ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA CAPITAL GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 6 MONTHS ENDED 30 JUNE 2020 TOGETHER WITH AUDITOR'S REPORT

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

30 September 2020

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(in thousand PLN)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For a period of 6 months ended 30 June 2020

	Note	*A period of 6 months ended 30 June 2020 (unaudited)*	*A period of 3 months ended 30 June 2020 (unaudited)*	*A period of 6 months ended 30 June 2019 (unaudited)*	*A period of 3 months ended 30 June 2019 (unaudited)*
Continuing operations					
Revenues, including:	*11.1*	1 050 461	526 387	1 406 030	710 899
Revenues from the contracts with clients		*926 813*	*468 775*	*1 319 085*	*661 445*
Other revenues		*123 648*	*57 612*	*86 945*	*49 454*
Costs of goods sold	*11.6*	(1 305 553)	(802 425)	(1 288 495)	(648 726)
Impairment write down on fixed assets and mining assets		*(289 000)*	*(289 000)*	*(284)*	*(51)*
Gross profit / (loss)		**(255 092)**	**(276 038)**	**117 535**	**62 173**
Other operating revenues	*11.2*	35 973	15 337	13 078	8 412
Selling and distribution expenses	*11.6*	(2 007)	(895)	(2 683)	(810)
Administrative expenses	*11.6*	(51 730)	(22 627)	(55 253)	(25 135)
Other operating expenses	*11.3*	(35 749)	(15 832)	(6 333)	(5 901)
Gross profit / (loss) from operations		**(308 605)**	**(300 055)**	**66 344**	**38 739**
Finance income	*11.4*	5 682	(1 762)	8 058	(182)
Finance costs	*11.5*	(11 540)	(6 998)	(13 030)	(5 303)
Profit / (loss) before tax		**(314 463)**	**(308 815)**	**61 372**	**33 254**
Income tax expense (taxation)	*12*	53 631	58 898	(24 676)	(8 568)
Net profit / (loss) for the period from continuing operations		**(260 832)**	**(249 917)**	**36 696**	**24 686**
Net profit / (loss) for the period		**(260 832)**	**(249 917)**	**36 696**	**24 686**
Net profit/ (loss) attributable to equity holders of the parent		(257 514)	(247 168)	37 911	24 631
Net profit/ (loss) attributable to non-controlling interests		(3 318)	(2 749)	(1 215)	55

	Note	*A period of 6 months ended 30 June 2020 (unaudited)*	*A period of 3 months ended 30 June 2020 (unaudited)*	*A period of 6 months ended 30 June 2019 (unaudited)*	*A period of 3 months ended 30 June 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*	(5,07)	(4,86)	0,75	0,48

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

(in thousand PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For a period of 6 months ended 30 June 2020

	Note	*A period of 6 months ended 30 June 2020 (unaudited)*	*A period of 3 months ended 30 June 2020 (unaudited)*	*A period of 6 months ended 30 June 2019 (unaudited)*	*A period of 3 months ended 30 June 2019 (unaudited)*
Net profit / (loss) for the period		**(260 832)**	**(249 917)**	**36 696**	**24 686**
Other comprehensive income					
Items to be reclassified to the profit / (loss) in subsequent reporting periods:					
Cash flow hedges		-	-	568	231
Exchange differences from converting a foreign unit		(25)	(29)	-	-
Income tax on other comprehensive income		-	-	(108)	(44)
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods		(25)	(29)	460	187
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:					
Actuarial gains / (losses) on provisions for post-employment benefits		(72)	40	(867)	(139)
Income tax on other comprehensive income	*12.1*	14	(7)	165	29
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		(58)	33	(702)	(110)
Net other comprehensive income		**(83)**	**4**	**(242)**	**77**
Comprehensive income for the period		**(260 915)**	**(249 913)**	**36 454**	**24 763**
Comprehensive income attributable to equity holders of the parent		(257 597)	(247 164)	37 669	24 708
Comprehensive income attributable to non-controlling holders		(3 318)	(2 749)	(1 215)	55

(in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	*30 June 2020 (unaudited)*	*31 December 2019*
ASSETS			
Fixed assets			
Property, plant and equipment	*14*	1 613 526	1 959 861
Assets due to the right of use	*15*	52 563	56 209
Investment property		2 158	2 172
Intangible assets	*16*	2 480	2 748
Assets of removing overburden and other mining assets (long-term)	*17*	56 930	70 620
Other long-term financial assets	*18.1*	3 603	3 220
Other long-term non-financial assets	*18.2*	20 329	2 608
Deferred tax assets	*12.3*	89 427	84 593
Total fixed assets		**1 841 016**	**2 182 031**
Current assets			
Emission allowances	*16*	3 442	93 218
Inventories	*19*	110 828	104 341
Trade and other receivables	*20*	236 499	228 578
Income tax receivables		838	32 782
Other short-term non-financial assets	*18.2*	64 292	61 615
Amounts due from customers under long-term construction contracts		5 760	1 047
Cash and cash equivalents	*21*	188 923	414 634
Total current assets		**610 582**	**936 215**
TOTAL ASSETS		**2 451 598**	**3 118 246**

(in thousand PLN)

	Note	*30 June 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		(55 405)	389 831
Net profit / (loss)		(257 514)	(445 179)
Exchange differences from converting a foreign unit		(25)	-
Equity attributable to equity holders of the parent		**916 551**	**1 174 147**
Equity attributable to non-controlling interests		(997)	2 321
Total equity		**915 554**	**1 176 468**
Long-term liabilities			
Interest-bearing loans and borrowings	*23*	15 094	29 773
Long-term employee benefits		45 333	45 505
Trade liabilities and other long-term financial liabilities		5 997	8 796
Long-term lease liabilities	*15*	51 320	55 016
Subsidies and deferred long-term revenues	*25.3*	37 826	41 793
Other long-term provisions and accruals	*24*	415 346	425 129
Deferred income tax	*12.3*	337 412	382 282
Total long-term liabilities		**908 328**	**988 294**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities	*25.1*	80 363	108 969
Current portion of interest-bearing loans and borrowings	*23*	59 234	46 767
Short-term financial derivatives (liabilities)		-	1 757
Other non-financial liabilities	*25.2*	58 620	102 932
Current income tax liability		46	223
Short-term employee benefits		7 732	6 897
Subsidies and deferred short-term revenues	*25.4*	3 646	1 502
Amounts due to customers under long-term construction contracts		1 900	1 730
Other short-term provisions and accruals	*24*	416 175	682 707
Total short-term liabilities		**627 716**	**953 484**
Total liabilities		**1 536 044**	**1 941 778**
TOTAL LIABILITIES AND EQUITY		**2 451 598**	**3 118 246**

(in thousand PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

For a period of 6 months ended 30 June 2020

	Note	*A period of 6 months ended 30 June 2020 (unaudited)*	*A period of 6 months ended 30 June 2019 (unaudited)*
Cash flow from operating activities			
Profit /(loss) before tax		(314 463)	61 372
Adjustments for:			
Depreciation and amortization	*21*	78 724	96 321
Interests and shares in profits		1 117	(198)
(Profit) / loss on foreign exchange differences		(18)	1 819
(Profit) / loss on investing activities		(6 126)	(82)
(Increase) / decrease in receivables	*21*	(13 163)	24 859
(Increase) / decrease in inventories	*21*	(6 487)	(2 376)
Increase / (decrease) in payables except for loans and borrowings	*21*	(84 948)	(6 222)
Change in provisions, prepayments, accruals and employee benefits	*21*	341 542	250 597
Income tax paid		33 454	(8 913)
Allowances for emission of CO_2		(525 656)	(431 849)
Impairment write down on fixed assets and mining assets		289 000	-
Other		77	3 026
Net cash flow from operating activities		**(206 947)**	**(11 646)**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		4 434	4 428
Purchase of property, plant and equipment and intangible assets		(19 019)	(21 324)
Expenses and receipts related to other financial assets		-	35 090
Other		(13)	-
Net cash flow from investing activities		**(14 598)**	**18 194**
Cash flow from financing activities			
Payment of finance lease liabilities		(624)	(669)
Proceeds from loans and borrowings and debt securities		13 264	12 188
Repayment of loans and borrowings and debt securities		(15 476)	(187 903)
Interest paid		(1 344)	(2 999)
Net cash flow from financing activities		**(4 180)**	**(179 383)**
Net increase / (decrease) in cash and cash equivalents		**(225 725)**	**(172 835)**
Cash and cash equivalents at the beginning of the period	*21*	**414 634**	**303 316**
Cash and cash equivalents at the end of the period		**188 909**	**130 481**

(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For a period of 6 months ended 30 June 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**	**(55 348)**	**-**	**1 174 147**	**2 321**	**1 176 468**
Net profit for the period	-	-	-	(257 514)	-	(257 514)	(3 318)	(260 832)
Total other comprehensive income	-	-	-	(58)	(25)	(83)	-	(83)
Total income for the period	**-**	**-**	**-**	**(257 572)**	**(25)**	**(257 597)**	**(3 318)**	**(260 915)**
Other changes	-	-	-	1	-	1	-	1
As at 30 June 2020	**101 647**	**1 124 376**	**3 472**	**(312 919)**	**(25)**	**916 551**	**(997)**	**915 554**

(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For a period of 6 months ended 30 June 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 IFRS 16	-	-	-	-	(61 754)	(61 754)	-	(61 754)
Transformed data as of 1 January 2019	**101 647**	**1 124 376**	**(460)**	**3 472**	**393 070**	**1 622 105**	**3 288**	**1 625 393**
Profit / (Loss) for the period	-	-	-	-	37 911	37 911	(1 215)	36 696
Total other comprehensive income	-	-	460	-	(702)	(242)	-	(242)
Total income for the period	**-**	**-**	**460**	**-**	**37 209**	**37 669**	**(1 215)**	**36 454**
Profit share from the previous years	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	(2)	(2)	-	(2)
As at 30 June 2019	**101 647**	**1 124 376**	**-**	**3 472**	**430 277**	**1 659 772**	**2 073**	**1 661 845**

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"), and its subsidiaries (see Note 2).

