjustment	Total
Sales revenue to external customers	492 171	2 576	13 394	186 451	539	-	695 131
Sales revenue between segments	58 122	103 556	16 198	-	57 196	(235 072)	-
Sales revenue	**550 293**	**106 132**	**29 592**	**186 451**	**57 735**	**(235 072)**	**695 131**
Cost of goods sold	(447 571)	(163 284)	(28 186)	(179 812)	(57 546)	236 630	(639 769)
Gross profit / (loss)	**102 722**	**(57 152)**	**1 406**	**6 639**	**189**	**1 558**	**55 362**
Other operating income	3 086	1 263	406	3	91	(183)	4 666
Selling and distribution expenses	(677)	-	-	(1 021)	(175)	-	(1 873)
Administrative expenses	(13 082)	(12 290)	(2 414)	(694)	(1 638)	-	(30 118)
Other operating expenses	(13)	(204)	(50)	-	(165)	-	(432)
Finance income	1 637	6	1	6 832	7	(243)	8 240
Finance costs	(4 018)	(3 792)	(106)	(4)	(50)	243	(7 727)
Profit before tax	**89 655**	**(72 169)**	**(757)**	**11 755**	**(1 741)**	**1 375**	**28 118**
Income tax expense	(17 049)	3 078	89	(2 148)	183	(261)	(16 108)
Net profit/loss for the period from continuing operations	**72 606**	**(69 091)**	**(668)**	**9 607**	**(1 558)**	**1 114**	**12 010**
Profit / (loss) from operating activities, without financial operations and income tax	**92 036**	**(68 383)**	**(652)**	**4 927**	**(1 698)**	**1 375**	**27 605**
Depreciation / Amortization	30 481	15 011	849	15	1 417	(851)	46 922
Change in impairment	-	(233)	-	-	-	-	(233)
EBITDA	**122 517**	**(53 605)**	**197**	**4 942**	**(281)**	**524**	**74 294**

(in thousand PLN)

11. Revenues and costs

11.1. Revenues from the contracts with clients

	Period of 3 months ended 31 March 2020 (unaudited)	*Period of 3 months ended 31 March 2019 (unaudited)*
Material structure		
Revenues from the sale of goods, including:		
Revenues from the sale of electricity	319 279	328 032
Revenues from the sale of electricity from trade	109 457	296 991
Revenues from the sale of heat	16 321	15 841
Other sale revenues	6 909	5 528
Revenues from service contracts	6 543	11 931
Total revenues from the sale of goods	**458 509**	**658 323**
Excise	(471)	(683)
Total revenues from the sale of goods, including excise duty	**458 038**	**657 640**
Property rights from energy certificates	15 949	10 984
Compensation for LTC termination	50 087	26 507
Total revenues	524 074	695 131

11.2. Other operating revenues

	Period of 3 months ended 31 March 2020 (unaudited)	*Period of 3 months ended 31 March 2019 (unaudited)*
Revenues from the sale of CO2 allowances	-	1 365
Revenue from damages	709	1 192
Reversal of write-downs against receivables	-	293
Grants settlement	1 467	375
Profit from disposal of non-financial fixed assets	3 573	1 272
Other	363	169
Total of other operating revenues	6 112	4 666

11.3. Other operating expenses

	Period of 3 months ended 31 March 2020 (unaudited)	*Period of 3 months ended 31 March 2019 (unaudited)*
Loss on the sale of property, plant and equipment	2	37
Creation of provisions	483	-
Update of provisions for redemption of CO2 emission allowances for 2019	18 789	-
Impairment write-down on receivables	67	9
Compensations	1	20
Donations given	20	14
Other	555	352
Total other operating expenses	19 917	432

(in thousand PLN)

11.4. Financial income

	Period of 3 months ended 31 March 2020 (unaudited)	*Period of 3 months ended 31 March 2019 (unaudited)*
Interest income	1 805	539
Foreign exchange gains	16 551	-
Valuation of hedging instruments exchange rate (forward)	3 593	-
Other	19	7 701
Total financial income	21 968	8 240

11.5. Financial costs

	Period of 3 months ended 31 March 2020 (unaudited)	*Period of 3 months ended 31 March 2019 (unaudited)*
Interest expenses	1 595	3 182
Valuation and realization of derivative financial instruments	-	358
Foreign exchange losses	-	1 062
Reserve discount for the liquidation of power units	65	200
Reserve discount for reclamation	2 585	2 488
Other	297	437
Total of financial costs	4 542	7 727

11.6. Costs by type

	Period of 3 months ended 31 March 2020 (unaudited)	*Period of 3 months ended 31 March 2019 (unaudited)*
Depreciation / Amortisation	38 770	46 922
Impairment write-downs on fixed assets	-	(233)
Impairment write-downs on inventories	1 596	1 858
Materials	72 707	81 134
External services	20 376	17 599
Taxes and charges, excluding excise duty	41 074	42 582
Costs of allowances for emission of CO_2	147 436	112 786
Costs of employee benefits	99 218	104 650
Other costs by type	4 418	5 461
Cost of goods for resale and raw materials sold and resale of electricity from the market	114 520	257 381
Total cost by type	540 115	670 140
Items included in cost of goods sold	503 128	639 769
Items included in selling and distribution expenses	1 112	1 873
Items included in administrative expenses	29 103	30 118

(in thousand PLN)

Change in the stocks of finished goods	6 552	(2 286)
Cost of goods and services for internal needs	220	666

11.7. Construction agreements

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

Services performed under these contracts are services rendered over time. The duration of the contracts ranges from 2 months to 6 years, although these are often 1-2 year contracts. During the contracts, partial invoices are issued with a payment period of 30 days. In the case of some high-value contracts, the Group may obtain an advance payment. Advances are billed with partial invoices and a final invoice.

The revenue of 1 quarter 2020 did not include the part of revenue for which the obligation to meet the service was already included in previous reporting periods.

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

	01.01.2020	*Change in the valuation of contracts*	*Revenues recognized in 2020 included in the balance of liabilities as at 31.12.2019*	*Change of the period in which the right to remuneration becomes unconditional*	*31.03.2020 (unaudited)*
Valuation of construction contracts	1 563	2 098	-	(1 563)	2 098
Assets due to contracts with clients	1 563	2 098	-	(1 563)	2 098
Valuation of construction contracts	2 079	235	(338)	-	1 976
Liabilities due to contracts with clients	2 079	235	(338)	-	1 976

The change in the valuation of contracts applies to both changes related to the signed annexes to the contracts with the contractor and changes in the stage of completion of works on the contract.

The item change in the period in which the right to remuneration becomes unconditional means the realization of revenue on contracts in I quarter of 2020 (in 2019 the determined amount of revenue was higher than the partial net invoices, and the surplus was statistically calculated).

Revenues recognized in I quarter of 2019 are shown in negative figures, because the valuation of contracts on the liabilities side was reduced by 2020 in these amounts (in 2019 the sum of partial invoices was higher than the value of services rendered, and the surplus was transferred to deferred income).

