ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA CAPITAL GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2020

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

25 November 2020

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(in thousand PLN)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For a period of 9 months ended 30 September 2020

	Note	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*
Continuing operations					
Revenues, including:	*11.1*	**1 605 194**	**554 733**	**2 157 170**	**751 140**
Revenues from the contracts with clients		*1 423 703*	*496 890*	*2 028 892*	*709 807*
Other revenues		*181 491*	*57 843*	*128 278*	*41 333*
Costs of goods sold	*11.6*	**(1 824 763)**	**(519 210)**	**(1 951 059)**	**(662 564)**
Impairment write down on fixed assets and mining assets		*286 599*	*(2 401)*	*(286)*	*(2)*
Gross profit / (loss)		**(219 569)**	**35 523**	**206 111**	**88 576**
Other operating revenues	*11.2*	63 130	27 157	13 205	127
Selling and distribution expenses	*11.6*	(2 668)	(661)	(3 397)	(714)
Administrative expenses	*11.6*	(83 540)	(31 810)	(81 002)	(25 749)
Other operating expenses	*11.3*	(37 833)	(2 084)	(6 872)	(539)
Gross profit / (loss) from operations		**(280 480)**	**28 125**	**128 045**	**61 701**
Financial income	*11.4*	6 750	1 068	13 163	5 105
Financial costs	*11.5*	(14 645)	(3 105)	(20 479)	(7 449)
Profit / (loss) before tax		**(288 375)**	**26 088**	**120 729**	**59 357**
Income tax expense (taxation)	*12*	37 602	(16 029)	(48 990)	(24 315)
Net profit / (loss) for the period from continuing operations		**(250 773)**	**10 059**	**71 739**	**35 042**
Net profit / (loss) for the period		**(250 773)**	**10 059**	**71 739**	**35 042**
Net profit/ (loss) attributable to equity holders of the parent		(247 428)	10 086	72 591	34 680
Net profit/ (loss) attributable to non-controlling interests		(3 345)	(27)	(852)	362

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

(in thousand PLN)

Profit / (loss) per share (in złoty):	*Note*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*
Basic/diluted for profit for the period from continuing operations attributable to equity holders of the parent	*13*	(4,87)	0,20	1,43	0,68

(in thousand PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For a period of 9 months ended 30 September 2020

	A period of 9 months ended 30 September 2020 (unaudited)	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*
Net profit / (loss) for the period	**(250 773)**	**10 059**	**71 739**	**35 042**
Other comprehensive income				
Items to be reclassified to the profit / (loss) in subsequent reporting periods:	-	-	-	-
Cash flow hedges	-	-	568	-
Exchange differences from converting a foreign unit	25	50	-	-
Income tax on other comprehensive income	-	-	(108)	-
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods	25	50	460	-
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:	-	-	-	-
Actuarial gains / (losses) on provisions for post-employment benefits	(184)	(112)	(1 411)	(544)
Income tax on other comprehensive income	35	21	268	103
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods	(149)	(91)	(1 143)	(441)
Net other comprehensive income	**(124)**	**(41)**	**(683)**	**(441)**
Comprehensive income for the period	**(250 897)**	**10 018**	**71 056**	**34 601**
Comprehensive income attributable to equity holders of the parent	(247 552)	10 045	71 908	34 239
Comprehensive income attributable to non-controlling holders	(3 345)	(27)	(852)	362

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

(in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

	Note	*30 September 2020 (unaudited)*	*31 December 2019*
ASSETS			
Fixed assets			
Property, plant and equipment	*14*	1 591 586	1 959 861
Assets due to the right of use	*15*	50 791	56 209
Investment property		2 151	2 172
Intangible assets	*16*	2 372	2 748
Assets of removing overburden and other mining assets (long-term)	*17*	62 579	70 620
Other long-term financial assets	*18.1*	5 172	3 220
Other long-term non-financial assets	*18.2*	21 822	2 608
Deferred tax assets	*12.2*	81 734	84 593
Total fixed assets		**1 818 207**	**2 182 031**
Current assets			
Emission allowances	*16*	3 442	93 218
Inventories	*19*	86 415	104 341
Trade and other receivables	*20*	206 631	228 578
Income tax receivables		233	32 782
Derivative short-term financial instruments (assets)		1 014	-
Other short-term financial assets	*18.1*	10	-
Other short-term non-financial assets	*18.2*	39 211	61 615
Amounts due from customers under long-term construction contracts		664	1 047
Cash and cash equivalents	*21*	435 590	414 634
Total current assets		**773 210**	**936 215**
TOTAL ASSETS		**2 591 417**	**3 118 246**

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

(in thousand PLN)

	Note	*30 September 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		(55 496)	389 831
Net profit / (loss)		(247 428)	(445 179)
Exchange differences from converting a foreign unit		25	-
Equity attributable to equity holders of the parent		**926 596**	**1 174 147**
Equity attributable to non-controlling interests		(1 024)	2 321
Total equity		**925 572**	**1 176 468**
Long-term liabilities			
Interest-bearing loans and borrowings	*23*	7 547	29 773
Long-term employee benefits		45 252	45 505
Trade liabilities and other long-term financial liabilities		5 334	8 796
Long-term lease liabilities	*15*	51 459	55 016
Subsidies and deferred long-term revenues	*25.3*	36 915	41 793
Other long-term provisions and accruals	*24*	413 451	425 129
Deferred income tax	*12.2*	335 557	382 282
Total long-term liabilities		**895 515**	**988 294**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities	*25.1*	102 692	108 969
Current portion of interest-bearing loans and borrowings	*23*	43 171	46 767
Short-term financial derivatives (liabilities)		-	1 757
Other non-financial liabilities	*25.2*	41 795	102 932
Current income tax liability		7 197	223
Short-term employee benefits		7 951	6 897
Subsidies and deferred short-term revenues	*25.4*	3 646	1 502
Amounts due to customers under long-term construction contracts		1 707	1 730
Other short-term provisions and accruals	*24*	562 171	682 707
Total short-term liabilities		**770 330**	**953 484**
Total liabilities		**1 665 845**	**1 941 778**
TOTAL LIABILITIES AND EQUITY		**2 591 417**	**3 118 246**

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

(in thousand PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

For a period of 9 months ended 30 September 2020

	Note	*A period ended 30 September 2020 (unaudited)*	*A period ended 30 September 2019 (unaudited)*
Cash flow from operating activities			
Profit /(loss) before tax		(288 375)	120 729
Adjustments for:			
Depreciation and amortization		120 986	143 297
Interests and shares in profits		1 446	3 796
(Profit) / loss on foreign exchange differences		(190)	1 808
(Profit) / loss on investing activities		(2 825)	(390)
(Increase) / decrease in receivables		49 390	11 738
(Increase) / decrease in inventories		17 926	(3 303)
Increase / (decrease) in payables except for loans and borrowings		(85 032)	32 821
Change in provisions, prepayments, accruals and employee benefits		480 134	429 036
Income tax (paid)/refunded		31 038	(11 725)
Allowances for emission of CO_2		(525 656)	(443 789)
Impairment write down on fixed assets and mining assets		286 599	-
Other		(4 217)	407
Net cash flow from operating activities		**81 224**	**284 425**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		6 060	12 593
Purchase of property, plant and equipment and intangible assets		(37 403)	(24 982)
Expenses and receipts related to other financial assets		(701)	33 767
Received dividends		71	49
Other		(20)	11
Net cash flow from investing activities		**(31 993)**	**21 438**
Cash flow from financing activities			
Payment of finance lease liabilities		(908)	(1 004)
Proceeds from loans and borrowings and debt securities		-	4 853
Repayment of loans and borrowings and debt securities		(25 823)	(222 408)
Interest paid		(1 734)	(8 691)
Net cash flow from financing activities		**(28 465)**	**(227 250)**
Net increase / (decrease) in cash and cash equivalents		**20 766**	**78 613**
Cash and cash equivalents at the beginning of the period		**414 634**	**303 316**
Cash and cash equivalents at the end of the period	*21*	**435 400**	**381 929**