The interim condensed consolidated financial statements of the Group cover the 6-month period ended June 30, 2020 and contain comparative data for the 6-month period ended June 30, 2019 and data as at December 31, 2019. The interim condensed consolidated statement of comprehensive income, the consolidated profit and loss account and additional explanatory notes also present financial information for the 3-month period ended June 30, 2020 and comparative data for the 3-month period ended June 30, 2019.

The data for the 6-month period ended June 30, 2020 and as at this date, as well as the comparative data for the 6-month period ended June 30, 2019, included in these interim condensed consolidated financial statements, were reviewed by a certified auditor. Comparative data as at December 31, 2019 was audited by a certified auditor.

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

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

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

The main activities of the Group are:

1) generation and sale of electricity,

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

3) lignite extraction.

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 operation*	*Group's share in the capital in %*	
			As at 30 June 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 w likwidacji	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 30 June 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.

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

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.

The balance sheet value of recognized hedged assets and liabilities is adjusted by changes in fair value which can be attributed to the risk against which these assets and liabilities are hedged.

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

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 half of 2020 the Group recorded a net loss in the amount of PLN (260 832) thousand.
2) As at June 30, 2020, short-term liabilities, including bank loans, exceed the Group's current assets by PLN 17,134 thousand.

In the context of the planned period of operation and the valuation of assets, the Company emphasized in subsequent periodic reports that a significant source of risk is the balancing of the planned electricity production with coal supplies from the operated and planned open-pit mines. Currently, 4 open-pit mines are in operation: Pątnów IV, Drzewce, Tomisławice and Adamów. According to the assumed scenario, the Adamów open-pit mine will operate until the end of 2020, and the PAK KWB Adamów SA company was dissolved and the liquidation process began. In August 2020, PAK KWB Konin SA obtained an extension for another 6 years for the concession for Pątnów IV and Drzewce fields. Without their extension, the exploitation period of Pątnów IV deposit ended on August 31, 2020 and the Drzewce deposit on December 4, 2020. However, it should be rationally assumed that the exploitation of both mines will end earlier than in 6 years due to the depletion of their deposits. Assuming the above assumptions, from 2023 PAK KWB Konin SA will operate only one open pit - Tomisławice. Ościsłowo field was a prospective deposit that was taken into account in the context of ensuring coal supplies for Pątnów I power plant by 2030 and for Pątnów II power plant by 2036. However, taking into account the length of the decision-making process on obtaining a concession for Ościsłowo field, its complexity and the uncertainty as to the operating conditions in the long term, in the environment of tightening climate policy and emission standards, it was decided not to include this field in the baseline scenario for the functioning of coal assets of ZE PAK SA Group. This means that in the scenario under consideration, due to the abundance of deposits, the operational period of Pątnów I power plant would be shortened until 2024, while Pątnów II power plant could operate no longer than until 2030. Shortening the operating period means, on the one hand, the need to make accounting write-offs, reducing the current financial results due to the lower recoverable value of assets, but on the other hand, in the opinion of the Company, it reduces the exposure to various types of risk, increasingly accompanying high-emission activities, especially in the long term perspective. The faster phasing out of coal activities will also allow the Group to focus more on projects in new areas of activity related to the generation of energy in renewable sources and the production and use of hydrogen.

In the first half of 2020, among others the 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 32.54% 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 8.33% and the decrease in the sale of purchased energy was as much as 61.32%. 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.

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).

The Group has not decided to early apply any standard, interpretation or amendment that has been published but has not yet come into force under the European Union regulations.

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 months 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. The period of the greatest restrictions was at the end of March, April and May, and the lifting of the restrictions was carried out in stages from mid-June. Currently, more stringent restrictions are introduced in individual regions with high levels of infection. However, it cannot be ruled out that with the arrival of the autumn months and the increase in susceptibility to viral infections, the situation may repeat itself and the restrictions will again affect a large scale of economic activity.

Successive readings of economic indicators confirm that the effects of the pandemic had a significant impact on the economic situation. In the second quarter of 2020, there was a significant decrease in GDP, which amounted to 8.2% annually. Among others, the level of industrial production and investment, contributing to lower domestic electricity consumption, thus reducing its production. According to PSE data, the overall production of electricity in Poland in the first half of 2020 decreased by 7.89%, with drops of over ten percent in April, May and June. The increased level of volatility in the financial and commodity markets, including the changing price relationships on individual markets (in particular the prices of electricity and carbon dioxide emission allowances), was also of great importance for the Group, and may have it in the future. Dynamic changes in prices on commodity markets, primarily on the market of major energy resources, 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 half of the year, among others, 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 32.54% 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 8.33% and the decrease in the sale of purchased energy was as much as 61.32%. 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. In order to minimize the impact of establishing collaterals on liquidity situation, 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. The Group companies, whenever possible, also use support programs in the form of "anti-crisis shields". The companies of ZE PAK SA Capital Group took advantage of the following forms of support:

- ZE PAK SA, PAK-Volt SA, Elektrownia Pątnów II sp. z o.o. (reduction of the working time)
- PAK Górnictwo sp. z o.o. (reduction of the working time, economic shutdown)

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 30 June 2020 at the price of 125.34 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 1,770 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.

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. Significant fluctuations in prices of CO2 emission allowances and legal regulations related to the European Union's climate policy are the source of uncertainty.

Emission in ZE PAK SA Group in 2019 amounted to 6 609 317 tons of CO_2.

Emission in ZE PAK SA Group in the first half of 2020 amounted to 2 647 062 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.

8. Changes of estimates

Within the 6-month period ended 30 June 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.

10. Operating segments

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

(in thousand PLN)

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 6 months ended 30 June 2020, the activities of Aquakon sp. z o.o. in liquidation and PAK Adamów sp.z o.o. and PAK Górnictwo 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 write downs on fixed assets and mining assets.

EBITDA for the entire Capital Group of ZE PAK SA

	A period of 6 months ended *30 June 2020 (unaudited)*	*A period of 6 months ended* *30 June 2019 (unaudited)*
Net profit / (loss)	(260 832)	36 696
Financial revenues	- 5 682	- 8 058
Financial costs	+ 11 540	+ 13 030
Income tax	- 53 631	+ 24 676
Depreciation and impairment write-down	+ 369 547	+ 96 788
EBITDA	60 942	163 132

The segment results for the periods of 6 months ended 30 June 2020 and 30 June 2019 are presented in the following tables.

(in thousand PLN)

A period of 6 months ended 30 June 2020 (unaudited)

	Generation	**Mining**	**Renovation**	**Sale**	**Other**	**Consolidation adjustments**	**Total**
Sales revenue to external customers	829 151	2 925	24 342	191 925	2 118	-	1 050 461
Sales revenue between segments	42 428	253 654	45 239	-	82 757	(424 078)	-
Sales revenue	**871 579**	**256 579**	**69 581**	**191 925**	**84 875**	**(424 078)**	**1 050 461**
Cost of goods sold	(992 637)	(382 212)	(65 126)	(195 976)	(95 117)	425 515	(1 305 553)
Gross profit / (loss)	**(121 058)**	**(125 633)**	**4 455**	**(4 051)**	**(10 242)**	**1 437**	**(255 092)**
Other operating income	33 041	3 685	111	35	491	(1 390)	35 973
Selling and distribution expenses	(814)	-	-	(961)	(232)	-	(2 007)
Administrative expenses	(23 854)	(18 641)	(4 823)	(1 384)	(3 028)	-	(51 730)
Other operating expenses	(35 989)	(526)	(552)	(18)	(54)	1 390	(35 749)
Finance income	5 774	181	53	144	9	(479)	5 682
Finance costs	(4 767)	(7 057)	(132)	(1)	(62)	479	(11 540)
Profit before tax	**(147 667)**	**(147 991)**	**(888)**	**(6 236)**	**(13 118)**	**1 437**	**(314 463)**
Income tax expense	46 356	4 341	1 687	1 050	206	(9)	53 631
Net profit/loss for the period from continuing operations	**(101 311)**	**(143 650)**	**799**	**(5 186)**	**(12 912)**	**1 428**	**(260 832)**
Profit / (loss) from operating activities, without financial operations and income tax	**(148 674)**	**(141 115)**	**(809)**	**(6 379)**	**(13 065)**	**1 437**	**(308 605)**
Depreciation / Amortization	49 502	26 086	1 632	2	2 020	1 305	80 547
Change in impairment	152 000	137 000	-	-	-	-	289 000
EBITDA	**52 828**	**21 971**	**823**	**(6 377)**	**(11 045)**	**2 742**	**60 942**