Remaining commitments to perform the obligations

The total amount of the transaction price assigned to the obligation to perform the service, which remained unmet (or partially unfulfilled) at the end of the reporting period to be implemented:	*31 March 2020 (unaudited)*	*31 December 2019*
- up to 1 year	17 859	11 346
Total	17 859	11 346

	Period of 3 months ended 31 March 2020 (unaudited)	*Period of 3 months ended 31 March 2019 (unaudited)*
The gross amount due from the contracting parties for works under the contract	1 754	7 242
The gross amount due to the contracting parties for work under the contract	1 682	2 323

(in thousand PLN)

12. Income tax

12.1. Tax load

The main components of tax load for the period of 3 months ended 31 March 2020 and 31 March 2019 are as follows:

	Period of 3 months ended 31 March 2020 (unaudited)	*Period of 3 months ended 31 March 2019 (unaudited)*
Included in the profit or the loss		
Current income tax		
Current income tax load	62	7 579
Deferred income tax load		
Related to creation and reversal of temporary differences	6 853	8 513
Other changes	(1 648)	16
Tax load in the consolidated profit or loss	**5 267**	**16 108**
Included in the consolidated statement of the comprehensive income		
Net profit (loss) tax due to revaluation of cash flow securities	-	(64)
Income tax concering actuarial profits/losses	21	136
Tax advantage/(tax load) included in comprehensive income	**21**	**72**

12.2. Deferred income tax

Deferred income tax results from the following items:

	31 March 2020 (unaudited)	*31 December 2019*
Deferred tax asset		
Balance sheet provisions	66 972	66 869
Overburden and other mining assets	5 502	5 478
Interest and exchange rate differences	246	181
Valuation of non-terminated agreements for building services	441	493
Tax loss from previous years	14 299	19 735
Impairment write-down on inventories	2 146	7 370
Impairment write-down on receivables	852	849
Impairment write-downs on fixed assets	15 087	15 087
Difference between the balance sheet value and the tax value of fixed assets	15 657	15 384
Settlements with employees	4 031	3 580
Other	12 752	3 693
Total	137 985	138 719
Provision under deferred income tax		
Difference between the balance sheet value and the tax value of fixed assets	418 171	422 069
Receivables under PPAs	18 455	8 939

(in thousand PLN)

Energy certificates	4 804	4 728
Interest and exchange rate differences	44	62
Valuation of non-terminated construction agreements	454	364
Other	902	246
Total	442 830	436 408
After offsetting the balances at the level of the Group companies, the deferred tax is presented as:		
Asset:	**86 083**	**84 593**
Provision:	**390 928**	**382 282**

13. Profit per one share

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

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

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

	Period of 3 months ended 31 March 2020 (unaudited)	*Period of 3 months ended 31 March 2019 (unaudited)*
Net profit / (loss) on continued activities of the parent company's shareholders	(10 346)	13 280
Profit / (loss) on abandoned activities of the parent company's shareholders	-	-
Net profit / (loss) of ordinary shareholders used for calculation of diluted profit / (loss) per one share	(10 346)	13 280
The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share	50 823 547	50 823 547

The below table shows the profit per one share in Polish zlotys for the period of 3 months ended 31 March 2020 and 31 March 2019 presented in the profit and loss account.

	Period of 3 months ended 31 March 2020 (unaudited)	*Period of 3 months ended 31 March 2019 (unaudited)*
Basic and diluted from profit for the financial year attributable to the shareholders of the parent company	(0,20)	0,26
Basic and diluted from profit from continuing operations attributable to the shareholders of the parent company	(0,20)	0,26

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

(in thousand PLN)

14. Tangible fixed assets

Period of 3 months ended 31 March 2020 (unaudited)

	*Land, including the right of perpetual usufruct of land**	*Buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2020	223 248	2 054 574	5 008 834	68 269	33 695	110 079	7 498 699
Direct purchase	1	-	16	-	142	647	806
Repairs	-	-	(72)	-	-	-	(72)
Transfer from fixed assets under construction	-	-	61	-	50	(111)	-
Sale and liquidation	(427)	(28)	(10 668)	-	(87)	(211)	(11 421)
Gross value as at 31 March 2020	222 822	2 054 546	4 998 171	68 269	33 800	110 404	7 488 012
Depreciation and impairment write-downs as at 1 January 2020	49 888	1 485 397	3 848 829	49 283	23 113	82 328	5 538 838
Depreciation write-down for the period	955	9 937	22 227	972	308	-	34 399
Impairment write-down (change of the state)	-	-	-	-	-	-	-
Sale and liquidation	-	(28)	(10 039)	-	(87)	-	(10 154)
Depreciation and impairment write-downs as at 31 March 2020	50 843	1 495 306	3 861 017	50 255	23 334	82 328	5 563 083
Net value as at 1 January 2020	173 360	569 177	1 160 005	18 986	10 582	27 751	1 959 861
Net value as at 31 March 2020	171 979	559 240	1 137 154	18 014	10 466	28 076	1 924 929

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

(in thousand PLN)

Period of 3 months ended 31 March 2019 (unaudited)

	*Land, including the right of perpetual usufruct of land**	*Buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2019 (transformed data)	217 002	2 032 265	4 985 292	69 045	33 721	176 500	7 513 825
Direct purchase	-	-	315	551	149	7 042	8 057
Repairs	-	-	-	-	-	-	-
Transfer from fixed assets under construction	3 257	3 028	915	-	(20)	(7 180)	-
Sale and liquidation	(946)	(1 178)	(561)	(2 373)	(170)	-	(5 228)
Gross value as at 31 March 2019	219 313	2 034 115	4 985 961	67 223	33 680	176 362	7 516 654
Depreciation and impairment write-downs as at 1 January 2019	46 383	1 223 454	3 322 097	46 462	22 150	131 412	4 791 958
Depreciation write-down for the period	917	11 311	28 739	1 336	380	-	42 683
Impairment write-down (change of the state)	-	-	-	-	-	(233)	(233)
Sale and liquidation	-	(1 167)	(504)	(702)	(166)	-	(2 539)
Depreciation and impairment write-downs as at 31 March 2019	47 300	1 233 598	3 350 332	47 096	22 364	131 179	4 831 869
Net value 1 January 2019 (transformed data)	170 619	808 811	1 663 195	22 583	11 571	45 088	2 721 867
Net value as at 31 March 2019	172 013	800 517	1 635 629	20 127	11 316	45 183	2 684 785

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

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

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

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

- The continuing lower market value of the Group's net assets from their carrying amount,
- an increase in risk related to the launch of prospective lignite deposits in connection with the proposal to radically raise the emission reduction target for 2030 in the proposal for climate law presented by the European Commission.

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

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

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

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

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

As at 31 March 2020, the PAK KWB Konin SA and PAK KWB Adamów SA lignite mines run business operations on Jóźwin, Tomisławice, Drzewce and Adamów open pit lands. PAK KWB Konin SA plans to start mining in the open-pit Ościsłowo. The issue of obtaining consent for the open-pit Ościsłowo has been described in note 26.1.

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

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

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

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

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

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

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

- Production of electricity from Pątnów I was founded by 2030, production from Pątnów II was established until 2036, production from biomass from Konin was established until 2047.
- Heat production was set up until 2047 in connection with the operation of the biomass block that was created up to this year, from which heat is generated to the city of Konin.
- Production assumptions result from the adopted investment and renovation program for the Generation segment.
- Receipts from the capacity market in 2021-2040 based on the results of the auction were adopted; participation in the secondary power market was also assumed.
- Electricity sales prices were adopted on the basis of developed forecasts broken down into BASE, PEAK and OFFPEAK prepared for ZE PAK SA by an independent external advisor, taking into account own estimates, based on the current market situation for the first years of the forecast.
- Heat sales prices were adopted on the basis of currently realized deliveries along with forecasted steady growth in subsequent years.
- Price forecasts for CO2 emission allowances, based on assumptions from the Ministry of Energy document - "National Plan for Energy and Climate for 2021-2030" (Project - item 3.1 of 4 January 2019), including own estimates, based on current market situation for the first years of the forecast.
- The purchase costs of lignite purchased for production were determined on the basis of the delivery schedule and prices agreed with the relevant schedules included in the financial projections of mining companies.
- The costs of biomass purchase were set at the level of contracted prices for 2020 together with forecasted steady growth in subsequent years.
- The forecast of the margin on the biomass block was estimated with the assumption of support mechanisms.
- The Company assumed the use of free allowances for CO2 emissions in the amount resulting from Art. 10a of Directive 2003/87 / EC of the European Parliament and of the Council of October 13, 2003.
- The effects of labor cost optimization resulting from the implemented etatization policy have been taken into account,
- The weighted average post-tax capital (WACC) was assumed in the projection period at 7.686%.
- Within the scope of BAT conclusions for ZE PAK SA, it was assumed to receive derogations from the required emission limit values due to the planned short life span of generation assets, whereas in the case of Elektrownia Pątnów II sp. z o.o., in accordance with the derogation from the emission limit values obtained under the decision of the Marshal of the Wielkopolska Region a periodic release was assumed until 2024 to realize investments as part of the general renovation planned for this year.
- In the case of Elektrownia Pątnów II sp. z o.o. the participation of this unit in the stranded costs scheme (LTC) was accepted.

