ZE PAK SA CAPITAL GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF 9 MONTHS ENDED 30 SEPTEMBER 2021

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

26 November 2021

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(thousand PLN)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For a period of 9 months ended 30 September 2021

	Note	*A period of 9 months ended 30 September 2021 (unaudited)*	*A period of 3 months ended 30 September 2021 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 3 months ended 30 September 2020 (unaudited)*
Continuing operations					
Revenues, including:	*11.1*	**1 604 146**	**618 428**	**1 605 194**	**554 733**
Revenues from the contracts with clients		*1 300 089*	*515 276*	*1 423 703*	*496 890*
Other revenues		*304 057*	*103 152*	*181 491*	*57 843*
Costs of goods sold:	*11.6*	**(1 470 283)**	**(539 230)**	**(1 824 763)**	**(519 210)**
Impairment write down on fixed assets and mining assets		-	-	*286 599*	*(2 401)*
Gross profit / (loss)		**133 863**	**79 198**	**(219 569)**	**35 523**
Other operating revenues	*11.2*	43 883	15 443	63 130	27 157
Selling and distribution expenses	*11.6*	(3 553)	(1 040)	(2 668)	(661)
Administrative expenses	*11.6*	(78 352)	(24 861)	(83 540)	(31 810)
Other operating expenses	*11.3*	(11 924)	(423)	(37 833)	(2 084)
Gross profit / (loss) from operations		**83 917**	**68 317**	**(280 480)**	**28 125**
Financial income	*11.4*	49 873	48 756	6 750	1 068
Financial costs	*11.5*	(56 299)	(50 025)	(14 645)	(3 105)
Profit / (loss) before tax		**77 491**	**67 048**	**(288 375)**	**26 088**
Income tax expense (taxation)	*12*	28 719	19 173	37 602	(16 029)
Net profit / (loss) for the period from continuing operations		**106 210**	**86 221**	**(250 773)**	**10 059**
Net profit / (loss) for the period		**106 210**	**86 221**	**(250 773)**	**10 059**
Net profit/ (loss) attributable to equity holders of the parent		106 210	86 221	(247 428)	10 086
Net profit/ (loss) attributable to non-controlling interests		-	-	(3 345)	(27)

Profit / (loss) per share (in PLN):	*Note*	*A period of 9 months ended 30 September 2021 (unaudited)*	*A period of 3 months ended 30 September 2021 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 3 months ended 30 September 2020 (unaudited)*
Basic/diluted for profit for the period from continuing operations attributable to equity holders of the parent	*13*	2,09	1,70	(4,87)	0,20

(thousand PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For a period of 9 months ended 30 September 2021

	Note	*A period of 9 months ended 30 September 2021 (unaudited)*	*A period of 3 months ended 30 September 2021 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 3 months ended 30 September 2020 (unaudited)*
Net profit / (loss) for the period		**106 210**	**86 221**	**(250 773)**	**10 059**
Other comprehensive income *Items to be reclassified to the profit / (loss) in subsequent reporting periods:*					
Exchange differences from converting a foreign unit		(12)	32	25	50
Income tax on other comprehensive income		-	-	-	-
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods		(12)	32	25	50
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:					
Actuarial gains / (losses) on provisions for post-employment benefits		35	62	(184)	(112)
Income tax on other comprehensive income	*12.1*	(19)	(6)	35	21
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		16	56	(149)	(91)
Net other comprehensive income		**4**	**88**	**(124)**	**(41)**
Comprehensive income for the period		**106 214**	**86 309**	**(250 897)**	**10 018**
Comprehensive income attributable to equity holders of the parent		106 214	86 309	(247 552)	10 045
Comprehensive income attributable to non-controlling holders		-	-	(3 345)	(27)

(thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

	Note	*30 September 2021 (unaudited)*	*31 December 2020*
ASSETS			
Fixed assets			
Property, plant and equipment	*14*	1 859 463	1 660 661
Assets due to the right of use	*15*	46 677	49 210
Investment property		2 010	2 141
Intangible assets	*16*	2 542	2 754
Assets of removing overburden and other mining assets (long-term)	*17*	51 381	52 291
Other long-term financial assets	*18.1*	20 376	5 081
Other long-term non-financial assets	*18.2*	1 201	297
Deferred tax assets	*12.2*	76 133	84 920
Total fixed assets		**2 059 783**	**1 857 355**
Current assets			
Emission allowances	*16*	15	3 565
Inventories	*19*	73 189	67 859
Trade and other receivables	*20*	645 848	385 056
Income tax receivables		88	19 416
Derivative short-term financial instruments (assets)		632	6 550
Other short-term financial assets	*18.1*	797	10
Other short-term non-financial assets	*18.2*	40 800	39 673
Amounts due from customers under long-term contracts		3 340	1 283
Cash and cash equivalents	*21*	363 306	497 861
Total current assets		**1 128 015**	**1 021 273**
TOTAL ASSETS		**3 187 798**	**2 878 628**

(thousand PLN)

	Note	*30 September 2021 (unaudited)*	*31 December 2020*
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		(280 400)	(55 931)
Net profit / (loss)		106 210	(222 393)
Exchange differences from converting a foreign unit		32	43
Equity attributable to equity holders of the parent		**1 055 337**	**951 214**
Equity attributable to non-controlling interests		12	(1 751)
Total equity		**1 055 349**	**949 463**
Long-term liabilities			
Interest-bearing loans and borrowings	*23*	382 664	-
Long-term employee benefits		40 857	40 886
Trade liabilities and other long-term financial liabilities		710	5 248
Long-term lease liabilities	*15*	47 881	51 495
Subsidies and deferred long-term revenues	*25.3*	34 022	36 027
Other long-term provisions and accruals	*24*	410 135	414 527
Deferred income tax	*12.2*	272 955	312 902
Total long-term liabilities		**1 189 224**	**861 085**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities	*25.1*	326 465	188 261
Current portion of interest-bearing loans and borrowings	*23*	33 914	55 003
Other non-financial liabilities	*25.2*	55 494	78 152
Current income tax liability		60	1 279
Short-term employee benefits		6 868	6 521
Subsidies and deferred short-term revenues	*25.4*	3 646	3 646
Amounts due to customers under long-term contracts		5 078	6 680
Other short-term provisions and accruals	*24*	511 700	728 538
Total short-term liabilities		**943 225**	**1 068 080**
Total liabilities		**2 132 449**	**1 929 165**
TOTAL LIABILITIES AND EQUITY		**3 187 798**	**2 878 628**

(thousand PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

For a period of 9 months ended 30 September 2021

	A period ended 30 September 2021 (unaudited)	*A period ended 30 September 2020 (unaudited)*
Cash flow from operating activities		
Profit /(loss) before tax	77 491	(288 375)
Adjustments for:		
Depreciation and amortization	100 406	120 986
Interests and shares in profits	170	1 446
(Profit) / loss on foreign exchange differences	504	(190)
(Profit) / loss on investing activities	(25 960)	(2 825)
(Increase) / decrease in receivables	(238 475)	49 390
(Increase) / decrease in inventories	(5 330)	17 926
Increase / (decrease) in payables except for loans and borrowings	161 854	(85 032)
Change in provisions, prepayments, accruals and employee benefits	416 988	480 134
Income tax (paid)/refunded	15 649	31 038
Allowances for emission of CO_2	(639 064)	(525 656)
Impairment write down on fixed assets and mining assets	-	286 599
Other	1 917	(4 217)
Net cash flow from operating activities	**(133 850)**	**81 224**
Cash flow from investing activities		
Proceeds from sale of property, plant and equipment and intangible assets	28 070	6 060
Purchase of property, plant and equipment and intangible assets	(372 586)	(37 403)
Expenses and receipts related to other financial assets	(15 027)	(701)
Received dividends	46	71
Other	(19)	(20)
Net cash flow from investing activities	**(359 516)**	**(31 993)**
Cash flow from financing activities		
Payment of finance lease liabilities	(207)	(908)
Proceeds from loans and borrowings and debt securities	439 756	-
Repayment of loans and borrowings and debt securities	(79 111)	(25 823)
Interest paid	(1 119)	(1 734)
Net cash flow from financing activities	**359 319**	**(28 465)**
Net increase / (decrease) in cash and cash equivalents	**(134 047)**	**20 766**
Cash and cash equivalents at the beginning of the period	**497 601**	**414 634**
Cash and cash equivalents at the end of the period	**363 554**	**435 400**

(thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For a period of 9 months ended 30 September 2021 (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 2021	**101 647**	**1 124 376**	**3 472**	**(278 324)**	**43**	**951 214**	**(1 751)**	**949 463**
Net profit for the period	-	-	-	106 210	-	106 210	-	106 210
Total other comprehensive income	-	-	-	16	(11)	5	-	5
Total income for the period	**-**	**-**	**-**	**106 226**	**(11)**	**106 215**	**-**	**106 215**
Acquisition of companies	-	-	-	(342)	-	(342)	12	(330)
Transfer of non-controlling interest's profits to retained earnings	-	-	-	(1 751)	-	(1 751)	1 751	-
Other changes	-	-	-	1	-	1	-	1
As at 30 September 2021	**101 647**	**1 124 376**	**3 472**	**(174 190)**	**32**	**1 055 337**	**12**	**1 055 349**

(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**

ADDITIONAL EXPLANATORY NOTES

1. General information

ZE PAK SA Capital Group („Group", Capital Group", „ZE PAK SA Group") consists of ZE PAK SA („parent Company", „Company", „ZE PAK SA") and its subsidiaries (see Note 2).