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

(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For a period of 9 months ended 30 September 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	-	-	-	(247 428)	-	(247 428)	(3 345)	(250 773)
Total other comprehensive income	-	-	-	(149)	25	(124)	-	(124)
Total income for the period	**-**	**-**	**-**	**(247 577)**	**25**	**(247 552)**	**(3 345)**	**(250 897)**
Other changes	-	-	-	1	-	1	-	1
As at 30 September 2020	**101 647**	**1 124 376**	**3 472**	**(302 924)**	**25**	**926 596**	**(1 024)**	**925 572**

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

(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Nota	*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	*5.1*	-	-	-	-	(61 754)	(61 754)	-	(61 754)
Transformed data as of 1 January 2019		**101 647**	**1 124 376**	**(460)**	**3 472**	**393 070**	**1 622 105**	**3 288**	**1 625 393**
Profit for the period		-	-	-	-	72 591	72 591	(852)	71 739
Total other comprehensive income		-	-	460	-	(1 143)	(683)	-	(683)
Total income for the period		**-**	**-**	**460**	**-**	**71 448**	**71 908**	**(852)**	**71 056**
Profit share from the previous years		-	-	-	-	-	-	-	-
Other changes		-	-	-	-	(1)	(1)	-	(1)
As at 30 September 2019		**101 647**	**1 124 376**	**-**	**3 472**	**464 517**	**1 694 012**	**2 436**	**1 696 448**

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 9-month period ended September 30, 2020 and contain comparative data for the 9-month period ended September 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 September 30, 2020 and comparative data for the 3-month period ended September 30, 2019.

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 65.96% 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 September 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	Production of mineral water	96,20%*	96,20%*
„PAK-Volt" SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%
„PAK-PCE Polski Autobus Wodorowy" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production of buses	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 September 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:

Piotr Woźny – President of the Management Board,

Zygmunt Artwik – Vice President of the Management Board,

Maciej Nietopiel – Vice President of the Management Board,

Andrzej Janiszowski – Vice President of the Management Board.

Changes in the composition of ZE PAK SA Management Board

On November 3, 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 November 5, 2020, the Company received declarations of Mr. Paweł Markowski and Mr. Paweł Lisowski on resignation from the membership in the Management Board of the Company and from the position of Vice President of the Management Board as of November 15, 2020. At the meeting held on November 5, 2020, the Supervisory Board of the Company appointed Mr. Piotr Woźny to the Management Board, entrusting him with the function of the President of the Management Board as of November 6, 2020. At the same time, the Supervisory Board of the Company appointed Mr. Andrzej Janiszowski to the Management Board of the Company as Vice President of the Management Board as of November 16, 2020.

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 authorized 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 period of 9 months of 2020, the Group incurred a net loss of PLN 250,773 thousand. The amount of loss in the amount of PLN 224,469 thousand was influenced by write-downs on non-current assets and mining assets. The write-offs were non-cash. On the other hand, the result at the EBITDA level for the period of 9 months of 2020 amounted to PLN 129 840 thousand.
2) As at September 30, 2020, the Group's current assets exceed the value of short-term liabilities, including bank loans, by PLN 2,880 thousand. The company draws attention to this fact because in subsequent periodic reports, starting from 2018, the value of short-term liabilities was higher than the value of current assets. The maximum value of the shortage of assets in relation to liabilities in the amount of PLN 320,796 thousand was recorded as at March 31, 2019. In subsequent periods, the liquidity situation gradually improved and as at September 30, 2020, a surplus of current assets over short-term liabilities was recorded.

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 period of first 9 months of 2020, among others the good weather conditions for wind energy (especially in the early months of the year) and restrictions imposed on the economy resulting from the state of 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 31.31% 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 12.90% and the decrease in the sale of purchased energy was as much as 56.71%. The decrease in electricity sales and the realized lower margins contributed to the deterioration of the Group's financial results compared to the results recorded in 2019.

The Management Board 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 lines 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. Nowadays, with the arrival of the fall months and the increase in susceptibility to viral infections, the epidemic situation has worsened again and restrictions have been introduced that affect a wide scale of economic activity.

Successive readings of economic indicators confirm that the effects of the pandemic have a significant impact on the economic situation. 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 nine months of 2020 decreased by 6.55%, with drops of over even ten percent in individual months. The decrease in electricity production from lignite in this period was even greater and amounted to 10.03%. 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 nine months of the year, among others, good weather conditions for wind energy (especially in the early months of the year) 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 31.31% 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 12.90% and the decrease in the sale of purchased energy was as much as 56.71%. 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 terms of the possibility of selling and trading in electricity caused by the effects of the pandemic, and thus the deterioration of the economic conditions of operations, the companies of the Group, whenever possible, use support programs in the form of "anti-crisis shields".

7.2. Other significant values based on professional judgment 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

September 2020 at the price of 139.22 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 58 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

The Group recognizes 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 nine months of 2020 amounted to 4 070 647 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 9-month period ended 30 September 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 in the periods of I and IV quarter and solar conditions in the periods of II and III quarter. However, the risk related to the seasonality and weather conditions is not crucial for the Group's operations.

10. Operating segments

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

Therefore, there are following operating segments:

The Generation Segment covering production of electricity both from conventional sources (including cogeneration) and by combustion and co-combustion of biomass. Basic fuels used by the Generation Segment are lignite and biomass. The Generation Segment covers following entities:

- Zespół Elektrowni „Pątnów – Adamów – Konin" SA
- „Elektrownia Pątnów II" sp. z o.o.

(in thousand PLN)

- „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 in liquidation

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 9 months ended 30 September 2020, there are included the activities of other companies

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 9 months ended 30 September 2020 (unaudited)	*A period of 9 months ended 30 September 2019 (unaudited)*
Net profit / (loss)	(250 773)	71 739
Financial revenues	- 6 750	- 13 163
Financial costs	+ 14 645	+ 20 479
Income tax	- 37 602	+ 48 990
Depreciation and impairment write-down	+ 410 320	+ 144 137
EBITDA	129 840	272 182

The segment results for the periods of 9 months ended 30 September 2020 and 30 September 2019 are presented in the following tables.