(in thousand PLN)

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

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

(in thousand PLN)

11. Revenues and costs

11.1. Sale revenues

	A period of 6 months ended 30 June 2020 (unaudited)	*A period of 3 months ended 30 June 2020 (unaudited)*	*A period of 6 months ended 30 June 2019 (unaudited)*	*A period of 3 months ended 30 June 2019 (unaudited)*
Material structure				
Revenues from the sale of goods, including:				
Revenues from the sale of electricity	647 714	328 435	712 435	384 403
Revenues from the sale of electricity from trade	219 188	109 731	520 568	223 577
Revenue for the amount of the price difference	-	-	16 963	16 963
Revenues from the sale of heat	26 570	10 249	25 043	9 202
Other sale revenues	17 067	10 158	13 842	8 314
Revenues from service contracts	17 124	10 581	31 538	19 607
Total revenues from the sale of goods	**927 663**	**469 154**	**1 320 389**	**662 066**
Excise	(850)	(379)	(1 304)	(621)
Total revenues from the sale of goods, including excise duty	**926 813**	**468 775**	**1 319 085**	**661 445**
Property rights from energy certificates	24 812	8 863	25 820	14 836
Compensation for LTC termination	98 836	48 749	61 125	34 618
Total revenues	1 050 461	526 387	1 406 030	710 899

11.2. Other operationg revenues

	A period of 6 months ended 30 June 2020 (unaudited)	*A period of 3 months ended 30 June 2020 (unaudited)*	*A period of 6 months ended 30 June 2019 (unaudited)*	*A period of 3 months ended 30 June 2019 (unaudited)*
Revenues from the sale of CO2 allowances	2 658	2 658	1 365	-
Revenues from damages	718	20	4 273	3 081
Use of the forward contract securing the purchase of CO2 emission allowances	26 210	11 686	-	-
Grants settlement	2 050	(473)	751	376
Profit from disposal of non-financial fixed assets	3 624	51	1 218	(54)
Release of the provision for costs and losses and redemption of liabilities	5	4	4 321	4 319
Other	708	1 391	1 150	690
Total of other operation revenues	35 973	15 337	13 078	8 412

(in thousand PLN)

11.3. Other operating expenses

	A period of 6 months ended 30 June 2020 (unaudited)	*A period of 3 months ended 30 June 2020 (unaudited)*	*A period of 6 months ended 30 June 2019 (unaudited)*	*A period of 3 months ended 30 June 2019 (unaudited)*
Loss on the sale of property, plant and equipment	-	(2)	77	40
Creation of provisions	398	(84)	221	221
Update of provisions for redemption of CO2 emission allowances for 2019	30 045	11 256	-	-
Update of provisions for the reclamation of ash landfills	3 152	3 075	66	66
Impairment write-down on receivables	568	501	39	30
Penalties and damages	80	79	4 316	4 296
Energy damage	38	38	16	16
Donations given	32	12	155	141
Other	1 436	957	1 443	1 091
Total other operation expenses	35 749	15 832	6 333	5 901

11.4. Financial income

	A period of 6 months ended 30 June 2020 (unaudited)	*A period of 3 months ended 30 June 2020 (unaudited)*	*A period of 6 months ended 30 June 2019 (unaudited)*	*A period of 3 months ended 30 June 2019 (unaudited)*
Interest income	1 881	77	821	282
Foreign exchange gains	2 228	200	-	-
Valuation of hedging instruments exchange rate (forward)	1 551	(2 042)	-	-
Reversal of write-off for futures contracts	-	-	6 765	-
Other	22	3	472	(464)
Total financial income	5 682	(1 762)	8 058	(182)

11.5. Financial costs

	A period of 6 months ended 30 June 2020 (unaudited)	*A period of 3 months ended 30 June 2020 (unaudited)*	*A period of 6 months ended 30 June 2019 (unaudited)*	*A period of 3 months ended 30 June 2019 (unaudited)*
Interest expenses	2 927	1 332	5 387	2 205
Valuation and realization of derivative financial instruments	-	-	603	245
Foreign exchange losses	2 560	2 558	530	(532)
Reserve discount for the liquidation of power units	285	220	553	353
Reserve discount for reclamation	5 014	2 429	4 976	2 488
Other	754	459	981	544
Total of financial costs	11 540	6 998	13 030	5 303

(in thousand PLN)

11.6. Costs by type

	A period of 6 months ended 30 June 2020 (unaudited)	*A period of 3 months ended 30 June 2020 (unaudited)*	*A period of 6 months ended 30 June 2019 (unaudited)*	*A period of 3 months ended 30 June 2019 (unaudited)*
Depreciation / Amortisation	80 547	41 777	97 072	50 150
Impairment write-downs on fixed assets and mining assets	289 000	289 000	(284)	(51)
Impairment write-downs on inventories	3 400	1 804	1 168	(690)
Materials	136 896	64 189	152 281	71 147
External services	41 958	21 582	43 146	25 547
Taxes and charges, excluding excise duty	75 813	34 739	85 093	42 511
Costs of allowances for emission of CO_2	309 089	161 653	261 555	148 769
Costs of employee benefits	204 624	105 406	215 282	110 632
Other costs by type	15 758	11 340	14 273	8 812
Cost of goods for resale and raw materials sold and resale of electricity from the market	226 773	112 253	489 055	231 674
Total cost by type	1 383 858	843 743	1 358 641	688 501
Items included in cost of goods sold	1 305 553	802 425	1 288 495	648 726
Items included in selling and distribution expenses	2 007	895	2 683	810
Items included in administrative expenses	51 730	22 627	55 253	25 135
Change in the stocks of finished goods	24 287	17 735	10 925	13 211
Cost of goods and services for internal needs	281	61	1 285	619

12. Income tax

12.1. Tax load

The main components of tax load for the period of 6 months ended 30 June 2020 and 30 June 2019 are as follows:

	A period of 6 months ended 30 June 2020 (unaudited)	*A period of 3 months ended 30 June 2020 (unaudited)*	*A period of 6 months ended 30 June 2019 (unaudited)*	*A period of 3 months ended 30 June 2019 (unaudited)*
Included in the profit or the loss				
Current income tax				
Current income tax load	120	58	2 785	(4 794)
Deferred income tax load				
Related to creation and reversal of temporary differences	(52 110)	(58 963)	21 854	13 341
Other changes	(1 641)	7	37	21
Tax load in the consolidated profit or loss	**(53 631)**	**(58 898)**	**24 676**	**8 568**

(in thousand PLN)

Included in the consolidated statement of the comprehensive income				
Net profit (loss) tax due to revaluation of cash flow securities	-	-	(108)	(44)
Income tax concerning actuarial profits/losses	14	(7)	165	29
Tax benefit/(tax load) included in comprehensive income	**14**	**(7)**	**57**	**(15)**

12.2. Agreement on the effective tax rate

Reconciliation of the income tax on the gross profit before tax at the statutory tax rate, with the income tax calculated at the Group's effective tax rate for the 6-month period ended June 30, 2020 and the year ended December 31, 2019 is as follows:

	A period of 6 months ended *30 June 2020 (unaudited)*	*Year ended* *31 December 2019*
Gross profit / (loss) before tax from continuing operations	**(314 463)**	**(439 892)**
Tax at the statutory tax rate applicable in Poland, amounting to 19%	(59 748)	(83 579)
Unrecognized tax losses	15 109	52 741
Permanent costs not constituting tax deductible costs	60	43 847
Income which is not permanently taxable	-	(5 202)
Change related to a different tax rate in Germany (30%)	19	-
Other	(9 071)	(1 553)
Tax at the effective tax rate	(53 631)	6 254
Income tax in the profit and loss account	**(53 631)**	**6 254**

12.3. Deferred income tax

Deferred income tax results from the following items:

	30 June 2020 (unaudited)	*31 December 2019*
Deferred tax asset		
Balance sheet provisions	78 067	66 869
Overburden and other mining assets	5 391	5 478
Interest and exchange rate differences	221	181
Valuation of non-terminated agreements for building services	680	493
Tax loss	21 219	19 735

(in thousand PLN)

Impairment write-down on inventories	2 634	7 370
Impairment write-down on receivables	947	849
Impairment write-downs on fixed assets	-	15 087
Settlements with employees	4 301	3 580
Różnica pomiędzy bilansową a podatkową wartością środków trwałych	20 735	15 384
Other	4 132	3 693
Total	138 327	138 719
Provision under deferred income tax		
Difference between the balance sheet value and the tax value of fixed assets	358 933	422 069
Receivables under PPAs	23 149	8 939
Energy certificates	3 657	4 728
Interest and exchange rate differences	3	62
Valuation of non-terminated construction agreements	569	364
Other	1	246
Total	386 312	436 408
After offsetting the balances at the level of the Group companies, the deferred tax is presented as:		
Asset:	**89 427**	**84 593**
Provision:	**337 412**	**382 282**