Change of the Company's name

On September 30th, 2021 the District Court Poznań - Nowe Miasto and Wilda in Poznań, IX Commercial Division of the National Court Register registered the amendments the Articles of Association adopted by the Ordinary General Meeting of Shareholders of ZE PAK SA on June 28th, 2021, consisting in the amendment of the Company's name from Zespół Elektrowni Pątnów-Adamów-Konin Spółka Akcyjna to ZE PAK Spółka Akcyjna, giving § 1 item 1 of the Company's Articles of Association the following new wording: „The name of the Company is: ZE PAK Spółka Akcyjna".

The change concerns only the name of the Company, all other data have not changed.

The interim condensed consolidated financial statements of the Group cover the 9-month period ended September 30, 2021 and contain comparative data for the 9-month period ended September 30, 2020 and data as at December 31, 2020. 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, 2021 and comparative data for the 3-month period ended September 30, 2020.

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.

(thousand PLN)

2. Composition of the Group

The Group consists of ZE PAK SA and the following subsidiaries:

Entity	Registered office	Scope of operations	Group's share in the capital %	
			As at 30 September 2021	As at 31 December 2020
„PAK – Polska Czysta Energia" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Activities of central companies, excluding financial holding companies	100,00%	100,00%
„PAK Kopalnia Węgla Brunatnego Konin" SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	100,00%*	97,68%*
„PAK Górnictwo" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair and conservation of machines	100,00%	100,00%
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100,00%*	100,00%*
„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 – PCE Fotowoltaika sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%	100,00%
„PAK – PCE Biogaz" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%*	100,00%*
„PAK – PCE Biopaliwa i Wodór" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Generation of electricity	100,00%*	100,00%*
„PAK – PCE Wiatr" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%*	100,00%*
„PG Hydrogen" sp. z o.o.	02-673 Warszawa ul. Konstruktorska 4	Manufacture of engines and turbines, except aircraft, car and motorcycle engines	52,00%*	52,00%*
„Exion Hydrogen Polskie Elektrolizery" sp. z o.o.	04-028 Warszawa Al. Stanów Zjednoczonych 61	Design and production of electrolysers	80,00%	-
„Exion Hydrogen Belgium" BV	Slachthuisstraat 120 Bus 12 2300 Turnhout	Design and production of electrolysers	80,00%*	-
„Farma Wiatrowa Kazimierz Biskupi" sp. z o.o.	00-195 Warszawa ul. Zygmunta Słomińskiego 5/231	Engineering activities and related technical consultancy	100,00%*	-
„PCE – OZE 1" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	95,00%*	-
„PCE – OZE 2" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	95,00%*	-
„PCE – OZE 3" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	95,00%*	-
„PCE – OZE 4" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	95,00%*	-
„PCE – OZE 5" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	95,00%*	-
„PCE – OZE 6" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	95,00%*	-
„PAK Kopalnia Węgla Brunatnego Adamów" SA in liquidation	62-700 Turek Warenka 23	Lignite extraction	100,00%*	99,35%
„Aquakon" sp. z o.o. in liquidation	62-610 Sompolno Police	In liquidation	99,08%*	96,20%*

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

As of 30 September 2021, 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 at 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,
- Katarzyna Sobierajska – Vice President of the Management Board.

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 2020 authorized for issue on 19 April 2021.

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 interim condensed consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, i.e. at least for the next 12 months from the date of these financial statements.

As at the date of approval of these financial statements, no circumstances were identified that would indicate a threat to the continued operation of the Group.

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

In these interim condensed consolidated financial statements, the Group did not decide to apply the following published standards, interpretations or amendments to the existing standards earlier before their effective date:

- IFRS 17 „Insurance contracts” and amendments to IFRS 17

IFRS 17 "Insurance Contracts" was issued by the International Accounting Standards Board on May 18, 2017, while the amendments to IFRS 17 were published on June 25, 2020. The new revised standard is effective for annual periods beginning on or after January 1, 2023.

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

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

- Amendments to IAS 1 „Presentation of financial statements”

The Board published amendments to IAS 1, which clarify the issue of presenting liabilities as long- and short-term. The published changes are effective for financial statements for periods beginning on or after January 1, 2023.

As at the date of preparing these interim condensed consolidated financial statements, the amendment has not yet been approved by the European Union.

- Amendments to IFRS 3 „Merger of enterprises"

The amendments to the standard published in May 2020 are intended to update the relevant references to the Conceptual Framework in IFRS, without introducing substantive changes to accounting for business combinations.

- Amendments to IAS 16 „Tangible fixed assets"

The amendment prohibits adjusting the cost of manufacturing property, plant and equipment by the amounts obtained from the sale of components produced in the period of preparing the property, plant and equipment to start operating as intended by the management. Instead, the unit will recognize the above-mentioned sales revenues and related costs directly in the profit and loss account. The amendment is effective for financial statements for periods beginning on or after January 1, 2022.

- Amendments to IAS 37 „Provisions, contingent liabilities and contingent assets"

The amendments to IAS 37 provide clarifications regarding the costs that an entity considers in analysing whether the contract is an onerous contract. The amendment is effective for financial statements for periods beginning on or after January 1, 2022.

- Annual amendments to IFRS 2018 - 2020

"Annual amendments to IFRS 2018-2020" introduce changes to the standards: IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IAS 41 "Agriculture" and to the illustrative examples to IFRS 16 "Leasing"

The amendments explain and clarify the guidelines of the standards for recognition and measurement.

- Amendments to IAS 1 "Presentation of Financial Statements" and guidance of the IFRS Board on disclosures about accounting policies in practice

The amendment to IAS 1 introduces the requirement to disclose significant information about the accounting principles defined in the standard. The amendment explains that information on accounting policies is material if, in the absence of such information, users of the financial statements would not be able to understand other material information included in the financial statements. In addition, the Board's guidance on applying the concept of materiality in practice has also been revised to provide guidance on how to apply the concept of materiality to accounting policy disclosures. As at the date of preparing these interim condensed consolidated financial statements, the changes have not yet been approved by the European Union.

- Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

In February 2021, the Board published an amendment to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" regarding the definition of accounting estimates. The amendment to IAS 8 explains how entities should distinguish changes in accounting policies from changes in accounting estimates. As at the date of preparing these interim condensed consolidated financial statements, the changes have not yet been approved by the European Union.

- Amendments to IFRS 16 „Leasing"

In connection with the coronavirus (COVID-19) pandemic, in 2020 an amendment to IFRS 16 was introduced and allowed for a simplification in assessing whether changes to lease agreements introduced during the pandemic constitute modifications to the lease. As a result, lessees could benefit from a simplification of not applying the IFRS 16 guidelines for modifying leases. As this change concerned a reduction in lease payments due until June 30, 2021 and earlier, in February 2021 the Council proposed to extend the availability of a practical solution regarding the reliefs on lease payments that would affect the payments originally due in June 2022 or earlier. As at the date of preparing these interim condensed consolidated financial statements, the changes have not yet been approved by the European Union.

- Amendments to IAS 12 „Income tax"

Amendments to IAS 12 clarify how to account for deferred tax on transactions such as leasing and decommissioning liabilities. Before the amendment to the standard, there were uncertainties as to whether the exemption from the recognition of deferred tax recognized for the first time applied to this type of transaction, i.e. where both deferred tax assets and liabilities are recognized. The amendments to IAS 12 clarify that the exemption does not apply and that entities are required to recognize deferred tax on such transactions. The amendments require companies to recognize deferred tax on transactions which, upon initial recognition, give rise to the same taxable and deductible temporary differences.

The amendment is effective for financial statements for periods beginning on or after January 1, 2023. As at the date of preparing these interim condensed consolidated financial statements, the changes have not yet been approved by the European Union.

- IFRS 14 „Regulatory prepayments"

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

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

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

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

In the event that the non-monetary asset constitutes a "business", the investor shows the full gain or loss on the transaction. If the assets do not meet the definition of a business, the investor recognizes a gain or loss only to the extent of the interests of other investors.

The changes were published on September 11, 2014. As at the date of preparation of these interim condensed consolidated financial statements, the approval of this amendment is postponed by the European Union.

As at the date of approval of these condensed interim consolidated financial statements for publication, the Management Board has not yet completed work on the assessment of the impact of the introduction of the above standards and interpretations on the accounting policies applied by the Group in relation to the Group's operations or its financial results.

The effective dates are the dates resulting from the content of the standards announced by the International Financial Reporting Council. The dates of application of the standards in the European Union may differ from the dates of application resulting from the content of the standards and are announced at the time of approval for use by the European Union. The Group has not decided to early apply any standard, interpretation or amendment that has been published but has not yet come into force in the light of the European Union regulations.

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 2020.

Revenues from the capacity market

Starting from January 1, 2021, the Group recognizes revenues from the capacity market. Revenues from the capacity market are revenues from the performance of capacity contracts (obligations) concluded as a result of Auction 2021 (primary market) and the performance of the capacity obligation resulting from agreements concluded on the secondary market. The capacity market is a market mechanism aimed at ensuring stable electricity supplies in the long term. After the end of each month, the ZE PAK SA capital group is entitled to remuneration from PSE SA for the performance of the capacity obligation. Therefore, the companies of the Group, which are power suppliers to PSE S.A., recognize revenues from transactions related to the capacity market each month.