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

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

- The volume of production (coal extraction) and revenues was determined based on the forecasts of the main coal recipients, i.e. ZE PAK SA and Elektrownia Pątnów II sp. z o.o. and anticipated price pathways for coal based on the opencast finance agreement. The planned mining of lignite on individual outcrops is as follows:
    - Adamów – 3.48 m tons till 2023,
    - Tomisławice – 25.1 m tons till 2030,
    - Jóźwin – 3.64 m tons till 2021,

(in thousand PLN)

  - Drzewce – 4.11 m tons till 2021,
  - Ościsłowo – 31.32 tons till 2024 till 2036.
- The level of investment expenditures allowing the construction of a new Ościsłowo open pit ensuring the supply of the power plant and maintaining specific production capacities during their operation was adopted.
- The effects of employment restructuring processes were taken into account.
- There were taken into account the costs of such events as:
  - costs of pitting reclamation,
  - pension reserves,
  - for PAK KWB Adamów SA, severance pay for group layoffs,
  - for PAK KWB Adamów SA revenues from the sale of assets after the exploitation of the open pit,
  - the extension of the concession in PAK KWB Adamów SA for Adamów deposit was concluded.
- the weighted average cost of capital after tax (WACC) was assumed in the projection period for PAK KWB Adamów SA at 7.09% and for PAK KWB Konin SA at 7.55%, the higher discount rate reflects the higher risk related to the functioning of PAK KWB Konin SA in the longer term (longer horizon of the forecast), in particular with regard to investment activities related to the development of new lignite deposits.

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

The tests were performed as at 31 March 2020.

Based on the tests performed, there was no need to make a write-off for the companies.

15. Assets under the right to use and liabilities under the lease

As of January 1, 2019, the Group applied IFRS 16 Leasing for the first time. In accordance with this standard, the Group recognizes an asset for the right of use and a liability for leasing in the balance sheet.

The Group as a lessee

The Group is a party to lease contracts for underlying asset components such as:

- land, including the right of perpetual usufruct of land,
- motor vehicles,
- machinery.

Land lease contracts are concluded for a period of 4 to 14 years and for an indefinite period, and rights to perpetual usufruct of land have been received for a period of 40 to 100 years. Lease payments are indexed in accordance with the Land Management Act.

The leasing period of motor vehicles is from 2 to 5 years.

The period of leasing machines (vulcanizing presses) is from 2 to 5 years. The contract includes the option to buy the underlying asset after the lease period.

All leasing contracts were concluded in PLN.

Maturity analysis of leasing liabilities:

	31 March 2020 (unaudited)	*31 December 2019*
Up to 1 year	5 101	6 620
1 to 3 years	15 174	11 199
3 to 5 years	9 037	9 189
Over 5 years	132 513	143 645
Total according to undiscounted payments	161 825	170 653
Book value	50 787	55 016

(in thousand PLN)

Amounts recognized in the cash flow statement

	Period of 3 months ended 31 March 2020 (unaudited)	*Year ended 31 December 2019*
Total cash outflow	5 919	9 360

The right to use

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

	Period of 3 months ended 31 March 2020 (unaudited)	*Year ended 31 December 2019*
Gross value as at 1 January	67 296	67 296
Remission as at 1 January	(11 087)	(3 822)
Net value as at 1 January	56 209	63 474
Depreciation for the period	(1 870)	(7 265)
As at the end of the period	54 339	56 209

Additional qualitative and quantitative information on leasing activities

In connection with concluded lease agreements, the Group is potentially exposed to future cash outflows that were not included in the measurement of lease liabilities. This includes exposure resulting from:

- from variable leasing fees,
- from the option to extend the lease and the option to terminate the lease,
- from the guaranteed residual value, and
- from leases not yet started to which the lessee is obliged.

Variable leasing fees

Current lease contracts do not contain variable lease payments

Extension option

Until the date of publication of this report, the Group has not concluded leasing contracts that contain extension options.

(in thousand PLN)

16. Intangible assets

Long-term intangible assets – 3 months ended 31 March 2020 (unaudited)

	CO_2 Emission units (EUA)	*Patents and licenses*	*Computer software*	*Other*	*Total*
Gross value as at 1 January 2020	-	22 607	2 128	417	25 152
Increases	-	-	-	-	-
Decreases	-	218	-	-	218
Gross value as at 31 March 2020	-	22 825	2 128	417	25 370
Depreciation and impairment write-downs as at 1 January 2020	-	19 911	2 128	365	22 404
Depreciation write-down for the period	-	245	-	1	246
Impairment write-down	-	-	-	-	-
Decreases	-	-	-	-	-
Depreciation and impairment write-downs as at 31 March 2020	-	20 156	2 128	366	22 650
Net value as at 1 January 2020	-	2 696	-	52	2 748
Net value as at 31 March 2020	-	2 669	-	51	2 720

(in thousand PLN)

Long-term intangible assets – 3 months ended 31 March 2019 (unaudited)

	CO_2 Emission units (EUA)	*Patents and licenses*	*Computer software*	*Other*	*Total*
Gross value as at 1 January 2019	-	22 334	2 133	417	24 884
Increases	-	(1)	(1)	-	(2)
Decreases	-	-	-	-	-
Gross value as at 31 March 2019	-	22 333	2 132	417	24 882
Depreciation and impairment write-downs as at 1 January 2019	-	18 747	2 003	361	21 111
Depreciation write-down for the period	-	308	33	1	342
Impairment write-down	-	-	-	-	-
Decreases	-	-	(1)	-	(1)
Depreciation and impairment write-downs as at 31 March 2019	-	19 055	2 035	362	21 452
Net value as at 1 January 2019	-	3 587	130	56	3 773
Net value as at 31 March 2019	-	3 278	97	55	3 430

(in thousand PLN)

Short-term intangible assets

	31 March 2020 (unaudited)	*31 March 2019 (unaudited)*
	CO2 emission unit (EUA)	*CO2 emission unit (EUA)*
Gross value as at 1 January	93 218	66 817
Purchase	107 984	248 163
Gross value as at 31 March	201 202	314 980

17. Assets for overburden removal and other mining assets

As of 31 March 2020, the item of assets concerning overburden stripping and other mining assets includes the assets related to overburden stripping and other mining assets mainly in PAK KWB Konin in the amount of PLN 69 171 thousand.