Assets for unsettled tax loss

	Tax loss					
	2015	*2016*	*2017*	*2018*	*2019*	*06 2020*
Aquakon sp. z o.o. in liquidation	-	-	458*	2*	-	-
PAK KWB Adamów SA	-	-	-	72 942*	-	-
PAK KWB Konin SA	-	-	-	46 834*	12 573*	14 650*
Elektrownia Pątnów II sp. z o.o.	-	48 030	-	-	-	7 791
ZE PAK SA	12 075*	22 990*	37 586*	248 115*	33 903*	52 241*
ZE PAK SA	-	-	-	-	53 642	
PAK Serwis sp. z o.o.	-	11	-	2 188	-	15
PAK Górnictwo sp. z o.o.	-	269*	-	-	1 577*	12 629*
Total tax loss	12 075	71 300	38 044	370 081	101 695	87 326
Total tax losses on which the asset is recognized	-	48 041	-	2 188	53 642	7 806
Deferred tax assets	-	9 128	-	416	10 192	1 483
Year of settlement	2020	2021	2022	2023	2024	2025

** no deferred tax asset was recognized*

The presentation of ZE PAK SA in two lines of the above table results from the fact that an asset from losses was recognized in the amount of PLN 53,642 thousand, while an asset from losses was not recognized in the amount of PLN 33,903 thousand.

(in thousand PLN)

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:

	A period of 6 months ended 30 June 2020 (unaudited)	*A period of 3 months ended 30 June 2020 (unaudited)*	*A period of 6 months ended 30 June 2019 (unaudited)*	*A period of 3 months ended 30 June 2019 (unaudited)*
Net profit / (loss) on continued activities of the parent company's shareholders	(257 514)	(247 168)	37 911	24 631
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	(257 514)	(247 168)	37 911	24 631
The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share	50 823 547	50 823 547	50 823 547	50 823 547

The below table shows the profit/(loss) per one share in Polish zlotys for the period of 6 months ended 30 June 2020 and 30 June 2019 presented in the profit and loss account.

	A period of 6 months ended 30 June 2020 (unaudited)	*A period of 3 months ended 30 June 2020 (unaudited)*	*A period of 6 months ended 30 June 2019 (unaudited)*	*A period of 3 months ended 30 June 2019 (unaudited)*
Basic from profit/(loss) for the financial year attributable to the shareholders of the parent company	(5,07)	(4,86)	0,75	0,48
Diluted from profit/(loss) from continuing operations attributable to the shareholders of the parent company	(5,07)	(4,86)	0,75	0,48

In the period between the balance sheet day and the day of development of this financial statement, there were no changes in amounts of ordinary shares or potential ordinary shares.

(in thousand PLN)

14. Tangible fixed assets

A period of 6 months ended 30 June 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	-	170	-	326	5 485	5 982
Repairs	-	-	(144)	-	-	-	(144)
Transfer from fixed assets under construction	3 774	-	65	-	68	(3 907)	-
Sale and liquidation	(494)	(28)	(11 683)	(167)	(230)	-	(12 602)
Gross value as at 30 June 2020	226 529	2 054 546	4 997 242	68 102	33 859	111 657	7 491 935
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-off for the period	1 901	21 178	46 315	1 866	648	-	71 908
Impairment write-down (change of the state)	-	127 531	142 840	8 588	41	-	279 000
Sale and liquidation	-	(28)	(10 914)	(166)	(229)	-	(11 337)
Depreciation and impairment write-downs as at 30 June 2020	51 789	1 634 078	4 027 070	59 571	23 573	82 328	5 878 409
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 30 June 2020	174 740	420 468	970 172	8 531	10 286	29 329	1 613 526

(in thousand PLN)

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

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
- update of assumptions for financial projections assuming shortening the period of operation of coal units due to the increased risk related to the launch of prospective lignite deposits (note 4.1)
- proposal of the European Commission to radically increase the emission reduction target by 2030 from 40% to at least 55% in relation to the 1990 level
- in connection with the goal of reducing emissions, simultaneous increase in the opportunities for the development of sources based on biomass combustion and the lower WACC used for flows generated by biomass blocks
- growing demand for production from biomass units due to the qualification - as a RES stabilizing the production of non-controllable wind farm modules and photovoltaic modules and compliance with Poland's international obligations

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)."

When separating CGUs within the Group companies, an analysis of the independence of cash flow generation in terms of the functioning of individual companies was performed and additional premises on the basis of which the financial projections were updated were taken into account. Within the framework of ZE PAK SA, two CGUs were separated - including the CGU for the coal part (CGU Elektrownia Pątnów I) and the CGU for green energy based on biomass (CGU Elektrownia Konin). Pątnów II Power Plant sp.z o.o. - the Group's second electricity producer, under the Act on Termination of Long-Term Contracts, participates in the stranded cost coverage program until the end of 2025. The final settlement of this program is scheduled for 2026.

As at June 30, 2020, the lignite mines PAK KWB Konin SA and PAK KWB Adamów SA operate in Jóźwin, Tomisławice, Drzewce and Adamów open-pit mines.

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) ZE PAK SA Elektrownia Pątnów I („CGU ZE PAK Elektrownia Pątnów I - black energy")
- fixed assets (manufacturing) ZE PAK SA Elektrownia Konin („CGU ZE PAK Elektrownia Konin – green energy from biomass"),
- 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 2024, production from Pątnów II was established until 2030, 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 for 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 developedment 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 margin in fixed prices is assumed to decline after 2027, with the growing price of biomass. The State Energy Policy until 2040 submitted for public consultation and the National Energy and Climate Plan outline a clear direction for further development of RES, which is necessary to meet the indicators adopted by Poland that meet the RES obligation. In order for this goal to be achieved, and in the following years at least maintained, Poland as an EU member state must ensure the maintenance of the existing renewable energy sources, including the existing biomass units, which will end their participation in the support system within the next few years, and due to its good condition technicians will be able to continue working. The factor giving today such powers to adopt the above thinking are the current provisions on statistical transfer, which on the one hand impose penalties on a member state that fails to fulfil the obligation, and on the other hand, the provisions already contained in the RES Act signalling the organization of auctions by PURE for entities that after the end of the support period, they will be able to continue to participate in the newly created mechanisms. This is permitted by the provisions of the applicable RES Act. At the same time, the provisions of the act make it possible to extend the support for the operation of RES installations beyond 15 years. It is also important that the Ministry of Energy withdrew from the proposed changes to the rules for determining the substitution fee. The Ministry took into account the recommendations of both the RES industry and international chambers of commerce, banks and representatives of conventional energy, which alerted about the harmful effects of these provisions on existing RES installations. In the opinion of TGPE, this would make planning the operation of biomass units difficult, which would hit Polish producers. As a consequence, the gap in achieving the RES target would deepen.

- 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,

(in thousand PLN)

- The weighted average cost of capital after tax (WACC) in the projection period was assumed for CGU Elektrownia Pątnów I and CGU Pątnów II at the level of 6.977% and for CGU ZE PAK El. Konin 5.61%
- Within the scope of BAT conclusions for ZE PAK SA, it was assumed to receive derogations from the required emission limit values due to the planned short life span of generation assets, whereas in the case of Elektrownia Pątnów II sp. z o.o., a received periodic release until 2024 was taken into account in order to realize investments as part of the general renovation planned for 2023. The evidence in this case has already been completed by the Marshal's Office of the Wielkopolska Region (UMWW), the explanatory proceedings have been completed and the Wielkopolska Voivode is preparing to issue a decision.
- 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:
  - Tomisławice – 25.33 m tons till 2030,
  - Jóźwin – 3.83 m tons till 2021,
  - Drzewce – 3.13 m tons till 2023,
  - it is assumed that coal from Adamów open-pit mine will end in 2020,
- 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,
- the weighted average cost of capital after tax (WACC) was assumed in the projection period for PAK KWB Konin SA at 6.83%, the higher discount rate reflects the higher risk related to the functioning of PAK KWB Konin SA in the longer term (longer horizon of the forecast), in particular with regard to investment activities related to the development of new lignite deposits.

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

The tests were performed as at 30 June 2020.

Based on the tests, it was found that there was a need to make a write-off for the following companies: Elektrownia Pątnów II spółka z o.o., PAK KWB Konin SA. For ZE PAK SA, it was necessary to make a write-off for CGU - Elektrownia Pątnów and a reversal of the write-down for CGU - Konin Power Plant.

For CGU Elektrownia Pątnów II sp. Z o.o. there was a need to make a write-off in the amount of PLN 327,000 thousand.

Below are the results of the tests for CGU Elektrownia Pątnów II, for which impairment was found:

Tested value	971 933 thousand PLN	value after write-off	644 933 thousand PLN
Stated loss	327 000 thousand PLN		

For CGU PAK KWB Konin SA there was a need to make a write-off in the amount of PLN 137,000 thousand.