Changes of standards

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 judgement and estimates

The range of significant values based on professional judgement and estimates was presented in the consolidated financial statements prepared as at December 31, 2020 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

The situation related to the negative consequences of the COVID-19 pandemic seemed to be improving as the next months of 2021 passed. The severity of the incidence occurred with the beginning of the fall-winter season, which usually favours greater exposure to various types of illnesses. However, it seems that the propensity to introduce restrictions reducing economic activity is smaller than it was in the previous year. However, decisive steps are to be expected when the viability of the healthcare system is put into a critical situation.

Taking into account last year's experience, however, it should be expected that in the event of a worsening of the pandemic situation, the introduced restrictions inhibiting economic activity will be of a temporary nature and their introduction will be gradual depending on the severity of the disease and the ability of the healthcare system to care for the infected.

The company assumes that the consequences of the pandemic situation will be much less severe than last year. Although it is impossible to exclude a negative scenario and subsequent waves of increased disease, the adaptability of enterprises is at a much higher level than it was a year ago.

The past year has proved that the Company is properly prepared to operate in a pandemic. The developed solutions in the field of employee protection, preventing interruptions in production and securing the financial position allow us to assume that in the event of an unfavourable scenario, the functioning of the Company is not burdened with too high risk.

7.2. Other significant values based on professional judgement and estimates

Valuation of Energy certificates

For the production of energy in renewable, gas and high cogeneration sources, the Group recognizes energy origin certificates (green and red certificates) at fair value at the end of the month in which they were produced. As at the balance sheet date, the Group measures certificates of origin to the net realizable value - for green certificates as at 30 September 2021 at the price of 269.64 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 as at September 30, 2021 is PLN 3,600 thousand. The value of the write-down reduces the value of inventories due to certificates of origin and increases the cost of sales. The source of uncertainty is legal regulations regarding the Renewable Energy Sources market.

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

The Group recognizes the provision for greenhouse gas emissions. From January 1, 2021, another settlement period for emission allowances applies, which will end on December 31, 2030. The assumption of this period is the free allocation of emission allowances (EUA) resulting from the production of heat only pursuant to Art. 10a of Directive 2009/29 / EC. Significant fluctuations in prices of CO_2 emission allowances and legal regulations related to the climate policy of the European Union are the source of uncertainty.

Emission in ZE PAK SA Group within the period of 9 months of 2021 amounted to 3 479 277 tons of CO_2.

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

8. Changes of estimates

Within the 9-month period ended September 30, 2021, 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 photovoltaic 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 periods of I and IV quarter and sunny in 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:
    - ZE PAK SA
    - PAK – Polska Czysta Energia sp. z o.o.
    - PAK – PCE Fotowoltaika sp. z o.o.
    - PAK – PCE Biogaz sp. z o.o.
    - PAK – PCE Biopaliwa i Wodór sp. z o.o.
    - PAK – PCE Wiatr sp. z o.o.
    - PCE – OZE 1 sp. z o.o.
    - PCE – OZE 2 sp. z o.o.
    - PCE – OZE 3 sp. z o.o.
    - PCE – OZE 4 sp. z o.o.
    - PCE – OZE 5 sp. z o.o.
    - PCE – OZE 6 sp. z o.o.
- The Mining Segment covering the extraction of lignite. In the Mining Segment, within the Capital Group ZE PAK SA the following are operating:
    - „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.

(thousand PLN)

- The Sale 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, which are included in the column "Other". Within the period of 9 months of 2021 ended September 30, the activities of other companies are included there.

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 2021 (unaudited)	*A period of 9 months 30 September 2020 (unaudited)*
Net profit / (loss)	106 210	(250 773)
Financial revenues	- 49 873	- 6 750
Financial costs	+ 56 299	+ 14 645
Income tax	- 28 719	- 37 602
Depreciation and impairment write-downs	+ 101 468	+ 410 320
EBITDA	185 385	129 840

The following tables present the segment results for the 9-month periods ended September 30, 2021 and September 30, 2020.

(thousand PLN)

A period of 9 months ended 30 September 2021 (unaudited)

	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sales revenue to external customers	1 371 487	11 786	41 551	175 038	4 284	-	1 604 146
Sales revenue between segments	89 525	338 127	106 053	-	102 612	(636 317)	-
Sales revenue	**1 461 012**	**349 913**	**147 604**	**175 038**	**106 896**	**(636 317)**	**1 604 146**
Cost of goods sold	(1 367 631)	(335 871)	(128 535)	(170 220)	(101 305)	633 279	(1 470 283)
Gross profit / (loss)	**93 381**	**14 042**	**19 069**	**4 818**	**5 591**	**(3 038)**	**133 863**
Other operating income	15 980	26 744	524	2 107	241	(1 713)	43 883
Selling and distribution expenses	(1 574)	-	-	(1 704)	(275)	-	(3 553)
Administrative expenses	(33 215)	(29 854)	(7 442)	(2 416)	(5 425)	-	(78 352)
Other operating expenses	(9 934)	(1 650)	(206)	(60)	(165)	91	(11 924)
Finance income	50 743	1	168	-	-	(1 039)	49 873
Finance costs	(57 536)	(6 373)	(172)	(204)	(239)	8 225	(56 299)
Profit before tax	**57 845**	**2 910**	**11 941**	**2 541**	**(272)**	**2 526**	**77 491**
Income tax expense	36 021	(4 405)	(2 614)	(801)	(387)	905	28 719
Net profit/loss for the period from continuing operations	**93 866**	**(1 495)**	**9 327**	**1 740**	**(659)**	**3 431**	**106 210**
Profit / (loss) from operating activities, without financial operations and income tax	**64 638**	**9 282**	**11 945**	**2 745**	**(33)**	**(4 660)**	**83 917**
Depreciation / Amortization	85 201	10 514	1 936	8	3 089	720	101 468
Impairment write-down	-	-	-	-	-	-	-
EBITDA	**149 839**	**19 796**	**13 881**	**2 753**	**3 056**	**(3 940)**	**185 385**

(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
Impairment write-down	152 000	134 599	-	-	-	-	286 599
EBITDA	**91 089**	**41 136**	**3 131**	**(5 511)**	**(5 003)**	**4 998**	**129 840**

(thousand PLN)

11. Revenues and costs

11.1. Sale revenues

	A period of 9 months ended 30 September 2021 (unaudited)	*A period of 3 months ended 30 September 2021 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 3 months ended 30 September 2020 (unaudited)*
Material structure				
Revenues from the sale of goods, including:				
Revenues from the sale of electricity	920 891	397 569	997 509	349 795
Revenues from the sale of electricity from trade	276 050	84 549	347 682	128 494
Revenues from the sale of heat	36 970	8 298	33 592	7 022
Other sales revenues	34 425	11 637	23 203	6 136
Revenues from construction service contracts	32 881	13 694	22 522	5 398
Total revenues from the sale of goods	**1 301 217**	**515 747**	**1 424 508**	**496 845**
Excise	(1 128)	(471)	(809)	41
Total revenues from the sale of goods, including excise duty	**1 300 089**	**515 276**	**1 423 699**	**496 886**
Property rights from energy certificates	53 098	21 608	40 025	15 213
Compensation for LTC termination	111 104	33 492	141 470	42 634
Revenues from capacity market	139 855	48 052	-	-
Total revenues	1 604 146	618 428	1 605 194	554 733

Revenues from the capacity market are revenues from the readiness to supply electricity to the system or to supply specific capacity.

11.2. Other operating revenues

	A period of 9 months ended 30 September 2021 (unaudited)	*A period of 3 months ended 30 September 2021 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 3 months ended 30 September 2020 (unaudited)*
Revenues from the sale of CO2 allowances	6 186	-	2 658	-
Revenues from damages	646	279	831	113
Revenues from the anti-crisis shield	-	-	15 181	15 181
Use of the forward contract securing the purchase of CO2 emission allowances	2 437	(3 078)	26 210	-
Reversal of the impairment write-down of receivables	411	95	-	-
Grants settlement	2 699	1 776	2 735	685
Profit from disposal of non-financial fixed assets	26 027	16 472	3 810	186
Release of the provision for costs and losses and redemption of liabilities	1 715	(101)	5	-
Revenue from demolition and sale of scrap	3 762	-	6 800	6 800
Other	-	-	4 900	4 192
Total of other operation revenues	43 883	15 443	63 130	27 157

(thousand PLN)

11.3. Other operating expenses

	A period of 9 months ended 30 September 2021 (unaudited)	*A period of 3 months ended 30 September 2021 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 3 months ended 30 September 2020 (unaudited)*
Loss on the sale of property, plant and equipment	30	21	-	-
Creation of provisions	1 000	24	524	126
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	9 035	7	1 096	528
Penalties and damages	460	9	148	68
Energy damage	102	4	38	-
Donations given	59	2	54	22
Other	1 238	356	2 776	1 340
Total other operation expenses	11 924	423	37 833	2 084

11.4. Financial income

	A period of 9 months ended 30 September 2021 (unaudited)	*A period of 3 months ended 30 September 2021 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 3 months ended 30 September 2020 (unaudited)*
Interest income	26	5	1 900	19
Interests of Huta Łaziska SA in composition bankruptcy	46 360	46 360	-	-
Dividends	46	46	71	71
Foreign exchange gains	2 289	1 194	2 470	242
Valuation of exchange rate hedging instruments (forward)	1 150	1 150	2 277	726
Other	2	1	32	10
Total financial income	49 873	48 756	6 750	1 068