(in thousand PLN)

A period of 9 months ended 30 September 2020 (unaudited)

	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sales revenue to external customers	1 274 225	4 243	31 880	292 069	2 777	-	1 605 194
Sales revenue between segments	62 730	390 170	71 140	-	122 774	(646 814)	-
Sales revenue	**1 336 955**	**394 413**	**103 020**	**292 069**	**125 551**	**(646 814)**	**1 605 194**
Cost of goods sold	(1 450 887)	(496 124)	(93 443)	(297 007)	(137 151)	649 849	(1 824 763)
Gross profit / (loss)	**(113 932)**	**(101 711)**	**9 577**	**(4 938)**	**(11 600)**	**3 035**	**(219 569)**
Other operating income	46 444	5 135	141	2 662	8 733	15	63 130
Selling and distribution expenses	(1 130)	-	-	(1 166)	(372)	-	(2 668)
Administrative expenses	(36 018)	(33 770)	(7 029)	(2 074)	(4 649)	-	(83 540)
Other operating expenses	(34 834)	(963)	(1 978)	-	(58)	-	(37 833)
Finance income	6 862	197	172	147	9	(637)	6 750
Finance costs	(5 450)	(9 560)	(191)	(3)	(3 785)	4 344	(14 645)
Profit before tax	**(138 058)**	**(140 672)**	**692**	**(5 372)**	**(11 722)**	**6 757**	**(288 375)**
Income tax expense	38 667	9	1 153	(1 960)	(65)	(202)	37 602
Net profit/loss for the period from continuing operations	**(99 391)**	**(140 663)**	**1 845**	**(7 332)**	**(11 787)**	**6 555**	**(250 773)**
Profit / (loss) from operating activities, without financial operations and income tax	**(139 470)**	**(131 309)**	**711**	**(5 516)**	**(7 946)**	**3 050**	**(280 480)**
Depreciation / Amortization	78 559	37 846	2 420	5	2 943	1 948	123 721
Change in impairment	152 000	134 599	-	-	-	-	286 599
EBITDA	**91 089**	**41 136**	**3 131**	**(5 511)**	**(5 003)**	**4 998**	**129 840**

(in thousand PLN)

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

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

(in thousand PLN)

11. Revenues and costs

11.1. Sale revenues

	A period of 9 months ended 30 September 2020 (unaudited)	*A period of 3 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*	*A period of 3 months ended 30 September 2019 (unaudited)*
Material structure				
Revenues from the sale of goods, including:				
Revenues from the sale of electricity	997 509	349 795	1 170 834	458 399
Revenues from the sale of electricity from trade	347 682	128 494	742 110	221 542
Revenue for the amount of the price difference	-	-	17 720	757
Revenues from the sale of heat	33 592	7 022	31 919	6 876
Other sale revenues	23 203	6 136	19 665	5 823
Revenues from service contracts	22 522	5 398	48 189	16 651
Total revenues from the sale of goods	**1 424 508**	**496 845**	**2 030 437**	**710 048**
Excise	(809)	41	(1 545)	(241)
Total revenues from the sale of goods, including excise duty	**1 423 699**	**496 886**	**2 028 892**	**709 807**
Property rights from energy certificates	40 025	15 213	37 560	11 740
Compensation for LTC termination	141 470	42 634	90 718	29 593
Total revenues	1 605 194	554 733	2 157 170	751 140

11.2. Other operating revenues

	A period of 9 months ended 30 September 2020 (unaudited)	*A period of 3 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*	*A period of 3 months ended 30 September 2019 (unaudited)*
Revenues from the sale of CO2 allowances	2 658	-	1 384	19
Revenues from damages	831	113	4 361	392
Revenue from the anti-crisis shield	15 181	15 181	-	-
Use of the forward contract securing the purchase of CO2 emission allowances	26 210	-	-	-
Grants settlement	2 735	685	1 126	375
Revenue from demolition	6 800	6 800	-	-
Profit from disposal of non-financial fixed assets	3 810	186	418	(800)
Release of the provision for costs and losses and redemption of liabilities	5	-	4 327	5
Other	4 900	4 192	1 589	136
Total of other operation revenues	63 130	27 157	13 205	127

The largest component of the "Other" item is the release of the provision for energy origin certificates in the amount of PLN 2 660 thousand in PAK Volt sp. z o.o.

(in thousand PLN)

11.3. Other operating expenses

	A period of 9 months ended 30 September 2020 (unaudited)	*A period of 3 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*	*A period of 3 months ended 30 September 2019 (unaudited)*
Loss on the sale of property, plant and equipment	-	-	437	360
Creation of provisions	524	126	221	-
Update of provisions for redemption of CO2 emission allowances for 2019	30 045	-	-	-
Update of provisions for the reclamation of ash landfills	3 152	-	-	-
Impairment write-down on receivables	1 096	528	543	504
Penalties and damages	148	68	4 525	59
Energy damage	38	-	120	104
Donations given	54	22	166	11
Other	2 776	1 340	860	(499)
Total other operation expenses	37 833	2 084	6 872	539

The largest component of the "Other" item is the derecognition of liquidated non-depreciated fixed assets in the amount of PLN 929 thousand.

11.4. Financial income

	A period of 9 months ended 30 September 2020 (unaudited)	*A period of 3 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*	*A period of 3 months ended 30 September 2019 (unaudited)*
Interest income	1 900	19	1 807	987
Dividends	71	71	49	49
Foreign exchange gains	2 470	242	93	93
Valuation of hedging instruments exchange rate (forward)	2 277	726	4 089	4 089
Reversal of write-off for futures contracts	-	-	6 765	-
Other	32	10	360	(113)
Total financial income	6 750	1 068	13 163	5 105

11.5. Financial costs

	A period of 9 months ended 30 September 2020 (unaudited)	*A period of 3 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*	*A period of 3 months ended 30 September 2019 (unaudited)*
Interest expenses	4 050	1 123	8 365	2 978
Valuation and realization of derivative financial instruments	-	-	870	267
Foreign exchange losses	2 322	(238)	1 010	480

(in thousand PLN)

Reserve discount for the liquidation of power units	367	82	753	200
Reserve discount for reclamation	6 884	1 870	7 464	2 488
Other	1 022	268	2 017	1 036
Total of financial costs	14 645	3 105	20 479	7 449

11.6. Costs by type

	A period of 9 months ended 30 September 2020 (unaudited)	*A period of 3 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*	*A period of 3 months ended 30 September 2019 (unaudited)*
Depreciation / Amortisation	123 721	43 174	144 423	47 351
Impairment write-downs on fixed assets	286 599	(2 401)	(286)	(2)
Impairment write-downs on inventories	2 860	(540)	1 110	(58)
Materials	206 827	69 931	233 033	80 752
External services	65 353	23 395	71 710	28 564
Taxes and charges, excluding excise duty	112 642	36 829	122 575	37 482
Costs of allowances for emission of CO_2	467 629	158 540	430 138	168 583
Costs of employee benefits	294 126	89 502	310 343	95 061
Other costs by type	16 980	1 222	28 666	14 393
Cost of goods for resale and raw materials sold and resale of electricity from the market	358 717	131 944	707 202	218 146
Total cost by type	1 935 454	551 596	2 048 914	690 272
Items included in cost of goods sold	1 824 763	519 210	1 951 059	662 564
Items included in selling and distribution expenses	2 668	661	3 397	714
Items included in administrative expenses	83 540	31 810	81 002	25 749
Change in the stocks of finished goods	24 083	(204)	11 476	551
Cost of goods and services for internal needs	400	119	1 980	694