The results are as follows:

(in thousand PLN)

Tested value	483 402 thousand PLN	value after write-off 346 402 thousand PLN
Stated loss	137 000 thousand PLN	

For ZE PAK SA, it was necessary to make a write-off for CGU - Pątnów I in the amount of PLN 121,000 thousand, and for CGU - Konin, a decrease in the write-off in the amount of PLN 296,000 thousand. The results are as follows:

For CGU Elektrownia Pątnów I

Tested value 262 367 thousand PLN	value after write-off 141 367 thousand PLN
Stated loss 121 000 thousand PLN	

For CGU Elektrownia Konin

Tested value 176 399 thousand PLN	value after write-off 472 399 thousand PLN
Stated loss 296 000 thousand PLN	

With regard to the remaining CGUs operating within the Renovation, Sale and Other segments, no indications of a possible impairment of assets were identified.

- **Sensitivity analysis**

Changes in the financial parameters underlying the estimation of the recoverable amount would change the present value of discounted cash flows by the amounts presented below.

ZE PAK CGU Elektrownia Pątnów I

	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
Weighted average cost of capital	(PLN 3 m)	PLN 3 m
	(+) increase by 1%	(-) decrease by 1%.
Change in sale revenues (electricity price)	PLN 23 m	(PLN 23 m)
	(+) increase by 5%	(-) decrease by 5%.
Change in cost of sales (price of 1 EUA)	(PLN 42 m)	PLN 42 m
	(+) increase by 5%	(-) decrease by 5%
Change in biomass price (PLN/GJ)	(PLN 0 m)	PLN 0 m

ZE PAK CGU Elektrownia Konin

	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
Weighted average cost of capital	(PLN 122 m)	PLN 145 m
	(+) increase by 1%	(-) decrease by 1%.
Change in sale revenues (electricity price)	PLN 25 m	(PLN 25 m)
	(+) increase by 5%	(-) decrease by 5%.
Change in cost of sales (price of 1 EUA)	(PLN 0 m)	PLN 0 m
	(+) increase by 5%	(-) decrease by 5%

(in thousand PLN)

Change in biomass price (PLN/GJ)	(PLN 113 m)	PLN 113 m

In the absence of support in the form of green certificates after 2027, the biomass price should be lower by 2.60% to maintain the value after the write-down is reversed.

Elektrownia Pątnów II sp. z o.o.	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
Weighted average cost of capital	(PLN 63 m)	PLN 70 m
	(+) increaese by 1%	(-) decrease by 1%.
Change in sale revenues (electricity price)	PLN 71 m	(PLN 76 m)
	(+) increase by 5%	(-) decrease by 5%.
Change in cost of sales (price of 1 EUA)	(PLN 113 m)	PLN 106 m

In the case of an increase in sales revenues by approx. 6.45% in the forecast horizon, with the other parameters of the model unchanged, and also in the case of a decrease in the weighted average cost of capital by 5.2 pp. with the other model parameters unchanged, the recoverable amount of the CGU would be equal to the carrying amount.

PAK KWB Konin SA	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
Weighted average cost of capital	(PLN -4 m)	PLN 3 m
	(+) increase by 1%	(-) decrease by 1%
Change in sale revenues	PLN 29 m	(PLN -29 m)

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 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 as at 30 June 2020:

	30 June 2020 (unaudited)	*31 December 2019*
Up to 1 year	5 101	6 620
1 to 3 years	14 996	11 199
3 to 5 years	8 515	9 189
Over 5 years	131 937	143 645
Total according to undiscounted payments	160 549	170 653

(in thousand PLN)

Book value	51 320	55 016

Amounts recognized in the cash flow statements

	Period of 3 months ended 30 June 2020 (unaudited)	*Year ended 31 December 2019*
Total cash outflow	10 104	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 6 months ended 30 June 2020 (unaudited)	*Period of 6 months ended 30 June 2019 (unaudited)*
Gross value as at 1 January	67 296	65 803
Remission as at 1 January	(11 087)	(3 103)
Net value as at 1 January	56 209	62 700
Depreciation for the period	(3 646)	(3 412)
As at the end of the period	52 563	59 288

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 – 6 months ended 30 June 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	-	(5)	(33)	-	(38)
Decreases	-	215	-	-	215
Gross value as at 30 June 2020	-	22 817	2 095	417	25 329
Depreciation and impairment write-downs as at 1 January 2020	-	19 911	2 128	365	22 404
Depreciation write-down for the period	-	482	-	1	483
Impairment write-down	-	-	-	-	-
Decreases	-	(5)	(33)	-	(38)
Depreciation and impairment write-downs as at 30 June 2020	-	20 388	2 095	366	22 849
Net value as at 1 January 2020	-	2 696	-	52	2 748
Net value as at 30 June 2020	-	2 429	-	51	2 480

(in thousand PLN)

Long-term intangible assets – 6 months ended 30 June 2019 (unaudited)

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

(in thousand PLN)

Emission allowances

	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
	Certified emission reduction units (EUA)	*Certified emission reduction units (EUA)*
Gross value as at 1 January 2020	93 218	66 817
Purchase	571 814	443 789
Sale	(43 500)	(11 940)
EUA redemption	(618 090)	(492 067)
Net value as at 1 January 2020	93 218	66 817
Net value as at 30 June 2020	3 442	6 599

17. Assets for overburden removal and other mining assets

As of 30 June 2020, the item of assets concerning overburden stripping and other mining assets includes the assets related to overburden stripping and other mining assets in PAK KWB Konin in the amount of PLN 56 930 thousand.

	30 June 2020 (unaudited)	*31 December 2019*
As of 1 January 2020	70 620	80 326
Increase	820	1
Decrease	-	(607)
Impairment wrote-down	(10 000)	-
Depreciation for the period	(4 510)	(9 100)
As of 30 June 2020	56 930	70 620
Long-term	56 930	70 620
Short-term	-	-

18. Other assets

18.1. Other financial assets

	30 June 2020 (unaudited)	*31 December 2019*
Investments and MLF and MRF* deposits	3 080	2 690
Shares	346	352
Other	177	178
Total other financial assets	3 603	3 220
Short-term	-	-
Long-term	3 603	3 220

** MLF – Mining Liquidation Fund; MRF – Mining Reclamation 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

	30 June 2020 (unaudited)	*31 December 2019*
VAT receivables	49 354	58 315
Insurance	385	337
Other receivables from the state budget	719	916
Other accruals	7 713	1 924
Delivery prepayments	4	7
Prepayments for assets under construction	19 981	2 311
Other	6 465	413
Total other non-financial assets	84 621	64 223
Short-term	64 292	61 615
Long-term	20 329	2 608

The largest components of the "Other" item in the first half of 2020 are settlements related to the Social Fund in the amount of 6 218 thousand.

19. Inventories

	30 June 2020 (unaudited)	*31 December 2019*
Production fuel	10 404	9 828
Spare parts and other materials	60 981	58 447
Certificates of origin of energy	39 441	36 065
Goods	2	1
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	110 828	104 341

As at June 30, 2020, the Group had a total of 54,385.434 MWh property rights of green certificates of green energy produced and verified by the ERO. From January 1, 2020 to June 30, 2020, the Group received 207,260.934 MWh certificates for production in October, November, December 2019 and January, February, March 2020. During this period, an application was submitted for the issuance of 35,370,176 MWh for production in April 2020. During this period, the Group was still waiting for production certificates from December 2018 in the amount of 26,630.737 MWh. Until June 30, 2020, 197,252.008 MWh was sold on TGE SA, the revenue from this in the amount of PLN 26,803 thousand was recognized under Other revenues. Revenue from the submitted applications for January 2020 is PLN 4,433 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 June 30, 2020 is PLN 7 444 thousand.

(in thousand PLN)

20. Trade and other receivables

	30 June 2020 (unaudited)	*31 December2019*
Trade receivables	56 247	100 807
Receivables due to compensation related to the termination of the PPAs	124 435	47 045
Receivables due to security of purchase of electricity in the balancing market	5 214	16 111
Other receivables	50 603	64 615
Net receivables	236 499	228 578
Impairment write-down on receivables	46 029	45 469
Gross receivables	282 528	274 047

In the line other receivables as at June 30, 2020, the Group presents mainly receivables from deposits related to construction and assembly works in the amount of PLN 6 305 thousand, deposits securing electricity transactions in the amount of PLN 14 171 thousand, and deposits securing the purchase of emission allowances CO2 (EUA) in the amount of PLN 23,726 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 30 June 2020 amounts to PLN 188 923 thousand (as of 30 June 2019: PLN 130 481 thousand).