11.5. Financial costs

	A period of 9 months ended 30 September 2021 (unaudited)	*A period of 3 months ended 30 September 2021 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 3 months ended 30 September 2020 (unaudited)*
Interests expenses	4 141	1 233	4 050	1 123
Impairment write-down on shares of Huta Łaziska SA in composition bankruptcy	46 360	46 360		
Foreign exchange losses	268	64	2 322	(238)
Reserve discount for liquidation of power units	228	76	367	82
Reserve discount for reclamation	4 681	2 085	6 884	1 870
Other	621	207	1 022	268
Total of financial costs	56 299	50 025	14 645	3 105

(thousand PLN)

11.6. Costs by type

	A period of 9 months ended 30 September 2021 (unaudited)	*A period of 3 months ended 30 September 2021 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 3 months ended 30 September 2020 (unaudited)*
Depreciation / Amortisation	101 468	33 892	123 721	43 174
Impairment write-downs on fixed assets	-	-	286 599	(2 401)
Impairment write-downs on inventories	-	-	2 860	(540)
Materials	242 548	79 061	206 827	69 931
External services	70 895	29 744	65 353	23 395
Taxes and charges, excluding excise duty	112 319	38 569	112 642	36 829
Costs of allowances for emission of CO_2	429 182	198 922	467 629	158 540
Costs of employee benefits, including:	273 815	85 263	294 126	89 502
Salaries	*213 583*	*69 016*	*230 655*	*72 405*
Social and other insurances Benefits	*60 232*	*16 247*	*63 471*	*17 097*
Other costs by type	17 312	(658)	16 980	1 222
Cost of goods for resale and raw materials sold and resale of electricity from the market	333 677	112 994	358 717	131 944
Total cost by type	1 581 216	577 787	1 935 454	551 596
Items included in cost of goods sold	1 470 283	539 230	1 824 763	519 210
Items included in selling and distribution expenses	3 553	1 040	2 668	661
Items included in administrative expenses	78 352	24 861	83 540	31 810
Change in the stocks of finished goods	28 732	12 575	24 083	(204)
Cost of goods and services for internal needs	296	81	400	119

12. Income tax

12.1. Tax load

The main components of the tax burden for the 9-month periods ended September 30, 2021 and September 30, 2020 are as follows:

	A period of 9 months ended 30 September 2021 (unaudited)	*A period of 3 months ended 30 September 2021 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 3 months ended 30 September 2020 (unaudited)*
Included in the profit or loss				
Current income tax				
Current income tax load	2 905	(70)	185	65

(thousand PLN)

Deferred income tax				
Related to creation and reversal of temporary differences	(31 633)	(19 103)	(36 148)	15 962
Other changes	9	-	(1 639)	2
Tax load in the consolidated profit or loss	**(28 719)**	**(19 173)**	**(37 602)**	**16 029**
Included in the consolidated statement of comprehensive income				
Income tax concerning actuarial profits/losses	(19)	(6)	35	21
Tax benefit/(tax load) included in other comprehensive income	**(19)**	**(6)**	**35**	**21**

12.2. Deferred income tax

Deferred income tax results from the following items:

	30 September 2021 (unaudited)	*31 December 2020*
Deferred tax asset		
Balance sheet provisions	64 465	60 908
Overburden and other mining assets	6 255	4 811
Interest and exchange rate differences	911	2
Valuation of non-terminated agreements for building services	2 954	1 510
Tax loss from previous years	10 192	10 192
Impairment write-downs on inventories	5 529	6 530
Impairment write-down on receivables	2 578	932
The difference between the balance sheet and tax value of fixed assets	7 830	16 103
Settlements with employees	774	5 689
Other	1 773	5 451
Total	103 261	112 128
Provision for deferred tax		
The difference between the balance sheet and tax value of fixed assets	278 182	316 977
Receivables for LTC	12 335	15 942
Energy certificates	4 824	4 311
Interest and exchange rate differences	980	509
Valuation of non-terminated construction agreements	2 623	501
Other	1 139	1 870
Total	300 083	340 110
After offsetting the balances at the level of the Group companies, the deferred tax is presented as:		
Asset:	**76 133**	**84 920**
Provision:	**272 955**	**312 902**

(thousand PLN)

13. Profit per one share

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

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

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

	A period of 9 months ended 30 September 2021 (unaudited)	*A period of 3 months ended 30 September 2021 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 3 months ended 30 September 2020 (unaudited)*
Net profit / (loss) on continued activities of the parent company's shareholders	106 210	86 221	(247 428)	10 086
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	106 210	86 221	(247 428)	10 086
The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share	50 823 547	50 823 547	50 823 547	50 823 547

The below table shows the profit/(loss) per one share in Polish zlotys for the period of 9 months ended 30 September 2021 and 30 September 2020 presented in the profit and loss account.

	A period of 9 months ended 30 September 2021 (unaudited)	*A period of 3 months ended 30 September 2021 (unaudited)*	*A period of 9 months ended 30 September 2020 (unaudited)*	*A period of 3 months ended 30 September 2020 (unaudited)*
Basic from profit/(loss) for the financial year attributable to the shareholders of the parent company	2,09	1,70	(4,87)	0,20
Diluted from profit/(loss) from continuing operations attributable to the shareholders of the parent company	2,09	1,70	(4,87)	0,20

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.

(thousand PLN)

14. Tangible fixed assets

A period of 9 months ended 30 September 2021 (unaudited)

	*Lands, incl. Perpetual usufruct**	*Buildings and constructions*	*Technical devices*	*Motor vehicles*	*Other assets*	*Assets under construction*	*Total*
Gross value as at 1 January 2021	227 051	2 041 008	4 958 644	62 817	33 561	194 765	7 517 846
Direct purchase	12 478	-	2 660	151	1 369	278 471	295 129
Repairs	-	-	(216)	-	-	(233)	(449)
Transfer from fixed assets under construction	12 322	532	3 943	-	215	(17 012)	-
Sale and liquidation	(5 245)	(6 600)	(58 340)	(4 165)	(260)	-	(74 610)
Other changes	-	-	-	-	-	(704)	(704)
Gross value as at 30 September 2021	246 606	2 034 940	4 906 691	58 803	34 885	455 287	7 737 212
Depreciation and impairment write-down as at 1 January 2021	53 801	1 635 308	4 021 745	55 656	23 534	67 141	5 857 185
Depreciation write-off for the period	3 170	24 274	61 648	1 708	1 134	-	91 934
Sale and liquidation	(4 396)	(6 602)	(55 999)	(4 118)	(255)	-	(71 370)
Depreciation and impairment write-down as at 30 September 2021	52 575	1 652 980	4 027 394	53 246	24 413	67 141	5 877 749
Net value as at 1 January 2021	173 250	405 700	936 899	7 161	10 027	127 624	1 660 661
Net value as at 30 September 2021	194 031	381 960	879 297	5 557	10 472	388 146	1 859 463

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

(thousand PLN)

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

	*Lands, incl. Perpetual usufruct**	*Buildings and constructions*	*Technical devices*	*Motor vehicles*	*Other assets*	*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 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-down 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 land exploited for extraction of minerals using the opencast method*

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

Identification of cash-generating units (CGU)

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.

When separating the CGU 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.

On December 1, 2020, there was a merger of PAK Infrastruktura sp. z o.o. (acquired company) and ZE PAK SA (acquiring company) pursuant to Article 492 § 1 point 1 of the Commercial Companies Code by transferring all assets of PAK Infrastruktura sp. z o.o. for ZE PAK SA. Its assets were assigned to CGU Elektrownia Pątnów I.

On December 30, 2020, there was a merger of Elektrownia Pątnów II sp. z o.o. (acquired company) and ZE PAK SA (acquiring company) pursuant to Article 492 § 1 point 1 of the Commercial Companies Code by transferring all the assets of Elektrownia Pątnów II sp. z o.o. for ZE PAK SA. The following CGU was established within ZE PAK SA:

- CGU Elektrownia Pątnów I
- CGU Elektrownia Pątnów II
- CGU for green energy based on biomass CGU Elektrownia Konin.

As at September 30, 2021, the lignite mine PAK KWB Konin SA conducts business activity in Jóźwin, Tomisławice and Drzewce open-pit mines.

Regarding PAK KWB Adamów SA - 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. A significant part of the value of the company's fixed assets has been written off so far, and the fixed assets disclosed in the consolidated financial statements are 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. An additional factor determining the separation of the CGU was the update of the strategy of the ZE PAK SA Group, which, on the one hand, assumed the acceleration of the decommissioning of coal-based activities, and, on the other hand, the development of renewable energy activities.

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

- Fixed assets (generating) ZE PAK SA Elektrownia Pątnów I („CGU ZE PAK Elektrownia Pątnów I - black energy")
- Fixed assets (generating) ZE PAK SA Elektrownia Pątnów II („CGU ZE PAK Elektrownia Pątnów II - black energy")
- Fixed assets (generating) ZE PAK SA Elektrownia Konin („CGU ZE PAK Elektrownia Konin – green Energy from biomass"),
- Fixed assets (mining) and mining assets PAK KWB Konin SA concerning open pits in Jóźwin, Tomisławice and Drzewce („CGU PAK KWB Konin"),

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

Analysis of the premises to conduct impairment tests as at September 30, 2021

In accordance with IAS 36, at the end of each reporting period, the Group's Management Board assesses whether there are any premises indicating that non-current assets may be impaired. If it is found that such premises exist, the Group estimates the recoverable amount of assets. In connection with the above, the Group always analyses the premises that may affect the impairment of any asset and determines the cash-generating units (CGU) within the Group companies.