(in thousand PLN)

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 9 months ended 30 September 2020 (unaudited)	*A period of 3 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*	*A period of 3 months ended 30 September 2019 (unaudited)*
Included in the profit or the loss				
Current income tax				
Current income tax load	185	65	1 026	(1 759)
Deferred income tax load				
Related to creation and reversal of temporary differences	(36 148)	15 962	48 961	27 107
Other changes	(1 639)	2	(997)	(1 033)
Tax load in the consolidated profit or loss	**(37 602)**	**16 029**	**48 990**	**24 315**
Included in the consolidated statement of the comprehensive income				
Net profit (loss) tax due to revaluation of cash flow securities	-	-	(108)	-
Income tax concerning actuarial profits/losses	35	21	268	103
Tax benefit/(tax load) included in comprehensive income	**35**	**21**	**160**	**103**

12.2. Deferred income tax

Deferred income tax results from the following items:

	30 September 2020 (unaudited)	*31 December 2019*
Deferred tax asset		
Balance sheet provisions	80 705	66 869
Overburden and other mining assets	8 815	5 478
Interest and exchange rate differences	9	181
Hedging instruments	157	-
Valuation of non-terminated agreements for building services	451	493
Tax loss from previous years	19 591	19 735
Impairment write-down on inventories	2 085	7 370

(in thousand PLN)

Impairment write-down on receivables	1 047	849
Impairment write-downs on fixed assets	-	15 087
The difference between the balance sheet and tax value of fixed assets	14 300	15 384
Settlements with employees	826	3 580
Other	(108)	3 693
Total	**127 878**	**138 719**
Provision under deferred income tax		
Difference between the balance sheet value and the tax value of fixed assets	360 455	422 069
Receivables under PPAs	17 744	8 939
Energy certificates	3 494	4 728
Interest and exchange rate differences	27	62
Valuation of non-terminated construction agreements	252	364
Other	(271)	246
Total	**381 701**	**436 408**
After offsetting the balances at the level of the Group companies, the deferred tax is presented as:		
Asset:	**81 734**	**84 593**
Provision:	**335 557**	**382 282**

13. Profit per one share

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

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

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

	A period of 9 months ended 30 September 2020 (unaudited)	*A period of 3 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*	*A period of 3 months ended 30 September 2019 (unaudited)*
Net profit / (loss) on continued activities of the parent company's shareholders	(247 428)	10 086	72 591	34 680
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	(247 428)	10 086	72 591	34 680
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

(in thousand PLN)

The below table shows the profit/(loss) per one share in Polish zlotys for the period of 9 months ended 30 September 2020 and 30 September 2019 presented in the profit and loss account.

	A period of 9 months ended 30 September 2020 (unaudited)	*A period of 3 months ended 30 September 2020 (unaudited)*	*A period of 9 months ended 30 September 2019 (unaudited)*	*A period of 3 months ended 30 September 2019 (unaudited)*
Basic from profit/(loss) for the financial year attributable to the shareholders of the parent company	(4,87)	0,20	1,43	0,68
Diluted from profit/(loss) from continuing operations attributable to the shareholders of the parent company	(4,87)	0,20	1,43	0,68

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 9 months ended 30 September 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	-	226	887	385	23 455	24 954
Repairs	-	-	(216)	-	-	-	(216)
Transfer from fixed assets under construction	3 774	11 729	17 128	-	68	(32 699)	-
Sale and liquidation	(494)	(9 015)	(26 606)	(4 258)	(342)	-	(40 715)
Other changes	-	-	-	-	-	(45)	(45)
Gross value as at 30 September 2020	226 529	2 057 288	4 999 366	64 898	33 806	100 790	7 482 677
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	2 868	33 008	71 383	2 614	939	-	110 812
Impairment write-down (change of the state)	-	133 312	151 494	8 588	41	(14 435)	279 000
Sale and liquidation	-	(9 016)	(25 735)	(2 680)	(338)	-	(37 769)
Other changes	-	-	-	211	-	(1)	210
Depreciation and impairment write-downs as at 30 September 2020	52 756	1 642 701	4 045 971	58 016	23 755	67 892	5 891 091
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 September 2020	173 773	414 587	953 395	6 882	10 051	32 898	1 591 586

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

(in thousand PLN)

A period of 9 months ended 30 September 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	-	-	4 932	3 150	319	12 212	20 613
Repairs	-	-	(32)	-	-	-	(32)
Transfer from fixed assets under construction	4 198	5 154	4 673	-	-	(14 025)	-
Sale and liquidation	(1 128)	(4 104)	(2 467)	(1 426)	(418)	-	(9 543)
Gross value as at 30 September 2019	221 339	2 034 410	5 005 526	70 769	33 622	174 685	7 540 351
Depreciation and impairment write-downs as at 1 January 2019 (transformed data)	46 383	1 223 454	3 324 971	46 462	22 149	131 413	4 794 832
Depreciation write-off for the period	2 792	33 992	89 723	3 818	1 134	-	131 459
Impairment write-down (change of the state)	-	-	-	-	-	(286)	(286)
Sale and liquidation	(3)	(3 902)	(2 300)	(1 054)	(410)	-	(7 669)
Depreciation and impairment write-downs as at 30 September 2019	49 172	1 253 544	3 412 394	49 226	22 873	131 127	4 918 336
Net value 1 January 2019 (transformed data)	171 886	809 906	1 673 449	22 583	11 572	45 085	2 734 481
Net value as at 30 September 2019	172 167	780 866	1 593 132	21 543	10 749	43 558	2 622 015

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

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

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

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

- The continuing lower market value of the Group's net assets from their carrying amount
- 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 September 30, 2020, the lignite mine PAK KWB Konin SA operates in Jóźwin, Tomisławice and Drzewce open-pit mines.

Regarding PAK KWB Adamów - on September 14, 2020, the General Meeting of the company adopted a resolution on the dissolution and liquidation of PAK KWB Adamów. Therefore, no tests were performed for this company. The value of non-current assets is mainly land, which is measured at fair value.

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").