	31 March 2020 (unaudited)	*31 December 2019*
As of 1 January	70 620	80 326
Increase	806	1
Decrease	-	(607)
Depreciation for the period	(2 255)	(9 100)
As of 31 March	69 171	70 620
Long-term	69 171	70 620
Short-term	-	-

18. Other assets

18.1. Other financial assets

	31 March 2020 (unaudited)	*31 December 2019*
Investments and deposits	3 054	-
Investnments and MLF* deposits	101	2 690
Shares	352	352
Other	178	178
Total other financial assets	3 685	3 220
short-term	-	-
long-term	3 685	3 220

* *MLF – Mining Liquidation Fund*

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

(in thousand PLN)

18.2. Other non-financial assets

	31 March 2020 (unaudited)	*31 December 2019*
VAT receivables	33 438	58 315
Insurance	303	337
Other receivables from the state budget	708	916
Other accruals	809	1 924
Delivery prepayments	29	7
Advances for intangible assets	264 427	-
Prepayments for assets under construction	2 287	2 311
Other	6 359	413
Total other non-financial assets:	308 360	64 223
short-term	305 792	61 615
long-term	2 568	2 608

The advance payment for intangible assets concerns the purchase of CO2 emission allowances in the amount of PLN 264,427 thousand.

The largest components of the "Other" item in the first quarter of 2020 are settlements related to the Social Fund in the amount of PLN 4,071 thousand.

19. Inventories

	31 March 2020 (unaudited)	*31 December 2019*
Production fuel	9 595	9 828
Spare parts and other materials	62 364	58 447
Certificates of origin of energy	41 645	36 065
Goods	6	1
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	113 610	104 341

As at March 31, 2020, the Group had a total of 20,450.858 MWh property rights of green energy certificates produced and verified by the ERO. From January 1, 2020 to March 31, 2020, the Group received 71 326.358 MWh certificates for production in October and November 2019. During this period, an application was submitted for the issuance of 34,037.483 MWh for the production in January 2020.

During this period, the Group was still waiting for production certificates from December 2018 in the amount of 26,630.737 MWh. By March 31, 2020, 95,252.008 MWh was sold on TGE SA, the revenue from this in the amount of PLN 13,955 thousand was recognized under Other revenues. The income from the submitted applications for January 2020 is PLN 4,659 thousand.

Spare parts are a stock for the needs of ongoing repairs and service. The write-down for other materials and non-strategic spare parts as at March 31, 2020 is PLN 1,536 thousand.

(in thousand PLN)

20. Trade and other receivables

	31 March 2020 (unaudited)	*31 December 2019*
Trade receivables	64 644	100 807
Receivables due to compensation related to the termination of the PPAs	97 132	47 045
Receivables due to security of purchase of electricity in the balancing market	6 133	16 111
Other receivables	48 286	64 615
Net receivables	216 195	228 578
Impairment write-down on receivables	45 534	45 469
Gross receivables	261 729	274 047

In the line other receivables as at March 31, 2020, the Group presents mainly deposit receivables in the amount of PLN 22,376 thousand, deposits securing transactions on the Polish Power Exchange in the amount of PLN 2,625 thousand and securing the purchase of CO_2 emission allowances (EUA) in the amount PLN 17 840 thousand.

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

The Group analyzes and reduces credit risk in relation to cash through ongoing monitoring of financial institution ratings and reduces the risk of concentration of cash surpluses in one financial institution, using internal rules of risk management principles. The whole revaluation write-off of receivables concerns individual receivables.

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

21. Cash and cash equivalents

Cash at bank are subject to interest at volatile interest rates, whose amount depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group's demand for cash and are subject to interest at fixed interest rates. The fair value of cash and cash equivalents as of 31 March 2020 amounts to PLN 319 489 thousand (as of 31 March 2019: PLN 266 331 thousand).

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

Cash structure

	31 March 2020 (unaudited)	*31 March 2019 (unaudited)*
Cash in hand and at bank:	115 252	84 911
Short-term deposits	204 237	181 420
Total cash and cash equivalents in the balance sheet:	319 489	266 331
Foreign exchange differences	(1 524)	(886)
Total cash and cash equivalents in cash flow statement	317 965	265 445

(in thousand PLN)

22. Dividends paid and proposed for payment

The Group did not pay or declare the payment of dividends in the first quarter of 2020.

23. Interest-bearing loans and borrowings

Short-term	*Maturity*	*31 March 2020 (unaudited)*	*31 December 2019*
Overdraft facility in Pekao SA in the amount of PLN 100,000 thousand, with an interest rate of WIBOR 1M + bank margin (ZE PAK SA)	30.11.2020	83 456	-
Overdraft facility in Santander Bank Polska SA in the amount of PLN 40,000 thousand, interest rate at WIBOR 1M + bank margin (PAK KWB Konin SA)	30.06.2020	25 583	14 747
Non-renewable loan at Alior Bank SA in the amount of PLN 66 700 thousand, interest rate at 3M WIBOR + bank margin (PAK KWB Konin SA)	15.12.2021	31 737	32 020
TOTAL		**140 776**	**46 767**

Long-term	*Maturity*	*31 March 2020 (unaudited)*	*31 December 2019*
Non-revolving loan at Alior Bank SA in the amount of PLN 66,700 thousand, interest rate according to WIBOR 3M + bank's margin (PAK KWB Konin SA)	15.12.2021	22 332	29 773
TOTAL		**22 332**	**29 773**

24. Provisions and accruals

24.1. Accruals

	31 March 2020 (unaudited)	*31 December 2019*
Provision for bonuses and holiday leaves	31 272	25 490
Compensation from an insurance company	313	313
Audit of financial statements	151	223
Other	4 789	1 280
Total	36 525	27 306
Short-term	36 525	27 306
Long-term	-	-

The main component of the "Other" item are fees for economic use of the environment in the amount of PLN 2 457 thousand and the provision for a penalty for exceeding the amount of dust introduced into the air in 2015 in the amount of PLN 1 190 thousand. The group appealed against this decision to the Provincial Inspectorate for Environmental Protection in Poznań. The case was referred to the Chief Inspector of Environmental Protection. As at the date of this report, the procedure for collecting and analyzing documents regarding Adamów Power Plant was completed. Currently, the Group is awaiting a decision.

(in thousand PLN)

24.2. Change in provisions

	Provision for EUA redemption	*Provision for return of CO_2 emission allowances*	*Provision for the fixed assets liquidation costs*	*Provision for the reclamation of ash storage yards*	*Provision for the long-term contract loss*	*Provision for the certificates of origin of energy redemption*	*Reclamation provisions and other provisions related to mining activities*	*Other*	*Total*
As at 1 January 2020	587 487	6 362	18 190	63 921	66	19 249	361 134	24 121	1 080 530
increase	166 708	-	65	77	-	3 012	2 161	13 032	185 055
decrease	-	-	-	-	(35)	(184)	(8 255)	-	(8 474)
As at 31 March 2020 (unaudited)	754 195	6 362	18 255	63 998	31	22 077	355 040	37 153	1 257 111
Long-term	-	-	18 255	63 998	-	-	328 984	2 085	413 322
Short-term	754 195	6 362	-	-	31	22 077	26 056	35 068	843 789
As at 1 January 2019	492 104	30 640	17 391	63 656	65	21 919	358 718	25 983	1 010 476
increase	562 390	-	799	265	162	452	16 218	1 698	581 984
decrease	(467 007)	(24 278)	-	-	(161)	(3 122)	(13 802)	(3 560)	(511 930)
As at 31 December 2019	587 487	6 362	18 190	63 921	66	19 249	361 134	24 121	1 080 530
Long-term	-	6 362	18 190	63 921	-	-	334 561	2 095	425 129
Short-term	587 487	-	-	-	66	19 249	26 573	22 026	655 401

(in thousand PLN)

24.3. Description of significant titles of provisions

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

The Group recognizes a provision for redemption of greenhouse gas emission allowances. As at March 31, 2020, the provision amounts to PLN 754,195 thousand.

CO_2 emission allowances

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

In February 2020, ZE PAK SA was granted EUA related to the heat generated for 2020, resulting from art. 10a, in the amount of 29 370 tonnes.