(thousand PLN)

Due to the periodic stock market capitalization of ZE PAK SA in 2021 below the carrying amount of net assets (which, in accordance with IAS 36, is a premise for impairment tests), in accordance with IAS 36, the Management Board of ZE PAK SA analysed which area of the Company's operations may be affected by a loss of value. An analysis of individual CGUs was carried out:

- CGU related to the production of energy, the so-called black, i.e. CGU ZE PAK Elektrownia Pątnów I and CGU ZE PAK Elektrownia Pątnów II - in the opinion of the Group, most of the generating assets have already been written off, their useful life has been significantly shortened, i.e. for Elektrownia Pątnów I by 2024, for Elektrownia Pątnów II by 2030 year due to the increased risk related to the launch of prospective lignite deposits. In addition, it should be noted that as of June 30, 2020, unmodernised units 3 and 6 were shut down. Modernized units 1,2,5 at the Pątnów I Power Plant remained in operation. These assumptions resulted from the updated strategy, hence the Group does not see any further need to test these assets;
- CGU of mining operations - mining assets have already been written off to the fair value of the land, therefore the Group does not see the need to test these assets either;
- CGU related to green energy, i.e. CGU ZE PAK Konin Power Plant - green energy from biomass - in line with the adopted strategy, it is the Group's development and most profitable branch. It is in line with the European Union's climate policy aimed at radically increasing the emission reduction target by 2030 from 40% to at least 55% compared to the 1990 level. In addition, there is a growing demand for production from biomass units due to the qualification - as a RES stabilizing the production of uncontrollable wind farm modules and photovoltaic; hence the Group withdrew from testing these assets.

In addition, the Group took into account the fact that the share price of ZE PAK SA from the end of 2020 to September 2021 increased by 100.7%, and compared to September 2020 by 86.0%. Additionally, the Group analysed the market situation and the external environment, including changes in electricity prices, CO2 emission allowances and market interest rates. It should be noted that on February 2, 2021, the Council of Ministers approved the "Poland's energy policy until 2040" (PEP2040), which is to constitute a clear vision of Poland's energy transformation strategy, and on March 10, 2021, it was published in Monitor Polski. The theses and directions of development included in it confirm the correctness of the directions of development adopted by the Company in the new strategy.

As a result of the above analysis, it was concluded that there were no circumstances to change the strategic assumptions and thus no impairment tests were carried out on property, plant and equipment as at September 30, 2021.

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 2021:

	30 September 2021 (unaudited)	*31 December 2020*

Up to 1 year	6 464	6 330
1 – 3 years	14 516	14 558
3 – 5 years	8 364	8 337
Over 5 years	122 570	128 765
Total according to undiscounted payments	151 914	157 990
Book value	47 881	51 495

Amounts recognised in the cash flow statements

	Period of 9 months ended 30 September 2021 (unaudited)	*Year ended 31 December 2020*
Total cash outflow	6 006	8 990

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 2021 (unaudited)	*Period of 9 months ended 30 September 2020 (unaudited)*
Gross value as at 1 January	67 296	67 296
Remission as at 1 January	(18 087)	(11 087)
Net value as at 1 January	49 209	56 209
Depreciation for the period	(2 532)	(5 418)
As at the end of the period	46 677	50 791

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.

(thousand PLN)

16. Intangible assets

Long-term intangible assets – period of 9 months ended 30 September 2021 (unaudited)

	Patents and licences	*Computer software*	*Other intangible assets*	*Total*
Gross value as at 1 January 2021	23 444	2 128	417	25 989
Decrease	(1 380)	-	-	(1 380)
Increase	398	-	-	398
Gross value as at 30 September 2021	22 462	2 128	417	25 007
Depreciation and impairment write-downs as at 1 January 2021	20 741	2 128	366	23 235
Depreciation write-down for the period	610	-	-	610
Impairment write-down	-	-	-	-
Decreases	(1 380)	-	-	(1 380)
Depreciation and impairment write-downs as at 30 September 2021	19 971	2 128	366	22 465
Net value as at 1 January 2021	2 703	-	51	2 754
Net value as at 30 September 2021	2 491	-	51	2 542

(thousand PLN)

Long-term intangible assets – period of 9 months ended 30 September 2020 (unaudited)

	Patents and licences	*Computer software*	*Other intangible assets*	*Total*
Gross value as at 1 January 2020	22 607	2 128	417	25 152
Decrease	(18)	(33)	-	(51)
Increase	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

(thousand PLN)

Emission allowances

	30 September 2021 (unaudited) *Certified emission reduction units (EUA)*	*30 September 2020 (unaudited)* *Certified emission reduction units (EUA)*
Gross value as at 1 January	3 565	93 218
Purchase	648 054	571 814
Sale	(8 989)	(43 500)
EUA redemption	(642 615)	(618 090)
Net value as at 1 January	3 565	93 218
Net value as at 30 September	15	3 442

17. Assets for overburden removal and other mining assets

As at 30 September 2021, 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 51 381 thousand.

	30 September 2021 (unaudited)	*31 December 2020*
As at 1 January	52 291	70 620
Increase	5 482	7 599
Decrease	-	(13 318)
Impairment write-down	-	(3 631)
Depreciation for the period	(6 392)	(8 979)
As at the end of the period	51 381	52 291
Long-term	51 381	52 291
Short-term	-	-

18. Other assets

18.1. Other financial assets

	30 September2021 (unaudited)	*31 December 2020*
Investments and deposits	-	1
Investments and MLF deposits*	4 336	3 470
Shares	345	345
The amount resulting from the preliminary settlement of the acquisition of Kazimierz Biskupi sp. z o.o. Wind Farm	14 106	-
Other	2 386	1 275
Total other financial assets	21 173	5 091
Short-term	797	10
Long-term	20 376	5 081

**MLF – Mining Liquidation Fund*

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

(thousand PLN)

18.2. Other non-financial assets

	30 September 2021 (unaudited)	*31 December 2020*
VAT receivables	27 463	34 536
Insurance	85	371
Other receivables from the state budget	99	-
Other accruals	5 501	1 779
Research and development works	4 787	1 572
Delivery prepayments	1 601	508
Prepayments for assets under construction	63	-
Other	2 402	1 204
Total other non-financial assets	42 001	39 970
Short-term	40 800	39 673
Long-term	1 201	297

The largest component of the "Other" item are guarantee deposits in the amount of PLN 2,220 thousand related to the executed construction and assembly contracts.

19. Inventories

	30 September 2021 (unaudited)	*31 December 2020*
Production fuel	7 219	6 599
Spare parts and other materials	39 147	33 265
Certificates of energy origin	26 812	27 995
Goods	11	-
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	73 189	67 859

Spare parts are a stock for the needs of current repairs and service. The write-down for other materials and non-strategic spare parts as at September 30, 2021 amounts to PLN 25 347 thousand.

Certificates of origin for energy production from renewable sources and high-efficiency cogeneration are shown at fair value at the end of the month during which the electricity was produced from renewable sources.

As at September 30, 2021, the Group had 37,950,000 MWh of green certificates from green energy produced and verified by the ERO. From January 1, 2021 to September 30, 2021, the Group received 297,980.819 MWh of certificates for production in October, November and December 2020 and for January, February, March, April, May, and June 2021. During this period, an application was submitted for issuing 11,647,471 MWh for production in July 2021. Certificates of origin were obtained on an ongoing basis. In this period, 306,875.934 MWh was sold on TGE SA, the revenue from this amounted to PLN 49,186 thousand.

(thousand PLN)

20. Trade and other receivables

	30 September 2021 (unaudited)	*31 December 2020*
Trade receivables	132 336	155 289
Receivables due to compensation related to the termination of PPAs	64 920	83 908
Receivables due to security of purchase of electricity in the balancing market	2 555	2 293
Other receivables	446 037	143 566
Net receivables	645 848	385 056
Impairment write-down on receivables	54 721	46 105
Gross receivables	700 569	431 161

In the line of other receivables as at September 30, 2021 the Group presents mainly receivables from deposits securing transactions on the Polish Power Exchange and securing the purchase of CO_2 emission allowances (EUA) in the amount of PLN 409,885 thousand.

Trade receivables do not bear interest and usually have a 14-day payment period.

The Group analyses and reduces credit risk in relation to cash through ongoing monitoring of financial institution ratings and reduces the risk of concentration of cash surpluses in one financial institution, using internal rules of risk management principles. 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 bears interest at variable interest rates, the amount of which depends on the interest rate on overnight bank deposits. Short-term deposits are placed for various periods, from one day to three months, depending on the Group's current demand for cash, and bear interest at the interest rates set for them. The fair value of cash and cash equivalents as at September 30, 2021 is PLN 363 306 thousand (as at September 30, 2020: PLN 435 590 thousand).

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

Cash structure

	30 September 2021 (unaudited)	*30 September 2020 (unaudited)*
Cash in hand and at bank	363 306	155 914
Short-term deposits	-	279 676
Total cash and cash equivalents in the balance sheet:	363 306	435 590
Foreign exchange differences	248	(190)
Total cash and cash equivalents in cash flow statements:	363 554	435 400

22. Dividends paid and proposed for payment

ZE PAK SA neither paid nor declared the payment of the dividend within 9 months of 2021.