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 development 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 signaling 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,
- 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%
- In terms of BAT conclusions, it was assumed that exemptions for ZE PAK and Pątnów II Power Plant from the required emission limit values would be obtained. Pątnów II Power Plant sp. z o.o., on April 29, 2020, received the decision of the Marshal of Wielkopolska Province on the adaptation of the integrated permit of Pątnów II Power Plant, which runs a fuel combustion installation - Unit No. 9, to the requirements of the BAT conclusions and granting a derogation from the emission limit values specified in BAT conclusions based on Art. 204 paragraph 2 of the Environmental Protection Law in the field of NO2, Hg, SO2 and dust emissions - until August 17, 2024. The decision was made immediately enforceable due to the important social interest and the extremely important interest of the Applicant. Regarding ZE PAK, on October 2, 2020, it received a decision of the Marshal of Wielkopolska Region on adjusting the integrated permit of Pątnów-Konin Power Plant to the requirements of BAT conclusions and granting a derogation from the emission limit values specified in BAT conclusions pursuant to Art. 204 paragraph 2 of the Environmental Protection Law. Derogations from the emission limit values resulting from the BAT conclusions regarding Hg and SO2 emissions for units 1, 2, 5 at Pątnów Power Plant until the date of their decommissioning, i.e. by 31 December 2030, and in the scope of Hg emissions for EKM boilers No. 85 and 86 of Konin Power Plant until the date of their decommissioning, i.e. by 31 December 2022.
- 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:
  - odkrywka Tomisławice – 24,89 m tons till 2030,
  - odkrywka Jóźwin – 3,46 m tons till 2021,
  - odkrywka Drzewce – 2,69 m tons till 2023,
- 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 September 2020.

Based on the tests, it was found that there was no need to make a write-off.

(in thousand PLN)

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 September 2020:

	30 September 2020 (unaudited)	*31 December 2019*
Up to 1 year	8 832	6 620
1 to 3 years	14 996	11 199
3 to 5 years	8 515	9 189
Over 5 years	126 922	143 645
Total according to undiscounted payments	159 265	170 653
Book value	51 459	55 016

Amounts recognized in the cash flow statements

	Period of 9 months ended 30 September 2020 (unaudited)	*Year ended 31 December 2019*
Total cash outflow	11 388	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 in liquidation and ZE PAK SA.

	Period of 9 months ended 30 September 2020 (unaudited)	*Period of 9 months ended 30 September 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	(5 418)	(5 142)
As at the end of the period	50 791	57 558

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 – period of 9 months ended 30 September 2020 (unaudited)

	Patents and licenses	*Computer software*	*Other intangible assets*	*Total*
Gross value as at 1 January 2020	22 607	2 128	417	25 152
Increases	(18)	(33)	-	(51)
Decreases	320	-	-	320
Gross value as at 30 September 2020	22 909	2 095	417	25 421
Depreciation and impairment write-downs as at 1 January 2020	19 911	2 128	365	22 404
Depreciation write-down for the period	695	-	1	696
Impairment write-down	-	-	-	-
Decreases	(18)	(33)	-	(51)
Depreciation and impairment write-downs as at 30 September 2020	20 588	2 095	366	23 049
Net value as at 1 January 2020	2 696	-	52	2 748
Net value as at 30 September 2020	2 321	-	51	2 372

(in thousand PLN)

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

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

(in thousand PLN)

Emission allowances

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

17. Assets for overburden removal and other mining assets

As of 30 September 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 62 579 thousand.

	30 September 2020 (unaudited)	*31 December 2019*
As of 1 January	70 620	80 326
Increase	6 353	1
Decrease	-	(607)
Impairment wrote-down	(7 599)	-
Depreciation for the period	(6 795)	(9 100)
As at the end of the period	62 579	70 620
Long-term	62 579	70 620
Short-term	-	-

18. Other assets

18.1. Other financial assets

	30 September 2020 (unaudited)	*31 December 2019*
Investments and MLF deposits*	3 553	2 690
Shares	345	352
Other	1 284	178
Total other financial assets	5 182	3 220
Short-term	10	-
Long-term	5 172	3 220

* *MLF – Mining Liquidation Fund*

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

(in thousand PLN)

18.2. Other non-financial assets

	30 September 2020 (unaudited)	*31 December 2019*
VAT receivables	28 971	58 315
Insurance	397	337
Other receivables from the state budget	211	916
Other accruals	5 136	1 924
Delivery prepayments	22	7
Prepayments for assets under construction	22 208	2 311
Other	4 088	413
Total other non-financial assets	61 033	64 223
Short-term	39 211	61 615
Long-term	21 822	2 608

The largest components of the „Other” item are settlements related to the Social Fund in the amount of PLN 3 896 thousand.

19. Inventories

	30 September 2020 (unaudited)	*31 December 2019*
Production fuel	7 504	9 828
Spare parts and other materials	56 327	58 447
Energy origin certificates	22 583	36 065
Goods	1	1
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	86 415	104 341

As at September 30, 2020, the Group had a total of 7,778.228 MWh property rights of green energy certificates of green energy produced and verified by the ERO. From January 1, 2020 to September 30, 2020, the Group received 279,625.549 MWh of certificates for production in October, November, December 2019 and in January, February, March, April, May 2020. During this period, an application was submitted for the issuance of 16,836.854 MWh for production in June and July 2020. During this period, the Group did not expect any certificates. Obtaining certificates of origin was performed on an ongoing basis. The Group obtained a decision from the President of the Energy Regulatory Office stating that 26,630.737 MWh for production in December 2018 will not be granted. By September 30, 2020, 316,123.829 MWh was sold on TGE SA, the revenue from this in the amount of PLN 42,924 thousand was recognized under Other revenues. Revenue from submitted applications for June and July 2020 (price from the last session in September PLN 139.22 / MWh) is PLN 2,344 thousand.

Spare parts are a stock for the needs of current repairs and service. The impairment charge for other materials and non-strategic spare parts as at September 30, 2020 amounts to PLN 3,761 thousand.

(in thousand PLN)

20. Trade and other receivables

	30 September 2020 (unaudited)	*31 December 2019*
Trade receivables	59 535	100 807
Receivables due to compensation related to the termination of the PPAs	93 389	47 045
Receivables due to security of purchase of electricity in the balancing market	9 510	16 111
Other receivables	44 197	64 615
Net receivables	206 631	228 578
Impairment write-down on receivables	46 553	45 469
Gross receivables	253 184	274 047

In the line other receivables, as at September 30, 2020, the Group presents mainly receivables from deposits securing electricity transactions in the amount of PLN 11,620 thousand, and deposits securing the purchase of CO2 emission allowances (EUA) in the amount of PLN 23,925 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 September 2020 amounts to PLN 435 590 thousand (as of 30 September 2019: PLN 381 929 thousand).

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

Cash structure

	30 September 2020 (unaudited)	*30 September 2019 (unaudited)*
Cash in hand and at bank	155 914	106 644
Short-term deposits	279 676	275 285
Total cash and cash equivalents in the balance sheet:	435 590	381 929
Foreign exchange differences	(190)	-
Total cash and cash equivalents in cash flow statement:	435 400	381 929

(in thousand PLN)

22. Dividends paid and proposed for payment

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

23. Interest-bearing loans and borrowings

Short-term	*Maturity*	*30 September 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	12 120	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	31 051	32 020
TOTAL		**43 171**	**46 767**

Long-term	*Maturity*	*30 September 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	7 547	29 773
TOTAL		**7 547**	**29 773**

24. Provisions and accruals

24.1. Accruals

	30 September 2020 (unaudited)	*31 December 2019*
Provision for bonuses and holiday leaves	19 505	25 490
Compensation from an insurance company	340	313
Audit of financial statements	-	223
Other	10 077	1 280
Total	29 922	27 306
Short-term	29 922	27 306
Long-term	-	-

The main component of the "Other" item are fees for economic use of the environment in the amount of PLN 6 420 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*	*Razem*
As at 1 January 2020	587 487	6 362	18 190	63 921	19 249	361 134	24 187	1 080 530
increase	476 440	398	195	3 169	7 508	15 965	5 825	509 500
Decrease, including:	(596 165)	-	-	-	(19 249)	(27 614)	(1 302)	(644 330)
use	*(596 081)*	-	-	-	*(453)*	*(8 772)*	*(1 262)*	*(606 568)*
termination	*(84)*	-	-	-	*(18 796)*	*(18 842)*	*(40)*	*(37 762)*
As at 30 September 2020	467 762	6 760	18 385	67 090	7 508	349 485	28 710	945 700
Long-term	-	-	18 385	67 090	-	326 834	1 142	413 451
Short-term	467 762	6 760	-	-	7 508	22 651	27 568	532 249
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

(in thousand PLN)

24.3. Description of significant titles of provisions

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

The Group recognizes a provision for redemption of greenhouse gas emission allowances. As at September 30, 2020, the provision amounts to PLN 467,762 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 tons.