In 2020, as in the previous year, companies from ZE PAK SA Group did not apply for EUAs resulting from art. 10c of Directive 2009/29 / EC. The provision is created in correspondence with the cost of sales.

CO2 emission allowances for the period of 3 months ended 31 March 2020 (unaudited)

(in tons)		*Zespół Elektrowni Pątnów-Adamów-Konin SA*	*„Elektrownia Pątnów II" sp. z o.o.*
	CO_2 Emission	693 696	542 777
EUA	Balance at the beginning of the period	62 269	1 045 676
	Purchased	1 009 000	111 000
	Free of charge	29 370	-
	Balance at the end of the period	1 100 639	1 156 676

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

CO2 emission allowances for the period of 3 months ended 31 March 2019 (unaudited)

(in tons)		*Zespół Elektrowni Pątnów-Adamów-Konin SA*	*„Elektrownia Pątnów II" sp. z o.o.*
	Emisja CO_2	882 919	504 369
EUA	Balance at the beginning of the period	1 062 113	820 908
	Purchased	2 935 000	125 000
	Free of charge	37 081	-
	Balance at the end of the period	4 034 194	945 908

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

(in thousand PLN)

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

The Group creates the provision for future costs of reclamation of the land on the basis of legal obligation resulting from the "Integrated Permits." The basis of estimation of the provision size are data prepared by domestic services. The value of the provision is estimated and verified on every balance sheet date on the basis of estimated cost to be incurred in the future and a discount. As of 31 March 2020, the created provision amounted to PLN 63 998 thousand.

Due to the legal obligation to liquidate fixed assets after their period of use, the Group creates the provision for projected future costs, which will be necessary to pay for fulfilment of this obligation. As of 31 March 2020, the provision due to this amounted to PLN 18 255 thousand. The provision is created in correspondence with the cost of sales. The discount amount recognized in financial costs is PLN 143 thousand.

24.3.3. Reclamation provisions and other provisions related to mining activities

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

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

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

The provision for decommissioning and reclamation of mining areas and for the preparation of operational areas at PAK KWB Konin SA and PAK KWB Adamów SA as at March 31, 2020 amounted to PLN 355 040 thousand and decreased compared to the year ended December 31, 2019 by PLN 6 094 thousand. While calculating the provision, the Group adopted the following assumptions: discount rate, calculated for the period of 3 years, at 3.0%, inflation level at 2.5%. The discount amount charged to financial expenses is PLN 2 507 thousand.

24.3.4. Provision for redemption of Energy certificates

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load co-generation. As of 31 March 2020, the provision due to this amounted to PLN 22 077 thousand. The provision is created in correspondence with the cost of sales.

24.3.5. Other provisions

The main items of other provisions in PAK KWB Konin SA are: provisions for mining damage in the amount of PLN 1,250 thousand, provisions for pending court proceedings in the amount of PLN 527 thousand, provisions for service charges in the amount of PLN 2 095 thousand, provision for remuneration for mining use in the amount of PLN 6 283 thousand, in PAK KWB Adamów SA: provisions for permanent exclusion from forest production of land for the final reservoir after Adamów open-pit mine in the amount of PLN 15 828 thousand, provision for mining damage in the amount of PLN 5 000 thousand provisions for court cases in the amount of PLN 524 thousand, provision for service charges in the amount of PLN 556 thousand. Provisions for mining damage and provision for permanent exclusion from production are created in correspondence with the cost of sale, and provisions for pending court proceedings in correspondence with other operating costs.

25. Trade liabilities, other liabilities and accruals

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

	31 March 2020 (unaudited)	*31 December 2019*
Trade liabilties:	82 980	84 731

(in thousand PLN)

Other liabilities:	21 124	24 238
Investment liabilities	1 789	4 484
Liabilities to employees due to salaries	15 014	15 848
other	4 321	3 906
total	104 104	108 969

In the line other liabilities as at March 31, 2020, the Group presents mainly liabilities concerning settlements with employees and deductions from the payroll in the amount of PLN 1,989 thousand an settlements due to the Social Fund in the amount of PLN 1 497 thousand and the security deposit in the amount of PLN 731 thousand.

Principles and terms of payment of above financial liabilities:

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

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

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

	31 March 2020 (unaudited)	*31 December 2019*
Liability for a guarantee deposit	2 000	2 000
Short-term liabilities to other entities – over 12 months	4 635	6 652
Other	852	144
Total	7 487	8 796

25.3. Other financial liabilities

	31 March 2020 (unaudited)	*31 December 2019*
VAT tax liabilities	18 788	46 008
Liabilities due to environmental charges	499	18 496
Liabilities due to the excise tax	481	714
Liabilities due to social insurance	17 461	20 910
Income tax from individuals	4 098	4 596
Other budget liabilities	642	4 598
Advanced payments for deliveries	-	55
Service charge	-	7 092
Other	3 021	463
Total	44 990	102 932

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

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

The main component of the "Other" item is the excess of liabilities over the assets of the Company Social Benefits Fund in the amount of PLN 2,362 thousand.

(in thousand PLN)

25.4. Derivative financial instruments

	31 March 2020 (unaudited)	*31 December 2019*
Forward transactions for EUR currency	107	1 757
Total	107	1 757
Short-term	107	1 757
Long-term	-	-

The amount of PLN 1,942 thousand in the item derivative short-term financial instruments in the balance sheet assets relates to the positive valuation of the forward transaction for the purchase of EUR.

25.5. Grants and deferred income (long-term)

	31 March 2020 (unaudited)	*31 December 2019*
Long-term grants	37 034	38 501
Other	3 293	3 292
Total	40 327	41 793

The main component of the item "Long-term subsidies" there are subsidies in the amount of PLN 36 682 thousand presented as at March 31, 2020 arose as a result of the valuation received from the National Fund for Environmental Protection and Water Management, as if it had been granted on market terms. The subsidy is settled in accordance with the useful life period of fixed assets included in the 464 MW block in Pątnów II Power Plant.

The main component of the "Other" item is land received free of charge from the Poviat Starosty and the Commune, amounting to PLN 3 140 thousand.

25.6. Grants and deferred income (short-term)

	31 March 2020 (unaudited)	*31 December 2019*
Short-term grants	1 502	1 502
Total	1 502	1 502

26. Contingent liabilities and description of significant judicial cases

Apart from liabilities described in notes 26 and 27 below, as of 31 March 2020, the Group did not have any other contingent liabilities, guarantees and sureties granted.

26.1. Court proceedings

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

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

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

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

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

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

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

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

The proceeding is in progress.

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

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

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

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

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

On June 19, 2020 the Company received information on the issuance, in closed session by the Provincial Administrative Court in Poznań, of a judgment dismissing the complaint against the decision of the Local Government Appeals Board in Konin regarding refusal to annul the environmental decision issued on August 7, 2007 by the Head of Wierzbinek Commune associated with the exploitation of the lignite mine Tomisławice.

The judgment of the Provincial Administrative Court in Poznań, dated June 18, 2020, means that the environmental decision issued on August 7, 2007 by the Head of Wierzbinek Commune, is still in legal circulation. PAK KWB Konin SA is awaiting delivery of the judgment together with the justification. The parties have the right to lodge a cassation complaint to the Supreme Administrative Court.