(thousand PLN)

23. Interest-bearing loans and borrowings

Short-term	*Maturity*	*30 September 2021 (unaudited)*	*31 December 2020*
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	-	24 123
Overdraft facility in Pekao SA in the amount of PLN 100 000 thousand, with an interest rate of WIBOR 1M + bank margin (ZE PAK SA)	31.12.2021	-	-
Non-revolving loan in Alior Bank SA in the amount of PLN 66 700 thousand, with an interest rate of WIBOR 3M + bank margin (PAK KWB Konin SA)	15.12.2021	7 669	30 880
Investment loan in Pekao SA in a bank PLN 160,000 thousand, interest rate at WIBOR 3M + margin (ZE PAK SA)	31.12.2030	8 306	-
Term investment loan in the consortium of banks PKO BP, Pekao SA and mBank SA in the amount of PLN 138,000 thousand, interest rate at WIBOR 1M + bank margin (PAK-PCE Fotowoltaika Sp. z o.o.)	31.12.2035	8 728	-
VAT working capital loan at PKO BP and Pekao SA in the amount of PLN 37,000 thousand, with an interest rate of WIBOR 1M + bank margin (PAK-PCE Fotowoltaika Sp. z o.o.)	30.06.2022	9 154	-
Loan at EFG Bank AG Zurich in the amount of PLN 175,000 thousand, interest rate at WIBOR + bank margin (PAK – Polska Czysta Energia sp. z o.o.)	31.12.2022	-	-
A loan in the amount of PLN 58 thousand from Galeon sp. z o.o., with an interest rate of WIBOR 6M (PG Hydrogen sp. z o.o.)	06.03.2022	57	-
TOTAL		**33 914**	**55 003**

Long-term	*Maturity*	*30 September 2021 (unaudited)*	*31 December 2020*
Investment loan in Pekao SA in the amount of PLN 160 000 thousand, with an interest rate of WIBOR 3M + bank margin (ZE PAK SA)	31.12.2030	93 498	-
Term investment loan in the consortium of banks PKO BP, Pekao SA and mBank SA in the amount of PLN 138,000 thousand, interest rate at WIBOR 1M + bank margin (PAK-PCE Fotowoltaika Sp. z o.o.)	31.12.2035	121 899	-
Loan at EFG Bank AG Zurich in the amount of PLN 175,000 thousand, interest rate at WIBOR + bank margin (PAK – Polska Czysta Energia sp. z o.o.)	31.12.2022	160 296	-
Loan from Cyfrowy Polsat SA in the amount of PLN 3 400 thousand, interest rate at WIBOR 1Y + margin (Exion Hydrogen Polskie Elektrolizery sp. z o.o.)	31.12.2026	3 452	-
Loan from Cyfrowy Polsat SA in the amount of EUR 750 thousand, interest rate at EURIBOR 1Y + margin (Exion Hydrogen Polskie Elektrolizery sp. z o.o.)	31.12.2026	3 519	-
TOTAL		**382 664**	**-**

(thousand PLN)

24. Provisions and accruals

24.1. Accruals

	30 September 2021 (unaudited)	*31 December 2020*
Provision for bonuses and holiday leaves	17 104	24 283
Compensation from an insurance company	739	647
Audit of financial statements	-	290
Other	9 079	2 565
Total	26 922	27 785
Short-term	26 922	27 785
Long-term	-	-

Provisions for retirement benefits and other post-employment benefits are presented by the Group in the statement of financial position under "employee benefits" broken down into long-term and short-term.

The main component of the "Other" item are provision for fees for economic use of the environment in the amount of PLN 7 713 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".

(thousand PLN)

24.2. Change in provisions

	Provision for EUA redemption	*Provision for return of CO_2 emission allowances*	*Provision for the fixed assets liquidation costs*	*Provision for the reclamation of ash storage yards*	*Provision for the long-term contract loss*	*Provision for the certificates of origin of energy redemption*	*Reclamation provisions related to mining activities*	*Other*	*Total*
As at 1 January 2021	640 512	7 038	18 451	67 313	36	11 245	351 779	18 906	1 115 280
Increase	427 005	89	195	33	4	6 813	75 666	11 280	521 085
Decrease, including:	(640 438)	-	-	-	(1)	(11 051)	(85 634)	(4 328)	(741 452)
use	*(640 438)*	-	-	-	-	*(243)*	*(3 325)*	*(32)*	*(644 038)*
termination	-	-	-	-	*(1)*	*(10 808)*	*(82 309)*	*(4 296)*	*(97 414)*
As at 30 September 2021	427 079	7 127	18 646	67 346	39	7 007	341 811	25 858	894 913
Long-term	-	-	18 646	67 346	-	-	323 012	1 131	410 135
Short-term	427 079	7 127	-	-	39	7 007	18 799	24 727	484 778
As at 1 January 2020	587 487	6 362	18 190	63 921	66	19 249	361 134	24 121	1 080 530
Increase	649 190	676	261	3 392	10	11 245	25 775	1 309	691 858
Decrease, including:	(596 165)	-	-	-	(40)	(19 249)	(35 130)	(6 524)	(657 108)
use	*(596 081)*	-	-	-	-	*(16 649)*	*(31 332)*	*(2 042)*	*(646 104)*
termination	*(84)*	-	-	-	*(40)*	*(2 600)*	*(3 798)*	*(4 482)*	*(11 004)*
As at 31 December 2020	640 512	7 038	18 451	67 313	36	11 245	351 779	18 906	1 115 280
Long-term	-	-	18 451	67 313	-	-	327 631	1 132	414 527
Short-term	640 512	7 038	-	-	36	11 245	24 148	17 774	700 753

(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, 2021, the provision amounts to PLN 427 079 thousand.

CO_2 emission allowances

From January 1, 2021, another settlement period for emission allowances applies, which will end on December 31, 2030. The assumption of this period is the free allocation of emission allowances (EUA) resulting from the production of heat only pursuant to Art. 10a of Directive 2009/29 / EC. In 2021, the Group will receive a negligible amount of free CO2 emission allowances, i.e. 12,138 EUA, resulting from allocation to heat production. Therefore, practically the entire amount of emission allowances needed by the ZE PAK SA Group must be purchased on the secondary market.

The state of EUA units as at January 1, 2021 at ZE PAK SA was 88,998 EUA. In the first quarter of 2021, ZE PAK SA transferred 1,256,000 EUA as security for the concluded electricity purchase / sale transactions to the Commodity Clearing House. In March and April 2021, the account of ZE PAK SA received 5,258,000 EUA from the concluded MAR21 futures contracts. The status of emission allowances on the account in KOBIZE as at March 31, 2021 amounts to 4,090,998 EUA. In April 2021, 263,000 EUA units were transferred to the account in KOBIZE. At the same time, ZE PAK SA returned 1,231,873 EUA from the collateral in IRGIT (leaving 23,987 EUA on the collateral in IRGIT) and then redeemed 5,510,871 EUA units for 2020. After the redemption of CO2 emissions for 2020, the status of EUA units in KOBIZE as at June 30, 2021 was 140 EUA. In III quarter of 2021 ZE PAK SA purchased EUA in MAR22 contract for 2021 in the amount of 113 000 EUA and 1 193 000 EUA for 2022 in DEC22 contracts.

The provision is created in correspondence with the costs of sales.

CO2 emission allowances for the period of 9 months ended 30 September 2021 (unaudited)

(tons)		***ZE PAK SA***
	CO_2 Emission *	3 479 277
		quantity (tons)
EUA	Balance at the beginning of the period	88 998
	Purchased	5 521 000
	Provided for security to IRGIT	(23 987)
	Sale	(5 510 871)
	Redemption	(75 000)
	Balance at the end of the period	140

** 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 2020 (unaudited)

(tons)		***ZE PAK SA***	***Elektrownia Pątnów II sp. z o.o.***
	CO_2 Emission *	2 268 762	1 801 885
		quantity (tons)	*quantity (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.*

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 2021, the created provision amounted to PLN 67 346 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 at September 30, 2021 the provision due to this amounted to PLN 18 646 thousand. The provision is created in correspondence with the costs 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 analysed periodically; on every reporting date, the volume of provision is verified in accordance with current assumptions within discount rate, inflation, and the volume of extraction.

PAK KWB Konin SA and PAK KWB Adamów SA 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, 2021 amounted to PLN 341,811 thousand and decreased compared to the year ended December 31, 2020 by PLN 9,968 thousand. While calculating the provision, the Group adopted the following assumptions: discount rate, calculated for the period of 3 years, at 2.6%, inflation level at 2.5%.

The provision is created in correspondence with the prime cost of sales. The discounted amount charged to finance costs is PLN 2,596 thousand.

24.3.4. Provision for redemption of Energy certificates

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load co-generation.

As of 30 September 2021, the provision due to this amounted to PLN 7,007 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 September 30, 2021 in PAK KWB Konin SA are: provisions for mining damages in the amount of PLN 329 thousand, provisions for pending court proceedings in the amount of PLN 1,366 thousand, provision for remuneration for mining use in the amount of PLN 2,086 thousand, in PAK KWB Adamów SA in liquidation: provisions for permanent exclusion from forest production of land for the final reservoir of Adamów post open-pit mine in the amount of PLN 15,828 thousand, provision for court cases in the amount of PLN 554 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.