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.

In the period from July to September 2020, the Group purchased a small amount of 22,000 EUA units for 2020.

CO2 emission allowances for the period of 9 months ended 30 September 2020 (unaudited)

(in tons)		***Zespół Elektrowni Pątnów-Adamów-Konin SA***	***Elektrownia Pątnów II sp. z o.o.***
	CO_2 emission *	2 268 762	1 801 885
		quantity (in tons)	*quantity (in tons)*
EUA	Balance at the beginning of the period	62 269	1 045 676
	Purchased	4 154 000	1 406 000
	Free of charge	29 370	-
	Redemption	(4 158 913)	(2 450 404)
	Balance at the end of the period	86 726	1 272

** 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 9 months ended 30 September 2019 (unaudited)

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

** 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 September 2020, the created provision amounted to PLN 67 090 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 September 2020, the provision due to this amounted to PLN 18 385 thousand. The provision is created in correspondence with the cost of sales.

24.3.3. Reclamation provisions and other provisions related to mining activities

PAK KWB Konin SA and PAK KWB Adamów SA in liquidation 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 analyzed 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 in liquidation, 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 in liquidation as at September 30, 2020 amounted to PLN 349 485 thousand and decreased compared to the year ended December 31, 2019 by PLN 11 649 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%.

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 September 2020, the provision due to this amounted to PLN 7 508 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 September 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 2 206 thousand, provision for the service charge in the amount of PLN 2 537 thousand, in PAK KWB Adamów SA in liquidation: 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 346 thousand, provision for the service charge in the amount of PLN 420 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 September 2020 (unaudited)	*31 December 2019*
Trade liabilities:	74 176	84 731
Investment liabilities	6 753	4 484
Liabilities to employees due to salaries	15 118	15 848
Other liabilities	6 645	3 906
Total	102 692	108 969

In the line other liabilities as at September 30, 2020, the Group presents mainly liabilities concerning settlements with employees and deductions from the payroll in the amount of PLN 1,849 thousand an settlements due to the Social Fund in the amount of PLN 2 397 thousand and as the security deposit in the amount of PLN 1 031 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 September 2020 (unaudited)	*31 December 2019*
VAT tax liabilities	19 652	46 008
Liabilities due to environmental charges	435	18 496
Liabilities due to the excise tax	201	714
Liabilities due to social insurance	16 826	20 910
Income tax from individuals	3 556	4 596
Other budget liabilities	596	4 598
Advanced payments for deliveries	-	55
Service charge	-	7 092
Other	529	463
Total	41 795	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 83 thousand and liabilities to PFRON in the amount of PLN 182 thousand.

(in thousand PLN)

25.3. Grants and deferred income (long-term)

	30 September 2020 (unaudited)	*31 December 2019*
Long-term grants	33 622	38 501
Other	3 293	3 292
Total	36 915	41 793

The main component of the „Long-term grants" item. The subsidies in the amount of PLN 33 293 thousand presented as at September 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 September 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 26.2, 27 and 28 as of 30 September 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.

In the first days of October 2020, the Supreme Administrative Court issued a copy / justification of the judgment of August 2020, which is the basis for issuing a new individual interpretation of the Director of the National Tax Information.

Pątnów II Power Plant sp.z o.o. expects the above interpretation.

The proceeding is in progress.

(in thousand PLN)

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.

The Greenpeace Polska Foundation with its seat in Warsaw and Józef Imbiorski submitted a cassation complaint to the Supreme Administrative Court against the judgment of June 18, 2020. On October 26, 2020, PAK KWB Konin responded to the cassation appeal, petitioning for its dismissal.

26.2. 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 September 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 September 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

(in thousand 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 September 30, 2020, some of the mortgages have not yet been deleted.

2/ The loan for Elektrowni Pątnów II was fully repaid on 23 April 2019. Elektrownia Pątnów II as at 31 December 2019 was in the process of releasing collateral – some security measures were still active.

Other securities of liabilities

Guarantees given

Kind of guarantee	*30 September 2020 (unaudited)* *Security amount*	*Currency*	*31 December 2019* *Security amount*	*currency*
Guarantees of good performance of the contract	7 198	PLN	15 175	PLN
Guarantees to remove defects and faults	7 450 512	PLN EUR	4 827 2 657	PLN EUR
Payment guarantees (including guarantees securing transactions on TGE / IRGIT)	30 000 9 980	PLN EUR	30 208 -	PLN EUR
Advance payment guarantees	-	PLN	-	PLN

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

The table below shows the sum of granted guarantees.

	30 September 2020 (unaudited)	*currency*	*31 December 2019*	*currency*
Intra-Group Guarantees	221 578	PLN	120 700	PLN
The Guarantees granted to the entities outside the Group	-	PLN	16 259	PLN
Total of granted Guarantees	**221 578**	**PLN**	**136 959**	**PLN**

28. Received guarantees and sureties

Kind of guarantee	*30 September 2020 (unaudited)* *Security amount*	*currency*	*31 December 2019* *Security amount*	*currency*
Guarantees of good contract performance	27 219	PLN	9 211	PLN
Guarantees to remove defects and faults	3 070 -	PLN EUR	2 812 -	PLN EUR
Payment guarantees	78 -	PLN EUR	6 204 -	PLN EUR
Advance payment guarantees	12 705 2 083	PLN EUR	- -	PLN EUR

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

(in thousand PLN)