Proceedings on an environmental decision on lignite deposit in Ościsłowo

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

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

On November 21, 2018, RDOŚ in Poznań issued a notice in which it informed the parties to the proceedings that due to the final verdict of the Provincial Administrative Court in Warsaw of October 18, 2018, no proceedings were pending before RDOŚ in Poznań, and the evidence was collected GDOŚ in Warsaw. On November 22, 2018, GDOŚ in Warsaw issued a notice in which it announced that in connection with the repeal of the GDOŚ decision of November 30, 2017 by the Provincial Administrative Court in Warsaw repealing the decision of RDOŚ in Poznań of March 10, 2017 refusing to specify the environmental conditions for the implementation of the project consisting in: Lignite mining and accompanying minerals from Ościsłowo open pit and referring the case for reconsideration to the authority of first instance - the General Director for Environmental Protection again conducts an appeal against the above decision. On January 3, 2020, GDOŚ in Warsaw set the deadline for settling the matter for June 30, 2020. On June 26, 2020, PAK KWB Konin SA applied for an extension of the deadline for the preparation of answers to questions submitted by GDOŚ in Warsaw until December 31, 2020. PAK KWB Konin SA justified its request with the consequences of the regulations announced in March following the pandemic, introducing a number of bans and restrictions, including restrictions on transport, which made it difficult to prepare supplements and clarifications to the questions of GDOŚ in Warsaw.

26.2. Tax settlements

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

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

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

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

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

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

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

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

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

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

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

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

(in thousand PLN)

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

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

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

27. Liability repayment securities

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

As of 31 March 2020 and 31 December 2019, the Group had liabilities protected with its assets and other protections of payment of liabilities:

Liabilities secured with the assets

Agreement	*Kind of security*	*31 March 2020 (unaudited)* *Security amount*	*currency*	*31 December 2019* *Security amount*	*currency*
Syndicated loan agreement of 13 March 2014 for PLN 667 million for ZE PAK SA [1]	Joint contractual mortgage established on the property	Up to 2 040 000	PLN	Up to 2 040 000	PLN
Syndicated loan agreement dated 14 January 2011 for EUR 240 million for Pątnów II Power Plant [2]	Joint contractual mortgage established on the property of Pątnów II and PAK Infrastruktura	Up to 400 000 up to 339 750	EUR PLN	Up to 400 000 Up to 339 750	EUR PLN
Non-revolving loan agreement of 25 July 2019 for PLN 66.7 million for PAK KWB Konin SA	Registered pledge on machines and devices	Up to 141 400	PLN	Up to 141 400	PLN

1/ The loan for ZE PAK was fully repaid on December 20, 2019. ZE PAK is in the process of releasing collateral - as at 31 March 2020 a part of collateral was still active.

2/ The loan for Pątnów II Power Plant was fully repaid on April 23, 2019. Pątnów II Power Plant is in the process of releasing collateral - as at March 31, 2020, some collateral was still active.

(in thousand PLN)

Other securities of liabilities

Guarantees given

Kind of guarantee	*31 March 2020 (unaudited)* *Security amount*	*currency*	*31 December 2019* *Security amount*	*currency*
Guarantees of good performance of the contract	14 728	PLN	15 175	PLN
Guarantees to remove defects and faults	5 128 624	PLN EUR	4 827 2 657	PLN EUR
Payment guarantees (including guarantees securing transactions on TGE / IRGIT)	30 400	PLN	30 208	PLN
Guarantee of advance payment	-	PLN	-	PLN

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

The table below shows the sum of granted guarantees.

	31 March 2020 (unaudited)	*currency*	*31 December 2019*	*currency*
Intra-Group Guarantees	232 959	PLN	120 700	PLN
The Guarantees granted to the entities outside the Group	-	PLN	16 259	PLN
Total of granted Guarantees	**232 959**	**PLN**	**136 959**	**PLN**

28. Information about related entities

The following table shows the total amounts of transactions concluded with related entities for a period of 3 months ended 31 March 2020 and 31 March 2019 as well as receivables and liabilities as at 31 March 2020 and 31 March 2019.

Related entity (unaudited)		*Sales to related entities*	*Purchase from related entities*	*Receivables from related entities*	*Liabilities towards related entities*
Elektrim S.A.	2020	-	30	-	-
	2019	-	30	-	-
Megadex Serwis Sp. z o.o.	2020	-	25 508	-	-
	2019	-	25 508	-	-
Polkomtel sp. z o.o.	2020	29 898	3 146	13 321	995
	2019	43 334	1 872	16 486	953
Laris Investments sp. z o.o.	2020	127	306	171	3
	2019	165	113	238	-
CPE sp. z o.o.	2020	-	40	-	50
	2019	-	-	-	-
Plus Flota sp. z o.o.	2020	-	120	-	100
	2019	-	52	-	52
Cyfrowy Polsat SA	2020	-	1	-	-
	2019	-	-	-	-
Total	2020	30 025	29 151	13 492	1 148
	2019	43 499	27 575	16 724	1 005

(in thousand PLN)

28.1. Loan granted to a member of the Management Board

Within the period of 3 months ended 31 March 2020 as well as within the period of 3 months ended 31 March 2019 the Parent Company did not grant any loans and similar benefits to members of the management and supervisory staff.

28.2. Other transactions involving members of the Management Board

Within the period of 3 months ended 31 March 2020 as well as within the period of 3 months ended 31 March 2019 there were no transactions with members of management and supervisory staff.

28.3. Remuneration of Chief executive Staff of the Group

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

	Period of 3 months ended 31 March 2020 (unaudited)	*Period of 3 months ended 31 March 2019 (unaudited)*
Management Board of the parent company		
Short-term employee benefits	1 812	520
Supervisory Board of the parent company		
Short-term employee benefits	295	294
Management Boards of subsidiaries		
Short-term employee benefits	699	588
Supervisory Board of subsidiaries		
Short-term employee benefits	-	-
Total	2 806	1 402

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

	Period of 3 months ended 31 March 2020 (unaudited)	*Period of 3 months ended 31 March 2019 (unaudited)*
Short-term employee benefits	3 344	2 769
Benefits for termination of the contract of employment	22	-
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	3 366	2 769

29. Goals and rules of financial risk management

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

The principle applied by the Group at present and throughout the reporting period is not to trade in financial instruments.

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

29.1. Interest rate risk

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

The Group uses financial liabilities, mostly variable rate credits and loans. As at March 31, 2020, the Group shows long-term financial debt due to a single bank loan. Other financial liabilities due to loans and borrowings are short-term.

Interest rate risk – the sensitivity gap

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

(in thousand PLN)

	31 March 2020 (unaudited)		*Interest rate risk sensitivity study as of 31 March 2020*							
			WIBOR				*EURIBOR*			
Classes of financial instruments			*WIBOR + 137pb*		*WIBOR - 137pb*		*EURIBOR + 32,83pb*		*EURIBOR - 32,83pb*	
	Carrying amount	***value at risk***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	3 685	3 156	43	-	(43)	-	-	-	-	-
Trade and other receivables	216 195	-	-	-	-	-	-	-	-	-
Derivative financial instruments	1 942	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	319 489	319 489	3 939	-	(3 939)	-	105	-	(105)	-
Interest-bearing loans and borrowings	(163 108)	(163 108)	(2 235)	-	2 235	-	-	-	-	-
Trade payables and other financial liabilities	(111 591)	-	-	-	-	-	-	-	-	-
Lease liabilities	(50 787)	(50 787)	(696)	-	696	-	-	-	-	-
Derivative financial instruments	(107)	(107)	-	-	-	-	-	-	-	-
Total	**215 718**	**108 643**	**1 051**	**-**	**(1 051)**	**-**	**105**	**-**	**(105)**	**-**

pb – base points

(in thousand PLN)

Classes of financial instruments	***31 March 2019 (unaudited)***		***Interest rate risk sensitivity study as of 31 March 2019***							
			WIBOR				***EURIBOR***			
			WIBOR + 48pb		***WIBOR - 48pb***		***EURIBOR + 11,45pb***		***EURIBOR - 11,45pb***	
	Carrying amount	***value at risk***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	40 567	21 792	17	-	(17)	-	21	-	(21)	-
Trade and other receivables	287 013	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	266 331	266 331	252	-	(252)	-	245	-	(245)	-
Interest-bearing loans and borrowings	(413 861)	(413 861)	(1 640)	-	1 640	-	(83)	-	83	-
Trade payables and other financial liabilities	(153 037)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(463)	(463)	-	-	-	-	-	16	-	(16)
Total	**26 550**	**(126 201)**	**(1 371)**	**-**	**1 371**	**-**	**183**	**16**	**(183)**	**(16)**

pb – base points

29.2. Currency risk

The Group is exposed to currency risk in connection with the concluded transactions. Such risk concerns liabilities due to credits and loans.