(thousand PLN)

25. Trade liabilities, other liabilities and accruals

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

	30 September 2021 (unaudited)	*31 December 2020*
Trade and service liabilities:	80 585	98 960
Other liabilities, incl.:	245 880	89 301
Investment liabilities	6 283	50 818
Liabilities to employees due to salaries	14 083	16 119
Other liabilities	225 514	22 364
Total	326 465	188 261

In the line other liabilities, as at September 30, 2021, the Group presents mainly liabilities related to variable hedging related to the purchase of CO2 emission allowances in the amount of PLN 222,825 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 2021 (unaudited)	*31 December 2020*
VAT liabilities	35 407	31 182
Liabilities due to environmental charges	362	11 926
Liabilities due to the excise tax	437	519
Liabilities due to social insurance	15 801	19 191
Income tax from individuals	3 013	4 409
Other budget liabilities	(121)	3 827
Advanced payments for deliveries	-	329
Service charge	-	6 153
Other	595	616
Total	55 494	78 152

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.

25.3. Grants and deferred income (long-term)

(thousand PLN)

	30 September 2021 (unaudited)	*31 December 2020*
Long-term grants	29 976	32 710
Other	4 046	3 317
Total	34 022	36 027

The main component of the item "Long-term subsidies": The subsidies in the amount of PLN 29,976 thousand presented as at September 30, 2021 arose as a result of a 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 according to the useful life of the fixed assets included in the 474 MW unit.

The main component of the "Other" item is land received free of charge from the Poviat Starosty and the Commune, amounting to PLN 3 895 thousand.

25.4. Grants and deferred income (short-term)

	30 September 2021 (unaudited)	*31 December 2020*
Short-term grants	3 646	3 646
Other	-	-
Total	3 646	3 646

26. Contingent liabilities and description of significant judicial cases

Apart from liabilities described in notes 26.2, 27 and 28 below, as of 30 September 2021, the Group did not have any other contingent liabilities, guarantees and sureties granted.

26.1. Court proceedings

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

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

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

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

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

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

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

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

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 has 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. favourable for the Company.

On March 12, 2021, the Director of the National Tax Information issued an individual ruling in line with the judgment of the Supreme Administrative Court.

The proceeding is finished.

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

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

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

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

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

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

(thousand PLN)

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.

Against the judgment of June 18, 2020, the Provincial Administrative Court in Poznań, the Greenpeace Polska Foundation with its seat in Warsaw and Józef Imbiorski filed a cassation complaint with the Supreme Administrative Court. On October 26, 2020, PAK KWB Konin responded to the cassation appeal, petitioning for its dismissal. A hearing date has not yet been set in this case.

BAT conclusions enter into force

Commission Implementing Decision (EU) 2017/1442 of July 31, 2017 establishing the conclusions on the best available technology (BAT Conclusions - Best Available Technology) for large combustion plants has been in force since 18 August 2021, in accordance with the Directive of the European Parliament and of the Council 2010/75 / UE. Integrated permits for all currently operated combustion installations of ZE PAK SA have been adapted to the requirements of the BAT Conclusions, taking into account individual deviations from the emission limit values. The company operates in accordance with the permissible emission limits resulting from the IED Directive as well as the BAT Conclusions. Continuous emission monitoring systems, developed in accordance with the requirements of BAT 4, constitute the basis for the verification of compliance with the requirements of the Commission Implementing Decision (EU) 2017/1442 in the field of air pollutant emissions at ZE PAK SA.

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. 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.

Adamów Power Plant has already completed its operations and the process of decommissioning the installations located there is currently underway. Due to the directions of the strategy announced last year, it is also possible to specify the date of completion of the operation of the installations located in Pątnów. The termination of operation of older units in Pątnów can be determined at the end of 2024, and the newer unit with a capacity of 474 MW (former Pątnów II Power Plant), assuming an effective support system, could be operated until 2030 at the latest. Based on the experience related to the decommissioning of Adamów power plant, the interests and value of the bids submitted, it should be rationally assumed that the value of the dismantled equipment, scrap and aggregate from decommissioned installations is able to cover the costs of decommissioning and reclamation of the units.

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 2021 and 31 December 2020, 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 2021 (unaudited)* *Security amount*	*currency*	*31 December 2020* *Security amount*	*currency*
Non-revolving loan agreement with Alior Bank SA of 25 July 2019 for PLN 66 700 thousand for PAK KWB Konin SA	Registered pledge on machines and devices	Up to 141 400	PLN	Up to 141 400	PLN

(thousand PLN)

Term investment loan agreement in Pekao SA for PLN 160 000 thousand for ZE PAK SA	Prime financial and registered pledge on ZE PAK bank accounts in Pekao SA	Up to 192 000	PLN	-	PLN
	Prime mortgage on Elektrowni Konin's real estate	Up to 192 000	PLN	-	PLN
Term investment loan and VAT loan agreement in PKO BP SA, Pekao SA and mBank SA for PLN 175 000 thousand for PAK-PCE Fotowoltaika Sp. z o.o.	Prime financial and registered pledge on PAK-PCE Fotowoltaika bank accounts in PKO BP SA, Pekao SA and mBank SA	Up to 262 500	PLN	-	PLN
	Prime mortgage on PAK-PCE Fotowoltaika's real estate	Up to 262 500	PLN	-	PLN
	Secondary mortgage on real estate of PAK-PCE Fotowoltaika to secure liabilities under IRS securing agreements and related transactions in PKO BP SA, Pekao SA and mBank SA	Up to 12 000 (PKO BP SA)	PLN	-	PLN
		Up to 12 000 (Pekao SA)	PLN	-	PLN
		Up to 7 500 (mBank SA)	PLN	-	PLN
	Prime registered pledge established on the collection of PAK-PCE Photovoltaic items and rights in PKO BP SA	Up to 262 500	PLN	-	PLN
	Prime financial and registered pledge on all shares in the share capital of PAK-PCE Fotowoltaika in PKO BP SA, Pekao SA and mBank SA	Up to 262 500	PLN	-	PLN

Other securities of liabilities

Guarantees given

Kind of guarantee	*30 September 2021 (unaudited)* *Security amount*	*currency*	*31 December 2020* *Security amount*	*currency*
Guarantees of good performance of the contract	8 734	PLN	8 819	PLN
Guarantees to remove defects and faults	5 571 482	PLN EUR	7 223 434	PLN EUR
Payment guarantees (including guarantees securing transactions on TGE / IRGIT)	69 511 -	PLN EUR	30 000 9 980	PLN EUR

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

The table below shows the sum of granted guarantees.

	30 September 2021 (unaudited)	*currency*	*31 December 2020*	*currency*
Intra-Group Guarantees	95 704 756	PLN EUR	125 578	PLN
The Guarantees granted to the entities outside the Group	-	PLN	-	PLN
Total of granted Guarantees	**95 704** **756**	**PLN** **EUR**	**125 578**	**PLN**

(thousand PLN)

28. Received guarantees and sureties

Kind of guarantee	*30 September 2021 unaudited) Security amount*	*currency*	*31 December 2020 Security amount*	*currency*
Guarantees of good performance of the contract	25 411 20 825	PLN EUR	23 437	PLN
Guarantees to remove defects and faults	2 759 -	PLN EUR	2 711 -	PLN EUR
Payment guarantees	- -	PLN EUR	- -	PLN EUR
Advance payment guarantees	7 237 -	PLN EUR	12 705 2 083	PLN EUR
Corporate guarantees	363 297	PLN	-	PLN

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

29. Information about related entities

The following table presents the total amounts of significant transactions concluded with related entities for the 9-month period ended September 30, 2021 and September 30, 2020 as well as receivables and liabilities as at September 30, 2021 and September 30, 2020. Transactions with related entities are carried out on market terms.

Related entity		*Sales to relate entities*	*Purchase from related entities*	*Receivables from related entities*	*Liabilities towards related entities*
Elektrim SA	III quarters of 2021	-	90	-	-
	III quarters of 2020	-	90	-	-
Megadex Development sp. z o.o.	III quarters of 2021	43	-	-	-
	III quarters of 2020	51	-	5	-
Megadex Expo sp. z o.o.	III quarters of 2021	339	-	-	-
	III quarters of 2020	513	-	67	-
Polkomtel sp. z o.o.	III quarters of 2021	69 211	2 092	7 283	585
	III quarters of 2020	84 691	5 279	12 498	666
Polkomtel Infrastruktura sp. z o.o.	III quarters of 2021	80	-	21	-
	III quarters of 2020	84	-	23	-
Laris Investments sp. z o.o.	III quarters of 2021	389	149	17	17
	III quarters of 2020	421	275	26	1
Laris Technologies sp. z o.o.	III quarters of 2021	1 925	-	-	163
	III quarters of 2020	1 956	-	117	-
CPE sp. z o.o.	III quarters of 2021	1	552	-	97
	III quarters of 2020	1	622	-	112
Plus Flota sp. z o.o.	III quarters of 2021	53	1 680	101	269
	III quarters of 2020	-	1 954	-	329
Cyfrowy Polsat	III quarters of 2021	2 546	167	681	6 902
	III quarters of 2020	2 722	6	758	1

(thousand PLN)

Esoleo sp. z o.o.	III quarters of 2021	1 728	125 105	-	715
	III quarters of 2020	-	452	-	236
Maciej Nietopiel	III quarters of 2021		180	-	25
	III quarters of 2020		-	-	-
Tomasz Zadroga	III quarters of 2021	-	180	-	25
	III quarters of 2020	-	180	-	25
KD Management Krzysztof Dziaduszyński	III quarters of 2021	-	45	-	6
	III quarters of 2020	-	115	-	18
Doradztwo Strategiczne Maciej Koński	III quarters of 2021	-	225	-	31
	III quarters of 2020	-	200	-	31
Paweł Markowski	III quarters of 2021	-	248	-	34
	III quarters of 2020	-	-	-	-
Impact Paweł Lisowski	III quarters of 2021	-	248	-	34
	III quarters of 2020	-	-	-	-
Total	**III quarters of 2021**	**76 315**	**130 961**	**8 103**	**8 903**
	III quarters of 2020	**90 439**	**9 173**	**13 494**	**1 345**

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

29.1. Loan granted to a member of the Management Board

Within the period of 9 months ended 30 September 2021 as well as within the period of 9 months ended 30 September 2020 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

Both in the 9-month period ended September 30, 2021 and in the 9-month period ended September 30, 2020, there were no transactions with the participation of members of the management and supervisory bodies, apart from those specified in note 29.