29. Information about related entities

The following table shows the total amounts of transactions concluded with elated entities for the period of 9 months ended 30 September 2020 and 30 September 2019 as well as receivables and liabilities as at 30 September 2020 and 30 September 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	III quarters 2020	-	90	-	-
	III quarters 2019	-	90	-	-
Megadex Serwis sp. z o.o.	III quarters 2020	-	-	-	-
	III quarters 2019	2	25 508	-	-
Megadex Development sp. z o.o.	III quarters 2020	51	-	5	-
	III quarters 2019	-	-	-	-
Megadex Expo sp. z o.o.	III quarters 2020	513	-	67	-
	III quarters 2019	-	-	-	-
Polkomtel sp. z o.o.	III quarters 2020	84 691	5 279	12 498	666
	III quarters 2019	129 616	10 435	18 165	2 375
Polkomtel Infrastruktura sp. z o.o.	III quarters 2020	84	-	23	-
	III quarters 2019	-	-	-	-
Laris Investments sp. z o.o.	III quarters 2020	421	275	26	1
	III quarters 2019	543	299	240	-
Laris Technolgies sp. z o.o.	III quarters 2020	1 956	-	117	-
	III quarters 2019	-	-	-	-
CPE sp. z o.o.	III quarters 2020	1	622	-	112
	III quarters 2019	-	77	-	21
Plus Flota sp. z o.o.	III quarters 2020	-	1 954	-	329
	III quarters 2019	-	220	-	76
Cyfrowy Polsat SA	III quarters 2020	2 722	6	758	1
	III quarters 2019	-	-	-	-
Esoleo sp. z o.o.	III quarters 2020	-	452	-	236
	III quarters 2019	-	-	-	-
Total	**III quarters 2020**	**90 439**	**8 678**	**13 494**	**1 345**
	III quarters 2019	**130 161**	**36 629**	**18 405**	**2 472**

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 9 months ended 30 September 2020 as well as within the period of 9 months ended 30 September 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 9 months ended 30 September 2020 as well as within the period of 9 months ended 30 September 2019 there were no transactions with members of management and supervisory staff.

(in thousand PLN)

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 9 months ended 30 September 2020 (unaudited)	*Period of 9 months ended 30 September 2019 (unaudited)*
Management Board of the parent company		
Short-term employee benefits	3 037	1 661
Termination benefits	1	65
Supervisory Board of the parent company		
Short-term employee benefits	851	834
Management Boards of subsidiaries		
Short-term employee benefits	1 905	1 700
Termination benefits	-	25
Supervisory Board of subsidiaries		
Short-term employee benefits	-	-
Total	5 794	4 285

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

	Period of 9 months ended 30 September 2020 (unaudited)	*Period of 9 months ended 30 September 2019 (unaudited)*
Short-term employee benefits	8 383	8 438
Jubilee awards	22	-
Post-employment benefits	54	-
Benefits for termination of the employment contract	22	216
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	8 481	8 654

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 September 2020 (unaudited)***		***Interest rate risk sensitivity study as of 30 September 2020***							
			WIBOR				***EURIBOR***			
			WIBOR + 241pb		***WIBOR – 241pb***		***EURIBOR + 17,7pb***		***EURIBOR - 17,7pb***	
	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	5 182	3 553	86	-	(86)	-	-	-	-	-
Trade and other receivables	206 631	-	-	-	-	-	-	-	-	-
Derivative financial instruments	1 014	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	435 590	435 590	10 197	-	(10 197)	-	22	-	(22)	-
Interest-bearing loans and borrowings	(50 718)	(50 718)	(1 222)	-	1 222	-	-	-	-	-
Trade payables and other financial liabilities	(108 026)	-	-	-	-	-	-	-	-	-
Lease liabilities	(51 459)	(51 459)	(1 240)		1 240					
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Total	**438 214**	**336 966**	**7 821**	**-**	**(7 821)**	**-**	**22**	**-**	**(22)**	**-**

pb – base points

(in thousand PLN)

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

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 September 30, 2020, two companies of the Group used instruments to limit the risk resulting from changes in foreign exchange rates. ZE PAK SA and Elektrownia Pątnów II sp.z o.o. hedged the euro exchange rate for part of the flows related to the purchase of CO2 emission allowances. ZE PAK SA used forward transactions with the settlement in November 2020 and March 2021 to secure the exchange rate. In order to hedge the exchange rate, Pątnów II Power Plant sp.z o.o. used forward transactions with settlement in March 2021.

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 September 2020 (unaudited)***		***Analysis of sensitivity to interest rate risk as of 30 September 2020*** **EUR/PLN**			
			EUR/PLN + 5,887% 4,7933		**EUR/PLN - 5,887% 4,2603**	
	Carrying amount	***Value at risk***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	5 182	-	-	-	-	-
Trade and other receivables	206 631	23 856	1 404	-	(1 404)	-
Derivative financial instruments	1 014	-	-	-	-	-
Cash and cash equivalents	435 590	12 468	734	-	(734)	-
Interest-bearing loans and borrowings	(50 718)	-	-	-	-	-
Trade payables and other financial liabilities	(108 026)	(1 229)	(72)	-	72	-
Lease liabilities	(51 459)	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Total	**438 214**	**35 095**	**2 066**	**-**	**(2 066)**	**-**

(in thousand PLN)

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

30.3. Credit risk

The credit risk is a potential credit event, which may be materialized 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	-	-	Baa1
Santander Bank Polska	BBB+	-	A3
Alior Bank	BB	BB	-
BNP Paribas Bank Polska	-	-	Baa1

In addition to the banks presented in the table above, the Group also had cash at Plus Bank SA as at 30 September 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.

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 September 2020 (without cash in hand)*
Moody’s	*S&P*	*Fitch*	*(unaudited)*
Aaa	AAA	AAA	-
Aa1	AA+	AA+	-
Aa2	AA	AA	-
Aa3	AA-	AA-	4
A1	A+	A+	-
A2	A	A	196

(in thousand PLN)

A3	A-	A-	140 041
Baa1	BBB+	BBB+	125 057
Baa2	BBB	BBB	-
Baa3	BBB-	BBB-	169 742
Ba1	BB+	BB+	-
Ba2	BB	BB	549
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			435 589

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 September 2020 and 30 September 2019 according to the maturity date based on contractual non-discounted payments.

(in thousand PLN)

30 September 2020 (unaudited)	*Less than 3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	7 713	35 458	7 547	-	50 718
Trade payables and other financial liabilities	67 333	35 359	5 334	-	108 026
Lease liabilities	1 510	7 322	11 106	31 521	51 459
Derivative financial instruments	15 809	28 692	-	-	44 501
	92 365	**106 831**	**23 987**	**31 521**	**254 704**

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

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 IFRS 9	*30 September 2020 (unaudited)*	*31 December 2019*
Other financial assets	AFwgZK	5 182	3 220
Trade receivables and other receivables	AFwgZK	206 631	228 578
Derivative financial instruments	WwWGpWF	1 014	-
Cash and cash equivalents	AFwgZK	435 590	414 634
Financial liabilities			
Interest-bearing bank credits and loans, including:		50 718	76 540
long term	PZFwgZK	7 547	29 773
short term	PZFwgZK	43 171	46 767
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	108 026	117 765
Lease liabilities		51 459	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 September 30, 2020 and as at December 31, 2019, the Group possessed the following financial instruments measured at fair value:

	30 September 2020 (unaudited)	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	1 014	-
Derivative instruments securing liabilities	-	-	-	-
	31 *December 2019*	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	-	-
Derivative instruments securing liabilities	-	-	1 757	-

The fair value of financial instruments other than derivative instruments as at September 30, 2020 and December 31, 2019 did not differ significantly from the carrying amounts, mainly due to the fact that for short-term instruments, the discount effect is not significant and the fact that transactions are concluded on market terms; for this reason, the fair value of these instruments was presented in the amount of their carrying amount.