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

Cash structure

	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Cash in hand and at bank:	50 000	85 404
Short-term deposits	138 923	45 077
Total cash and cash equivalents in the balance sheet:	188 923	130 481
Foreign exchange differences	(14)	-
Total cash and cash equivalents in cash flow statement	188 909	130 481

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

(in thousand PLN)

	Period of 6 months ended 30 June 2020 (unaudited)	*Period of 6 months ended 30 June 2019 (unaudited)*
Depreciation:		
Depreciation shown in the income statement	80 547	97 072
Settlement of subsidies	(1 823)	(751)
Depreciation shown in the cash flow statement	78 724	96 321

	Period of 6 months ended 30 June 2020 (unaudited)	*Period of 6 months ended 30 June 2019 (unaudited)*
Receivables:		
Balance sheet change in trade receivables and other receivables	(7 921)	49 998
Balance sheet change in other long and short-term non-financial assets	(20 398)	(21 403)
Balance sheet change in amounts due from clients under PPAs	(4 712)	(2 292)
Change in advances for fixed assets under construction	17 670	(698)
Other changes	2 198	(746)
Change in receivables shown in the cash flow statement	(13 163)	24 859

	Period of 6 months ended 30 June 2020 (unaudited)	*Period of 6 months ended 30 June 2019 (unaudited)*
Liabilities:		
Balance sheet change in trade liabilities and other financial liabilities, long and short-term	(31 405)	16 234
Balance sheet change in other non-financial liabilities	(44 312)	(19 453)
Balance sheet change in amounts paid to clients under PPAs	171	362
Change in liabilities under investment settlements	(5 049)	21 255
Purchase of debt securities	-	(37)
New lease agreements and payment of lease liabilities	1 053	860
Other changes	(5 406)	(25 443)
Change in liabilities shown in the cash flow statement	(84 948)	(6 222)

(in thousand PLN)

	Period of 6 months ended 30 June 2020 (unaudited)	*Period of 6 months ended 30 June 2019 (unaudited)*
Change in provisions, prepayments and accruals and employee benefits:		
Change in provisions and prepayments	(276 312)	(245 374)
Change in long and short-term employee benefits	663	5 308
Change in provision due to redemption of EUA	618 090	334 714
Change in actuarial provisions indicated in other comprehensive income	(72)	(867)
Other changes	(827)	156 816
Change in provisions, prepayments and accruals and employee benefits	341 542	250 597

	Period of 6 months ended 30 June 2020 (unaudited)	*Period of 6 months ended 30 June 2019 (unaudited)*
Inventories		
Balance change in inventories	(6 487)	7 875
Other changes	-	(10 251)
Change in inventories disclosed in the statement of cash flow	(6 487)	(2 376)

22. Dividends paid and proposed for payment

ZE PAK SA Group did not pay or declare the payment of dividend in the first half of 2020.

23. Interest-bearing loans and borrowings

Short-term	*Maturity*	*30 June 2020 (unaudited)*	*31 December 2019*
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)	30.06.2021	28 010	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	31 224	32 020
TOTAL		**59 234**	**46 767**

Long-term	*Maturity*	*30 June 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	15 094	29 773
TOTAL		**15 094**	**29 773**

(in thousand PLN)

24. Provisions and accruals

24.1. Accruals

	30 June 2020 (unaudited)	*31 December 2019*
Provision for bonuses and holiday leaves	21 212	25 490
Compensation from an insurance company	340	313
Audit of financial statements	-	223
Other	7 906	1 280
Total	29 458	27 306
Short-term	29 458	27 306
Long-term	-	-

The main component of the "Other" item are fees for economic use of the environment in the amount of PLN 6 696 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. At the request of the Group, the Provincial Inspector for Environmental Protection set the date of deferment of the payment of the above-mentioned penalty for March 31, 2023, in accordance with the implementation of individual stages of the schedule of the project "Preparation of Adamów Power Plant grounds for new investments".

(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 certificates of origin of energy redemption*	*Reclamation provisions*	*Other*	*Total*
As at 1 January 2020	587 487	6 362	18 190	63 921	19 249	361 134	24 187	1 080 530
increase	317 775	398	130	3 152	4 462	13 158	1 663	340 738
Decrease, including:	(596 165)	-	-	-	(453)	(21 602)	(985)	(619 205)
Use	*(596 081)*	-	-	-	*(453)*	*(7 011)*	*(945)*	*(604 490)*
Termination	*(84)*	-	-	-	-	*(14 591)*	*(40)*	*(14 715)*
As at 30 June 2020 (unaudited)	309 097	6 760	18 320	67 073	23 258	352 690	24 865	802 063
Long-term	-		18 320	67 073	-	328 800	1 153	415 346
Short-term	309 097	6 760	-	-	23 258	23 890	23 712	386 717
As at 1 January 2019	492 104	30 640	17 391	63 656	21 919	358 718	26 048	1 010 476
Increase	562 390	-	799	265	452	16 218	1 860	581 984
Decrease, including:	(467 007)	(24 278)	-	-	(3 122)	(13 802)	(3 721)	(511 930)
Use	*(467 007)*	*(24 278)*	-	-	*(3 122)*	*(12 494)*	*(2 039)*	*(508 940)*
Termination	-	-	-	-	-	*(1 308)*	*(1 682)*	*(2 990)*
As at 31 December 2019	587 487	6 362	18 190	63 921	19 249	361 134	24 187	1 080 530
Long-term	-	6 362	18 190	63 921	-	334 561	2 095	425 129
Short-term	587 487	-	-	-	19 249	26 573	22 092	655 401

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 June 30, 2020, the provision amounts to PLN 309,097 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.

In April 2020, ZE PAK SA redeemed CO2 emissions for 2019 in the amount of 4,158,913 EUAs, and Elektrownia Pątnów II sp. z o.o. in the amount of 2,450,404 EUA. After the redemption, from 2019 to 2020, there are 33,369 EUAs left at ZE PAK SA and 1,272 EUAs at Elektrownia Pątnów II sp. z o.o.

CO2 emission allowances for the period of 6 months ended 30 June 2020 (unaudited)

(in tonns)		***Zespół Elektrowni Pątnów-Adamów-Konin SA***		***Elektrownia Pątnów II sp. z o.o.***	
	CO_2 emission*	1 491 795		1 155 267	
		quantity (in tonns)	*amount (in thousand PLN)*	*quantity (in tonns)*	*amount (in thousand PLN)*
EUA	Balance at the beginning of the period	62 269	88	1 045 676	93 129
	Purchased	4 154 000	390 473	1 406 000	137 842
	Free of charge	29 370	-	-	-
	Redemption	(4 158 913)	(387 240)	(2 450 404)	(230 850)
	Balance at the end of the period	86 726	3 321	1 272	121
	Left to purchase	1 405 069	167 882	1 153 995	137 773

** 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 6 months ended 30 June 2019 (unaudited)

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

(in thousand PLN)

	Left to purchase	1 868 210	167 796	955 009	87 197

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

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 30 June 2020, the created provision amounted to PLN 67 073 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 30 June 2020, the provision due to this amounted to PLN 18 320 thousand. The provision is created in correspondence with the cost of sales. The discount amount recognized in financial costs is PLN 285 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 June 30, 2020 amounted to PLN 352 590 thousand and decreased compared to the year ended December 31, 2019 by PLN 8 444 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 5 014 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 30 June 2020, the provision due to this amounted to PLN 23 258 thousand. The provision is created in correspondence with the cost of sales.

24.3.5. Other provisions

The main items of other provisions as at 30 June 2020 in PAK KWB Konin SA are: provisions for mining damage in the amount of PLN 329 thousand, provisions for pending court proceedings in the amount of PLN 527 thousand, provision for remuneration for mining use in the amount of PLN 1 444 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 remuneration for mining use in the amount of PLN 220 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.

(in thousand PLN)

25. Trade liabilities, other liabilities and accruals

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

	30 June 2020 (unaudited)	*31 December 2019*
Trade liabilties:	56 166	84 731
Other liabilities:		
Investment liabilities	3 286	4 484
Liabilities to employees due to salaries	15 621	15 848
other	5 290	3 906
total	80 363	108 969

In the line other liabilities as at June 30, 2020, the Group presents mainly liabilities concerning settlements with employees and deductions from the payroll in the amount of PLN 1,860 thousand an settlements due to the Social Fund in the amount of PLN 2 709 thousand and as the security deposit in the amount of PLN 612 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. Other financial liabilities

	30 June 2020 (unaudited)	*31 December 2019*
VAT tax liabilities	22 927	46 008
Liabilities due to environmental charges	508	18 496
Liabilities due to the excise tax	380	714
Liabilities due to social insurance	22 541	20 910
Income tax from individuals	4 208	4 596
Other budget liabilities	803	4 598
Advanced payments for deliveries	-	55
Service charge	5 549	7 092
Other	1 704	463
Total	58 620	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 components of the "Other" item are the excess of liabilities over the assets of the Social Fund in the amount of PLN 894 thousand and liabilities to PFRON in the amount of PLN 397 thousand.

(in thousand PLN)

25.3. Grants and deferred income (long-term)

	30 June 2020 (unaudited)	*31 December 2019*
Long-term grants	34 533	38 501
Other	3 293	3 292
Total	37 826	41 793

The main component of the „Long-term grants" item. The subsidies in the amount of PLN 34 533 thousand presented as at June 30, 2020 resulted from the valuation of the loan received from the National Fund for Environmental Protection and Water Management, as if it had been granted on market terms. The subsidy is settled in accordance with the useful life of the fixed assets included in the 464 MW unit at Elektrownia Pątnów II sp.z o.o.