As at March 31, 2020, two companies of the Group used instruments to mitigate the risk resulting from changes in foreign exchange rates. ZE PAK SA and Elektrownia Pątnów II sp. z o.o. hedged the euro exchange rate for part of the flows related to the purchase of CO2 emission allowances. ZE PAK SA used forward transactions with the settlement in April 2020 to secure the exchange rate. Pątnów II Power Plant sp. z o.o. to hedge the exchange rate, it used forward transactions with settlement also in April 2020. Potential possible changes in exchange rates were calculated on the basis of the annual volatilities implied for currency options quoted on the interbank market for a given currency pair from the balance sheet date.

(in thousand PLN)

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

	31 March 2020 (unaudited)		***Analysis of sensitivity to interest rate risk as of 31 March 2020***			
			EUR/PLN			
Classes of financial instruments			**EUR/PLN + 5,675%**		**EUR/PLN - 5,675%**	
			4,8106		**4,2940**	
	Carrying amount	***Value at risk***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	3 685	-	-	-	-	-
Trade and other receivables	216 195	3 857	219	-	(219)	-
Derivative financial instruments	1 942	-	-	-	-	-
Cash and cash equivalents	319 489	31 990	1 815	-	(1 815)	-
Interest-bearing loans and borrowings	(163 108)	-	-	-	-	-
Trade payables and other financial liabilities	(111 591)	(97)	(6)	-	6	-
Lease liabilities	(50 787)	-	-	-	-	-
Derivative financial instruments	(107)	-	-	-	-	-
Total	**215 718**	**35 750**	**2 028**	**-**	**(2 028)**	**-**

(in thousand PLN)

Classes of financial instruments	*31 March 2019 (unaudited)*		*Analysis of sensitivity to interest rate risk as of 31 March 2019*			
			EUR/PLN			
			EUR/PLN + 5,075%		**EUR/PLN - 5,075%**	
			4,5196		**4,0830**	
	Carrying amount	*Value at risk*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*
Other financial assets	40 567	18 229	925	-	(925)	-
Trade and other receivables	287 013	251	13	-	(13)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	266 331	213 737	10 847	-	(10 847)	-
Interest-bearing loans and borrowings	(413 861)	(72 317)	(3 670)	-	3 670	-
Trade payables and other financial liabilities	(153 037)	(1 176)	(60)	-	60	-
Derivative financial instruments	(463)	-	-	-	-	-
Total	**26 550**	**158 724**	**8 055**	**-**	**(8 055)**	**-**

29.3. Credit risk

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

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

The main recipient of the Group's electricity is Towarowa Giełda Energii SA. Transactions made on the stock exchange are settled on a daily basis, which minimizes credit risk. For this reason, the Group does not apply any additional security resulting from the phenomenon of concentration of receivables.

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

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

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

Name of the bank	*Rating granted by Rating Agency*		
	Fitch	S&P	Moody's
PEKAO SA	BBB+	BBB+	A2
PKO BP	-	-	A2
BGK	A-	-	-
mBank	BBB-	-	-
Bank Millennium	BBB-	-	Baa1
Santander Bank Polska	BBB+	-	A3
Alior Bank	BB	BB	-
DNB Bank Polska*	-	AA-	Aa2
BNP Paribas Bank Polska	-	-	Baa1

** Due to the lack of a rating for DNB Bank Polska, the owner's bank rating - DNB Bank (ASA)*

In addition to the banks presented in the table above, the Group also had cash at Plus Bank SA as at 31 March 2020. The bank has not been evaluated by any of the three main rating agencies, i.e. Fitch, Standard & Poor's and Moody's. Due to the fact that Plus Bank is controlled by the same owner, the Group assesses the credit risk of this bank as insignificant.

(in thousand PLN)

PAK Capital Group cash as at March 31, 2020, broken down into individual credit ratings of banks:

Rating level of individual rating agencies			*The amount of cash as at 31 March 2020 (without cash in hand) (unaudited)*
Moody's	*S&P*	*Fitch*	
Aaa	AAA	AAA	-
Aa1	AA+	AA+	-
Aa2	AA	AA	-
Aa3	AA-	AA-	90 009
A1	A+	A+	-
A2	A	A	99
A3	A-	A-	92 217
Baa1	BBB+	BBB+	110 910
Baa2	BBB	BBB	-
Baa3	BBB-	BBB-	25 809
Ba1	BB+	BB+	-
Ba2	BB	BB	288
Ba3	BB-	BB-	-
B1	B+	B+	-
B2	B	B	-
B3	B-	B-	-
Caa1	CCC+	CCC	-
Caa2	CCC		-
Caa3	CCC-		-
Ca	CC		-
	C		-
C	D	DDD	-
–		DD	-
–		D	-
SUMA			319 332

29.4. Liquidity risk

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

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

The tables below present financial liabilities of the Group as of 31 March 2020 and 31 December 2019 according to the maturity date based on contractual non-discounted payments.

(in thousand PLN)

31 March 2020 (unaudited)	*Less than 3 months*	*3 - 12 months*	*1 - 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	116 973	23 803	22 332	-	163 108
Trade payables and other financial liabilities	69 962	34 161	7 468	-	111 591
Lease liabilities	760	5 279	26 488	18 260	50 787
Derivative financial instruments	119 020	-	-	-	119 020
	306 715	**63 243**	**56 288**	**18 260**	**444 506**

31 December 2019	*Less than 3 months*	*3 - 12 months*	*1 - 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	8 005	38 762	29 773	-	76 540
Trade payables and other financial liabilities	101 545	7 424	8 796	-	117 765
Lease liabilities	1 655	4 967	26 488	21 906	55 016
Derivative financial instruments	110 409	205 435	-	-	315 844
	221 614	**256 588**	**65 057**	**21 906**	**565 165**

Derivative instruments indicated in above tables were presented in gross values of non-discounted payments. However, these contracts can be settled either in gross values, or net amounts. The tables shown below present agreements of these values to balance sheet values of derivative instruments:

31 March 2020 (unaudited)	*On demand*	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Net present market value (currency forwards)	-	(107)	-	-	-	(107)

31 December 2019	*On demand*	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Net present market value (currency forwards)	-	(965)	(792)	-	-	(1 757)

(in thousand PLN)

30. Financial instruments

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

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

		Balance sheet value	
Financial assets	*Category acc. to IFRS 9*	*31 March 2020 (unaudited)*	*31 December 2019*
Other financial assets	AFwgZK	3 685	3 220
Trade receivables and other receivables	AFwgZK	216 195	228 578
Derivative financial instruments	WwWGpWF	1 942	-
Cash and cash equivalents	AFwgZK	319 489	414 634
Financial liabilities			
Interest-bearing bank credits and loans, including:		163 108	76 540
long term	PZFwgZK	22 332	29 773
short term	PZFwgZK	140 776	46 767
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	111 591	117 765
Lease liabilities	PZFwgZK	50 787	55 016
Derivative financial instruments	WwWGpWF	107	1 757

Used abbreviations:

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

(in thousand PLN)

As of 31 March 2020 and 31 December 2019, the Group had following financial instruments evaluated in the fair value:

	31 March 2020 (unaudited)	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	1 942	-
Derivatives hedging liabilities	-	-	107	-

	31 December 2019	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	1 757	-

The fair value of financial instruments other than derivatives as at March 31, 2020 and December 31, 2019 did not deviate significantly from the carrying amounts, mainly due to the fact that for short-term instruments the effect of discounting is not material and the fact that the transactions are concluded at market conditions; for this reason, the fair value of these instruments has been presented at the carrying amount.