(in thousand PLN)

Valuation of interest-bearing loans and credits after initial recognition is made according to the amortized cost method, taking into account the contractual costs related to obtaining a given credit or loan, as well as discount and bonuses obtained.

As at September 30, 2020, derivative instruments - forward currency purchase transactions, were measured at fair value. For the purposes of valuation of foreign exchange contracts, the difference in discounted future cash flows is calculated between the forward price as at the valuation date and the transaction price, according to quotations prepared by the relevant bank, multiplied by the nominal value of the contract in a foreign currency. The valuation of these instruments was classified to level 2 of the fair value measurement hierarchy.

In the period ended September 30, 2020 and in the year ended December 31, 2019, there were no transfers between level 1 and level 2 of the fair value hierarchy, nor were any of the instruments moved to level 3 of the fair value hierarchy.

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 September 2020 (unaudited)*	*Carrying amount as of 31 December 2019 (unaudited)*
Financial assets at interest rate risk – PLN	Fixed	-	-
	Variable	426 675	416 440
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	12 468	885
Financial liabilities at interest rate risk - PLN	Fixed	-	-
	Variable	50 718	76 541
Financial liabilities at interest rate risk – Other currencies	Fixed	-	-
	Variable	-	-
Net exposure -PLN	Fixed	-	-
	Variable	375 957	339 899
Net exposure - other currencies	Fixed	-	-
	Variable	12 468	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 September 30, 2020, two companies of the Group used instruments to limit the risk resulting from changes in foreign exchange rates. ZE PAK SA and Elektrownia Pątnów II sp.z o.o. hedged the euro exchange rate for part of the flows related to the purchase of CO2 emission allowances. ZE PAK SA used forward transactions with the settlement in November 2020 and March 2021 to secure the exchange rate. In order to hedge the exchange rate, Pątnów II Power Plant sp. z o.o. used forward transactions with settlement in March 2021.

Type of concluded transactions	*Currency pair*	*Transactions amount (nominal value in EUR thousand) 30 September 2020 (unaudited)*	*Net market value (fair value in PLN thousand) 30 September 2020 (unaudited)*	*Maturity*
Forward transactions for the purchase of EUR currency	(EUR/PLN)	3 500	95	November 2020
Forward transactions for the purchase of EUR currency	(EUR/PLN)	6 502	919	March 2021

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 September 30, 2020 and September 30, 2019.

30 September 2020 (unaudited)

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions in EUR thousand*	*Currency of transactions*	*Maturity*
Forward transactions	5 521 000	140 309	EUR	Up to 1 year
Forward transactions	779 000	17 125	EUR	Over 1 year

30 September 2019 (unaudited)

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

	30 September 2020 (unaudited)	*31 December 2019*
Interest-bearing credits and loans	50 718	76 540
Derivative financial instruments (liabilities)	-	1 757
Trade liabilities and other financial liabilities	108 026	117 765
Minus cash and its equivalents	435 590	414 634
Net debt	(276 846)	(218 572)
Equity	925 572	1 176 468
Capitals from revaluation of security instruments	-	-
Total capital	925 572	1 176 468
Net capital and debt	648 726	957 896
Leverage ratio	(42,68%)	(22,82%)

33. Significant events after the balance sheet date

Changes in the structure of the Group

On September 23, 2020, other subsidiaries were established and submitted for registration: PAK-Polska Czysta Energia sp. z o.o., PAK-PCE Biogaz sp. z o.o., PAK-PCE Biopaliwa i Wodór sp. z o.o. and PAK-PCE Wiatr sp. z o.o. As at September 30, 2020, the above subsidiaries have not yet been disclosed in the National Court Register.

On September 29, 2020, the change of the names of two subsidiaries was also submitted for registration - PAK Adamów sp.z o.o.will be changed to Polski Autobus Wodorowy sp.z o.o., and Polski Autobus Wodorowy sp. z o.o. will be changed to PAK-PCE Fotowoltaika sp. z o.o. As at September 30, 2020, the above changes have not yet been disclosed in the National Court Register.

The intention to merge ZE PAK SA and Elektrownia Pątnów II sp. z o.o.

On November 6, 2020, the Management Board of ZE PAK SA announced the intention to merge ZE PAK SA (the "Acquiring Company") with Elektrownia Pątnów II sp. Z o.o. ("Acquired Company").

The merger of both companies will take place pursuant to Art. 492 § 1 point 1 of the Commercial Companies Code (merger by acquisition), by transferring all assets of Elektrownia Pątnów II sp. z o.o. on ZE PAK SA. As a result of the Merger, Elektrownia Pątnów II sp. z o.o. will be dissolved without liquidation. Due to the fact that ZE PAK SA, as the Acquiring Company, holds all the shares of Elektrownia Pątnów II sp. z o.o., as the Acquired Company, the Merger will be carried out in accordance with Art. 515 § 1 of the Commercial Companies Code and 516 § 6 of the Commercial Companies Code, i.e. without increasing the share capital of the Acquiring Company and without the exchange of shares in Elektrownia Pątnów II sp. z o.o., as the Acquired Company, for shares in the share capital of ZE PAK SA as the Acquiring Company.

New directions of ZE PAK SA strategy

In view of the worsening prospects for conventional electricity producers, especially those based on high-emission fuels, ZE PAK SA decided to set new directions for the strategy, according to which the Group will end coal-based energy production at the end of this decade. In the coming years, ZE PAK will generate more and more energy from renewable energy sources, and after the end of coal mining, energy will be produced only from renewable sources. An important direction of the new strategy is also the production and use of hydrogen.

The strategic directions assume that the transformation process of ZE PAK will last for the coming years. During this time, further green energy generation projects will be launched and lignite powers will be gradually decommissioned. The date of ending the production of energy from coal is not accidental, the Company intends to fit into the final dates of production of energy from coal set out in the Paris Agreement.

The basic model for the operation of the coal segment assumes the use of currently exploited open pits and no new investments in this area. The generation of electricity in coal-fired units at Pątnów I power plant will be shortened until the support system is operational, in the form of a capacity market or another, which will ensure the economic effectiveness of such activity. A more modern and efficient unit at Pątnów II power plant could operate longer, but here the condition is also the economic efficiency of its use. The assumed end date of electricity production in coal sources of ZE PAK Group is planned not later than at the end of the current decade.

Simultaneously, with the phasing out of coal activities, new areas will be developed in which ZE PAK Group intends to exist.

Changes in the Supervisory Board

On November 4, 2020, Mr. Piotr Woźny resigned from being a member of the Supervisory Board of the Company and from acting as the Chairman of the Supervisory Board of the Company.

At the meeting held on November 5, 2020, the Supervisory Board of the Company appointed Mr. Piotr Woźny to the Management Board, entrusting him with the function of the President of the Management Board as of November 6, 2020.

SIGNATURES:

Piotr Woźny President of the Management Board	…………………………………………………………..
Zygmunt Artwik Vice President of the Management Board	....
Maciej Nietopiel Vice President of the Management Board	....
Andrzej Janiszowski Vice President of the Management Board	....
Aneta Desecka Chief Accountant	....