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.

25.4. Grants and deferred income (short-term)

	30 June 2020 (unaudited)	*31 December 2019*
Short-term grants	3 646	1 502
Total	3 646	1 502

26. Contingent liabilities and description of significant judicial cases

Apart from the liabilities described in notes 26.3, 27 i 28 as of 30 June 2020 the Group did not have any other contingent liabilities, guarantees and sureties granted.

26.1. Court proceedings

The full description of the court cases is provided in the annual consolidated financial statements of the Group for the year ended December 31, 2019, approved for publication on April 3, 2020. Presented below are the changes that took place up to the date of publication of these interim condensed consolidated financial statements.

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

On August 25, 2020, a hearing was held before the Supreme Administrative Court, as a result of which the court dismissed the cassation appeal of the Director of the National Tax Information, thus sharing the arguments of Elektrownia Pątnów II sp.z o.o.

As a consequence, the case is returned to the Director of the National Tax Information, who is obliged to issue an individual interpretation consistent with the judgment of the Supreme Administrative Court, i.e. favorable for the Company.

Taking into account all deadlines and procedures, the Company expects to receive an individual interpretation within the next 6 months.

The proceeding is in progress.

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

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.

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)

At the hearing on August 25, 2020, the Supreme Administrative Court dismissed the cassation appeal of the Director of the National Tax Information, sharing the arguments indicated in the complaint of Elektrownia Pątnów II sp.z o.o. to the Provincial Administrative Court in Poznań and in uniform case law.

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 30 June 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*	*30 June 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 30 June 2020 and as the date of publication of this interim condensed consolidated financial statements a part of collateral was still active.

(in thousand PLN)

2/ The loan for Elektrowni Pątnów II was fully repaid on 23 April 2019. Elektrownia Pątnów II as at 30 June 2020 was in the proces of releasing collateral – as at the date of publication of this interim condensed consolidated financial statements the securities has been released.

Other securities of liabilities

Guarantees given

Kind of guarantee	*30 June 2020 (unaudited)* *Security amount*	*currency*	*31 December 2019* *Security amount*	*currency*
Guarantees of good performance of the contract	15 208	PLN	15 175	PLN
Guarantees to remove defects and faults	5 154 567	PLN EUR	4 827 2 657	PLN EUR
Payment guarantees (including guarantees securing transactions on TGE / IRGIT)	30 134 9 980	PLN EUR	30 208 -	PLN EUR

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

The table below shows the sum of granted guarantees.

	30 June 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. Received guarantees and sureties

Kind of guarantee	*30 June 2020 (unaudited)* *Security amount*	*currency*	*31 December 2019* *Security amount*	*currency*
Guarantees of good contract performance	5 791	PLN	9 211	PLN
Guarantees to remove defects and faults	2 244 -	PLN EUR	2 812 -	PLN EUR
Payment guarantees	78 -	PLN EUR	6 204 -	PLN EUR
Advance payment guarantees	8 980 2 083	PLN EUR	- -	PLN EUR

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

29. Information about related entities

The following table shos the total amounts of transactions concluded with elated entities for the period of 6 months ended 30 June 2020 and 30 June 2019 as well as receivables and liabilities as at 30 June 2020 and 30 June 2019. Transactions with related entities are carried out on market rules.

Related entity		*Sales to related entities*	*Purchase from related entities*	*Receivables from related entities*	*Liabilities towards related entities*
Elektrim SA	I half 2020	-	60	-	-
	I half 2019	-	60	-	-

(in thousand PLN)

Megadex Serwis sp. z o.o.	I half 2020	-	-	-	-
	I half 2019	1	25 508	-	-
Megadex Development sp. z o.o.	I half 2020	32	-	4	-
	I half 2019	-	-	-	-
Megadex Expo sp. z o.o.	I half 2020	341	-	67	-
	I half 2019	-	-	-	-
Polkomtel sp. z o.o.	I half 2020	56 289	3 462	11 004	440
	I half 2019	86 068	1 122	13 240	1 346
Polkomtel Infrastruktura sp. z o.o.	I half 2020	55	-	22	-
	I half 2019	-	-	-	-
Laris Investments sp. z o.o.	I half 2020	260	184	14	-
	I half 2019	358	206	339	-
Laris Technolgies sp. z o.o.	I half 2020	1 281	-	127	-
	I half 2019	-	-	-	-
CPE sp. z o.o.	I half 2020	1	421	-	103
	I half 2019	-	52	-	63
Plus Flota sp. z o.o.	I half 2020	-	1 417	4	287
	I half 2019	-	133	-	66
Cyfrowy Polsat SA	I half 2020	1 796	4	716	1
	I half 2019	-	-	-	-
Total	**I half 2020**	**60 055**	**5 548**	**11 958**	**831**
	I half 2019	**86 427**	**27 081**	**13 579**	**1 475**

Elektrim SA is the parent company of the ZE PAK SA Group. The remaining companies are subsidiaries or related to Elektrim SA.

29.1. Loan granted to a member of the Management Board

Within the period of 6 months ended 30 June 2020 as well as within the period of 6 months ended 30 June 2019 the Parent Company did not grant any loans and similar benefits to members of the management and supervisory staff.

29.2. Other transactions involving members of the Management Board

Within the period of 6 months ended 30 June 2020 as well as within the period of 6 months ended 30 June 2019 there were no transactions with members of management and supervisory staff.

29.3. Remuneration of Chief executive Staff of the Group

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

	Period of 6 months ended 30 June 2020 (unaudited)	*Period of 6 months ended 30 June 2019 (unaudited)*
Management Board of the parent company		
Short-term employee benefits	2 369	977
Termination benefits	1	65
Supervisory Board of the parent company		
Short-term employee benefits	568	572
Management Boards of subsidiaries		

Short-term employee benefits	1 284	1 174
Total	4 222	2 788

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

	Period of 6 months ended *30 June 2020 (unaudited)*	*Period of 6 months ended* *30 June 2019 (unaudited)*
Short-term employee benefits	6 101	6 048
Post-employment benefits	54	-
Benefits for termination of the contract of employment	22	148
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	6 177	6 196

30. Goals and rules of financial risk management

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.

30.1. Interest rate risk

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

Interest rate risk – the sensitivity gap

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

(in thousand PLN)

Classes of financial instruments	***30 June 2020 (unaudited)***		***Interest rate risk sensitivity study as of 30 June 2020***							
			WIBOR				***EURIBOR***			
			WIBOR + 394pb		***WIBOR - 394pb***		***EURIBOR + 18,8pb***		***EURIBOR - 18,8pb***	
	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	3 603	3 080	121	-	(121)	-	-	-	-	-
Trade and other receivables	236 499	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	188 923	188 923	7 294	-	(7 294)	-	7	-	(7)	-
Interest-bearing loans and borrowings	(74 328)	(74 328)	(2 929)	-	2 929	-	-	-	-	-
Trade payables and other financial liabilities	(86 360)	-	-	-	-	-	-	-	-	-
Lease liabilities	(51 320)	(51 320)	(2 022)	-	2 022	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Total	**217 017**	**66 355**	**2 464**	**-**	**(2 464)**	**-**	**7**	**-**	**(7)**	**-**

pb – base points

(in thousand PLN)

Classes of financial instruments	***30 June 2019 (unaudited)***		***Interest rate risk sensitivity study as of 30 June 2019***							
			WIBOR				***EURIBOR***			
			WIBOR + 48pb		***WIBOR - 48pb***		***EURIBOR + 19,6pb***		***EURIBOR - 19,6pb***	
	Carrying amount	***value at risk***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	3 642	3 097	15	-	(15)	-	-	-	-	-
Trade and other receivables	304 185	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	130 481	130 481	626	-	(626)	-	171	-	(171)	-
Interest-bearing loans and borrowings	(242 739)	(242 739)	(1 165)	-	1 165	-	-	-	-	-
Trade payables and other financial liabilities	(182 340)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(252)	(252)	-	-	-	-	-	-	-	-
Total	**12 977**	**(109 413)**	**(524)**	**-**	**524**	**-**	**171**	**-**	**(171)**	**-**

pb – base points

(in thousand PLN)

30.2. 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 June 30, 2020, none of the companies in the Group used instruments to mitigate the risk resulting from changes in foreign exchange rates. Potential possible changes in exchange rates were calculated based on the annual volatility implied for currency options quoted on the interbank market for a given currency pair from the balance sheet date.