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

As at March 31, 2020, forward transactions for currency purchase were valued at fair value. For the purposes of valuing foreign exchange contracts, the difference between discounted future cash flows is calculated between the forward price on the valuation day and the transaction price, according to quotations prepared by the relevant bank, multiplied by the nominal value of the contract in a foreign currency. The valuation of these instruments has been classified to level 2 of the fair value measurement hierarchy.

Within the period of 3 months ended 31 March 2020 and in the year ended 31 December 2019, there were no shifts between the level 1 and the level 2 of the fair value hierarchy, and none of instruments was shifted to the level 3 of the fair value hierarchy.

30.2. Interest rate risk of financial instruments

The table below presents the interest rate gap, which is the Group's exposure to interest rate risk, and the concentration of this risk broken down by currencies and type of interest.

	Type of interest	*Carrying amount as of 31 March 2020 (unaudited)*	*Carrying amount as of 31 December 2019*
Financial assets at interest rate risk – PLN	Fixed	-	-
	Variable	290 654	416 440
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	31 990	885
Financial liabilities at interest rate risk - PLN	Fixed	-	-
	Variable	163 108	76 541
Financial liabilities at interest rate risk – Other currencies	Fixed	-	-
	Variable	-	-
Net exposure -PLN	Fixed	-	-
	Variable	127 546	339 899
Net exposure - other currencies	Fixed	-	-
	Variable	31 990	885

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

30.2.1. Hedging

As at March 31, 2020, two companies of the Group used instruments to mitigate the risk resulting from changes in foreign exchange rates. ZE PAK SA and Elektrownia Pątnów II sp. z o.o. hedged the euro exchange rate for part of the flows related to the purchase of CO_2 emission allowances. ZE PAK SA used forward transactions with the settlement in April 2020 to secure the exchange rate. Pątnów II Power Plant sp. z o.o. to hedge the exchange rate, it used forward transactions with settlement also in April 2020.

Type of concluded transactions	*Currency cross*	*Transaction amount (nominal value in EUR thousand) 31 March 2020 (unaudited)*	*Net market value (fair value in PLN thousand) 31 March 2020 (unaudited)*	*Maturity*
Purchase of EUR transaction (forward)	(EUR/PLN)	27 777	119 020	April 2020

The Group hedges the risk of changes in prices of CO_2 emission allowances by using forward transactions to purchase allowances for its own needs. The tables below present a summary of forward transactions active as at March 31, 2020 and March 31, 2019.

31 March 2020

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions in EUR thousand*	*Currency of transactions*	*Maturity*
Forward transactions	9 176 000	213 682	EUR	Up to 1 year

Forward transactions	947 000	21 469	EUR	over 1 year

31 March 2019

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions in EUR thousand*	*Currency of transactions*	*Maturity*
Forward transactions	6 358 877	132 431	EUR	Up to 1 year
Forward transactions	249 000	5 571	EUR	over 1 year

31. Capital management

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

The Group manages the capital structure, and, as a result of changes of economic conditions, introduces amendments to it. Within the period of 3 months ended 31 March 2020 as well as in the year ended 31 December 2019, there were no introduced amendments to goals, rules and processes applying in this area.

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

	31 March 2020 (unaudited)	*31 December 2019*
Interest-bearing credits and loans	163 108	76 540
Derivative financial instruments (liabilities)	107	1 757
Trade liabilities and other financial liabilities	111 591	117 765
Minus cash and its equivalents	319 489	414 634
Net debt	**(44 683)**	**(218 572)**
Equity	1 165 467	1 176 468
Capitals from revaluation of security instruments	-	-
Total capital	1 165 467	1 176 468
Net capital and debt	**1 120 784**	**957 896**
Leverage ratio	(3,99%)	(22,82%)

32. Significant events after the balance sheet date

Contract for the purchase of an electrolyser for the production of "green" hydrogen

On April 9, 2020 the Company signed a contract with Hydrogenics Corporation for the purchase of an electrolyser for hydrogen production. The solutions used by Hydrogenics will allow ZE PAK not only to produce "green" hydrogen, but also to store and increase its production by simply "adding" more electrolysers - depending on the demand and the rate of evolution of the economy towards low-carbon. Thus, ZE PAK will join the group of pioneers in the production of hydrogen by electrolysis, which already has Austrian, German, Japanese and Australian plants.

Contract regarding the dismantling of facilities at Adamów Power Plant

On May 6, 2020 there was signed a contract with MK Explosion Sp. z o.o., the subject of which is the dismantling of facilities and preparation of the site at Adamów Power Plant for potential new investments.

(in thousand PLN)

Pursuant to the concluded Contract, a lump-sum remuneration in cash, in the amount of PLN 57.5 million, payable by MK Explosion Sp. z o.o. to ZE PAK SA, was established for performing the entire subject of the Contract. Settlement of the implementation of the subject of the Contract will be carried out by revenues from the sale of scrap metal, debris and other materials and equipment from dismantling. The deadline was set at 21 months from the day of handing over the dismantling area.

Obtaining a derogation from the emission limit values for Pątnów II Power Plant

On May 11, 2020 Elektrownia Pątnów II Sp. z o.o., operating a fuel combustion installation, received from Marshal of Wielkopolska Province a decision on the adaptation of the integrated permit to the requirements of the BAT conclusions, granting derogations from the emission limits specified in the Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 laying down conclusions on best available techniques (BAT) for large combustion plants, in accordance with Directive 2010/75 / EU of the European Parliament and of the Council, in the field of emissions of nitrogen oxides, dust, mercury and sulfur dioxide into the air, from August 18, 2021 to August 17, 2024. The authority made the decision immediately enforceable.

Situation in PAK KWB Adamów SA

The market situation for a long time, now additionally strengthened by the consequences of the pandemic, does not allow the Group to sell the assumed volume of energy production. As a result, the potential in the upstream segment is too high in relation to the sales potential on the energy market. The consequence of such a situation is a disproportionately high cost base associated with the need to maintain the oversized potential in the upstream segment. The Group currently operates on four lignite mines, of which the unit costs of coal delivery to the power plant (understood as costs of extraction and transport) are the highest at Adamów open pit. In connection with the above-mentioned situation, it turned out to be necessary to carry out restructuring activities aimed at optimization of the scale and directions of coal supplies from individual open pits to the Group's power plants. On May 18, 2020, the Company announced in a current report its intention to carry out group layoffs in two subsidiaries: PAK KWB Adamów SA and PAK Górnictwo sp. z o.o. Collective layoffs are to affect 237 employees in total. The current plans provide for the removal of the overburden on Adamów open pit by the end of July 2020, which will enable an uninterrupted supply of coal from this open pit until the end of 2020. The future exploitation of this open pit will be determined by market factors, including, to the greatest extent, the possibility of selling the assumed energy volume at prices that guarantee the economic efficiency of maintaining the potential of Adamów open pit.

Konin, 29 June 2020

SIGNATURES:

Henryk Sobierajski President of the Management Board	....
Zygmunt Artwik Vice President of the Management Board	....
Paweł Markowski Vice President of the Management Board	....
Paweł Lisowski Vice President of the Management Board	....
Maciej Nietopiel Vice President of the Management Board	....
Aneta Desecka Chief Accountant	....