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

Classes of financial instruments	*30 June 2020 (unaudited)*		*Analysis of sensitivity to interest rate risk as of 30 June 2020*			
			EUR/PLN			
			EUR/PLN + 5,85%		*EUR/PLN - 5,85%*	
			4,7273		*4,2047*	
	Carrying amount	*Value at risk*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*
Other financial assets	3 603	-	-	-	-	-
Trade and other receivables	236 499	23 536	1 377	-	(1 377)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	188 923	3 789	222	-	(222)	-
Interest-bearing loans and borrowings	(74 328)	-	-	-	-	-
Trade payables and other financial liabilities	(86 360)	(2 246)	(131)	-	131	-
Lease liabilities	(51 320)	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Total	**217 017**	**25 079**	**1 468**	**-**	**(1 468)**	**-**

(in thousand PLN)

Classes of financial instruments	*30 June 2019 (unaudited)*		*Analysis of sensitivity to interest rate risk as of 30 June 2019* EUR/PLN			
			EUR/PLN + 4,15% ***4,4285***		***EUR/PLN - 4,15%*** ***4,0755***	
	Carrying amount	***Value at risk***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	3 642	-	-	-	-	-
Trade and other receivables	304 185	3 839	159	-	(159)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	130 481	87	4	-	(4)	-
Interest-bearing loans and borrowings	(242 739)	-	-	-	-	-
Trade payables and other financial liabilities	(182 340)	(816)	(34)	-	34	-
Derivative financial instruments	(252)	-	-	-	-	-
Total	**12 977**	**3 110**	**129**	**-**	**(129)**	**-**

30.3. 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 30 June 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)

ZE PAK Capital Group cash as at 30 June 2020, broken down into individual credit ratings of banks:

Rating level of individual rating agencies			*The amount of cash as at 30 June 2020 (without cash in hand) (unaudited)*
Moody's	*S&P*	*Fitch*	
Aaa	AAA	AAA	-
Aa1	AA+	AA+	-
Aa2	AA	AA	-
Aa3	AA-	AA-	4
A1	A+	A+	-
A2	A	A	3 931
A3	A-	A-	40 026
Baa1	BBB+	BBB+	30 162
Baa2	BBB	BBB	-
Baa3	BBB-	BBB-	114 051
Ba1	BB+	BB+	-
Ba2	BB	BB	748
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	-
TOTAL			188 922

30.4. 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.

Risks related to the activities conducted, including the risk of liquidity and the ability to generate appropriate cash flows, are also described in note 4.1 regarding the Group's going concern assumption.

The tables below present financial liabilities of the Group as of 30 June 2020 and 31 December 2019 according to the maturity date based on contractual non-discounted payments.

(in thousand PLN)

30 June 2020 (unaudited)	*Less than 3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	7 806	51 428	15 094	-	74 328
Trade payables and other financial liabilities	45 980	34 381	5 999	-	86 360
Lease liabilities	81	4 650	10 263	36 326	51 320
Derivative financial instruments	-	-	-	-	-
	53 867	**90 459**	**31 356**	**36 326**	**212 008**

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

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.

(in thousand PLN)

31. Financial instruments

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

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

Financial assets	Category acc. to IRFS 9	*30 June 2020 (unaudited)*	*31 December 2019*
Other financial assets	AFwgZK	3 603	3 220
Trade receivables and other receivables	AFwgZK	236 499	228 578
Derivative financial instruments	WwWGpWF		
Cash and cash equivalents	AFwgZK	188 923	414 634
Financial liabilities			
Interest-bearing bank credits and loans, including:		74 328	76 540
long term	PZFwgZK	15 094	29 773
short term	PZFwgZK	59 234	46 767
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	86 360	117 765
Lease liabilities	PZFwgZK	51 320	55 016
Derivative financial instruments	WwWGpWF	-	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*

As at June 30, 2020, the Group had no derivative instruments measured at fair value.

31.2. Interest rate risk

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 30 June 2020 (unaudited)*	*Carrying amount as of 31 December 2019*
Financial assets at interest rate risk – PLN	Fixed	-	-
	Variable	188 214	416 440
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	3 789	885
Financial liabilities at interest rate risk - PLN	Fixed	-	-
	Variable	74 328	76 541

Financial liabilities at interest rate risk – Other currencies	Fixed	-	-
	Variable	-	-
Net exposure -PLN	Fixed	-	-
	Variable	113 886	339 899
Net exposure - other currencies	Fixed	-	-
	Variable	3 789	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.

31.2.1. Hedging

As at June 30, 2020, none of the companies in the Group used instruments to mitigate the risk resulting from changes in foreign exchange rates.

The Group hedges the risk of changes in prices of CO2 emission allowances by using forward transactions to purchase allowances for its own needs. The tables below present a summary of forward transactions active as at March 30, 2020 and March 31, 2019.

30 June 2020 (unaudited)

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions in EUR thousand*	*Currency of transactions*	*Maturity*
Forward transactions	5 499 000	139 689	EUR	Up to 1 year
Forward transactions	779 000	17 125	EUR	Over 1 year

30 June 2019 (unaudited)

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

32. 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 ended 30 June 2020 as well as on 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 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.

(in thousand PLN)

	30 June 2020 (unaudited)	*31 December 2019*
Interest-bearing credits and loans	74 328	76 540
Derivative financial instruments (liabilities)	-	1 757
Trade liabilities and other financial liabilities	86 360	117 765
Minus cash and its equivalents	188 923	414 634
Net debt	(28 235)	(218 572)
Equity	915 554	1 176 468
Capitals from revaluation of security instruments	-	-
Total capital	915 554	1 176 468
Net capital and debt	887 319	957 896
Leverage ratio	(3,18%)	(22,82%)

33. Significant events after the balance sheet date

Restructuring in the mining segment

Market conditions, currently additionally strengthened by the consequences of the pandemic, have been preventing the Group from selling the assumed volume of energy production for several quarters now.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 and August 11, 2020, the Company announced in current reports its intention to carry out group layoffs in three subsidiaries: PAK KWB Konin SA, PAK KWB Adamów SA and PAK Górnictwo sp.z o.o. Collective layoffs are to concern a group of no more than 446 employees.

On August 3, 2020, the Management Board of PAK KWB Adamów SA adopted a resolution on the dissolution and liquidation of PAK Kopalnia Węgla Brunatnego Adamów SA. According to the assumptions, at the end of 2020, PAK KWB Adamów SA will end coal mining. On September 14, 2020, the Extraordinary General Meeting of PAK KWB Adamów SA adopted a resolution on the liquidation of the company, thus the liquidation was opened and the liquidation process began. PAK KWB Adamów SA in liquidation, in addition to terminating mining operations, will carry out all activities resulting from geological and mining law (geological documentation, license waiver, operation plan of the decommissioned mining plant, etc.). An important scope of tasks related to the liquidation will be the inventory and preparation for sale of the company's assets. It is assumed that the real estate of PAK KWB Adamów SA can be used to the extent possible for the implementation of projects related to renewable energy sources..

Signing a contract for the construction of a 70 MWp photovoltaic farm in Brudzew

On 23 September 2020 ZE PAK SA signed a contract with a consortium of companies ESOLEO Sp. z o.o. with its seat in Warsaw and Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o. with its headquarters in Konin regarding the implementation of the "turnkey" investment task under the name "Energy transformation in the region - construction of a photovoltaic farm on the reclaimed areas of Adamów Mine with a capacity of 70 MWp including the necessary technical infrastructure".

The subject of the Contract is the design, assembly and commissioning in accordance with the provisions of the Contract of a 70 MWp photovoltaic farm with the necessary technical infrastructure. The Consortium of Contractors for the subject of the Contract was selected after the Company conducted a tender procedure.

The photovoltaic power plant with a capacity of 70 MWp will be built on plots of approx. 100 ha, on reclaimed area that was previously exploited in the process of lignite mining using the opencast method. The area is located within the administrative boundaries of Brudzew commune. The location of the photovoltaic power plant was dictated, among others, by proximity to the existing power evacuation system.

In accordance with the signed Contract, the remuneration of the Consortium of Contractors for the performance of the subject of the Contract was set at PLN 163.8 million net, and the date of commissioning for initial operation was set for August 2021. The total limit of all contractual penalties for any reason is a maximum of 25% of the net Contract price.

The remaining provisions of the Contract do not differ materially from those applied in this type of agreements.

For the Contract to come into force, the consent of the Supervisory Board of the Company is still required.

Merger of ZE PAK SA with PAK Infrastruktura sp. z o.o.

On September 17, 2020, the Extraordinary General Meeting of ZE PAK SA approved the merger of ZE PAK SA with PAK Infrastruktura sp.z o.o. pursuant to art. 492 § 1 point 1 of the Code of Commercial Companies ("CCC"), i.e. by taking over all the assets of PAK Infrastruktura sp. Z o.o. ("Acquired Company") by ZE PAK SA ("Acquiring Company") on the terms specified in the Merger Plan, approved by the Supervisory Board of the Company.

Due to the fact that ZE PAK SA holds all shares in PAK Infrastruktura sp.z o.o., the merger will be made taking into account the provisions of art. 515 § 1 and article. 516 § 6 of the Commercial Companies Code, i.e. in particular without the audit of the Merger Plan by an expert, without increasing the share capital of ZE PAK SA and without exchanging the shares of PAK Infrastruktura sp. z o.o. as the Acquired Company for shares in the share capital of ZE PAK SA, as of the Acquiring Company.

The Extraordinary General Meeting authorized the Management Board of ZE PAK SA to take all steps to merge the companies.

SIGNATURES:

Henryk Sobierajski

President of the Management Board ………………………………………………………..

Maciej Nietopiel

Vice 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 ....

Aneta Desecka

Chief Accountant ....