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 2021 (unaudited)	*Period of 9 months ended 30 September 2020 (unaudited)*
Management Board of the parent company		
Short-term employee benefits	2 148	3 037
Termination benefits	1	1
Supervisory Board of the parent company		
Short-term employee benefits	945	851
Management Boards of subsidiaries		

Short-term employee benefits	2 015	1 905
Termination benefits	-	-
Supervisory Boards of subsidiaries		
Short-term employee benefits	-	-
Total	5 109	5 794

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

	Period of 9 months ended 30 September 2021 (unaudited)	*Period of 9 months ended 30 September 2020 (unaudited)*
Short-term employee benefits	8 129	8 383
Jubilee awards	-	22
Post-employment benefits	58	54
Termination benefits	177	22
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	8 364	8 481

30. Goals and rules of financial risk

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 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 („At-the-Money-Forward" forward option for determining the volatility of financial instruments) options for the interest rate quoted on the inter-bank market for foreign currencies, for which the Group has the exposition to interest rate risk from the balance sheet date.

(thousand PLN)

Classes of financial instruments	***30 September 2021 (unaudited)***		***Interest rate risk sensitivity study as of 30 September 2021***							
			WIBOR				***EURIBOR***			
			WIBOR + 7pb		***WIBOR - 7pb***		***EURIBOR + 26,02pb***		***EURIBOR - 26,02pb***	
	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 instruments	21 173	4 337	3	-	(3)	-	-	-	-	-
Trade and other receivables	645 848	-	-	-	-	-	-	-	-	-
Derivative financial instruments	632	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	363 306	363 306	170	-	(170)	-	314	-	(314)	-
Interest-bearing loans and borrowings	(416 578)	(416 578)	(292)	-	292	-	-	-	-	-
Trade payables and other financial liabilities	(327 175)	-	-	-	-	-	-	-	-	-
Lease liabilities	(47 881)	(47 881)	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Total	**239 325**	**(96 816)**	**(119)**	**-**	**119**	**-**	**314**	**-**	**(314)**	**-**

pb – base points

(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 instruments	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

(thousand PLN)

30.2. Currency risk

The Group is exposed to currency risk in connection with the concluded transactions. As at September 30, 2021, one company of the Group used instruments to mitigate the risk resulting from changes in foreign exchange rates. ZE PAK SA 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 March 2022 to secure the exchange rate.

Potential possible changes in exchange rates were calculated on the basis of the annual volatilities implied for currency options quoted on the interbank market for a given currency pair from the balance sheet date.

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.

	30 September 2021 (unaudited)		*Analysis of sensitivity to currency risk as of 30 September 2021*			
			EUR/PLN			
Classes of financial instruments			**EUR/PLN + 5,275%** **4,8773**		**EUR/PLN - 5,275%** **4,3885**	
	Carrying amount	*Value at risk*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*
Other financial assets	21 173	-	-	-	-	-
Trade and other receivables	645 848	3 848	203	-	(203)	-
Derivative financial instruments	632	-	-	-	-	-
Cash and cash equivalents	363 306	120 797	6 372	-	(6 372)	-
Interest-bearing loans and borrowings	(416 578)	-	-	-	-	-
Trade payables and other financial liabilities	(327 175)	(3 502)	(185)	-	185	-
Lease liabilities	(47 881)	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Total	**239 325**	**121 143**	**6 390**	**-**	**(6 390)**	**-**

(thousand PLN)

Classes of financial instruments	*30 September 2020 (unaudited)*		*Analysis of sensitivity to currency risk as of 30 September 2020*			
			EUR/PLN			
			EUR/PLN + 5,887%		**EUR/PLN - 5,887%**	
			4,7933		**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)**	**-**

30.3. Credit risk

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

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

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

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

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

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

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

ZE PAK Capital Group cash as at September 30, 2021, broken down into individual credit ratings of banks:

Rating level of individual rating agencies			*The amount of cash as at 30 September 2021 (without cash in hand)*
Moody's	*S&P*	*Fitch*	*(unaudited)*
Aaa	AAA	AAA	-
Aa1	AA+	AA+	-
Aa2	AA	AA	-
Aa3	AA-	AA-	-
A1	A+	A+	-
A2	A	A	5 374
A3	A-	A-	3
Baa1	BBB+	BBB+	110 311
Baa2	BBB	BBB	-

(thousand PLN)

Baa3	BBB-	BBB-	244 276
Ba1	BB+	BB+	-
Ba2	BB	BB	1 750
Ba3	BB-	BB-	-
B1	B+	B+	-
B2	B	B	-
B3	B-	B-	-
Caa1	CCC+		-
Caa2	CCC		-
Caa3	CCC-	CCC	-
	CC		-
Ca	C		-
C		DDD	-
–	D	DD	-
–		D	-
TOTAL			361 714

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 business, 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 2021 and 30 September 2020 according to the maturity date based on contractual non-discounted payments.

(thousand PLN)

30 September 2021 (unaudited)	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Interest-bearing loans and borrowings	7 669	18 843	272 134	119 565	418 211
Trade payables and other financial liabilities	291 301	35 164	708	2	327 175
Lease liabilities	324	5 985	25 430	16 142	47 881
Derivative financial instruments	-	18 133	-	-	18 133
	299 294	**78 125**	**298 272**	**135 709**	**811 400**

30 September 2020 (unaudited)	*Less than 3 months*	*3 to 12 months*	*1 to 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**

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.

(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 2021 (unaudited)*	*31 December 2020*
Other financial assets	AFwgZK	21 173	5 091
Trade receivables and other receivables	AFwgZK	645 848	385 056
Derivative financial instruments	WwWGpWF	632	6 550
Cash and cash equivalents	AFwgZK	363 306	497 861
Financial liabilities			
Interest-bearing bank credits and loans, including:		416 578	55 003
long term	PZFwgZK	382 664	-
short term	PZFwgZK	33 914	55 003
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	327 175	193 509
Lease liabilities		47 881	51 495
Derivative financial instruments	WwWGpWF	-	-

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 30 September 2021 and as at 31 December 2020, the Group had the following financial instruments measured at fair value:

	30 September 2021 (unaudited)	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	632	-
Derivatives hedging liabilities	-	-	-	-
	31 *December 2020*	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	6 550	-
Derivatives hedging liabilities	-	-	-	-

The fair value of financial instruments other than derivatives as at September 30, 2021 and December 31, 2020 did not deviate significantly from the carrying amounts, mainly due to the fact that for short-term instruments the effect of discounting is not material and the fact that the transactions are concluded at market conditions; for this reason, the fair value of these instruments has been presented at the carrying amount.

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

As at September 30, 2021, forward transactions for currency purchase were valued at fair value. For the purposes of valuing foreign exchange contracts, the difference between discounted future cash flows is calculated between the forward price on the valuation day and the transaction price, according to quotations prepared by the relevant bank, multiplied by the nominal value of the contract in a foreign currency. The valuation of these instruments has been classified to level 2 of the fair value measurement hierarchy.

Within the period of 9 months ended 30 September 2021 and in the year ended 31 December 2020, there were no shifts between the level 1 and the level 2 of the fair value hierarchy, and none of instruments was shifted to the level 3 of the fair value hierarchy.

31.2. Interest rate risk of financial instruments

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

	Type of interest	*Carrying amount as of 30 September 2021 (unaudited)*	*Carrying amount as of 31 December 2020*
Financial assets at interest rate risk -PLN	Fixed	-	-
	Variable	246 846	463 022
Financial assets at interest rate risk – other currencies	Fixed	-	-
	Variable	120 797	38 310
Financial liabilities at interest rate risk - PLN	Fixed	-	-
	Variable	416 578	55 003
Financial liabilities at interest rate risk – other currencies	Fixed	-	-
	Variable	-	-
Net exposure -PLN	Fixed	-	-
	Variable	(169 732)	408 019
Net exposure – other currencies	Fixed	-	-
	Variable	120 797	38 310

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, 2021, one company of the Group used instruments to mitigate the risk resulting from changes in foreign exchange rates. ZE PAK SA hedged the euro exchange rate for part of the flows related to the purchase of CO_2 emission allowances. ZE PAK SA used forward transactions with the settlement in March 2022 to secure the exchange rate.

Type of concluded transactions	*Currency pair*	*Transactions amount (nominal value in EUR thousand) 30 September*	*Net market value (fair value in PLN thousand) 30 September 2021 (unaudited)*	*Maturity*

		2021 (unaudited)		
Forward transactions for the purchase of EUR currency	(EUR/PLN)	4 000	18 133	March 2022

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, 2021 and September 30, 2020.

30 September 2021 (unaudited)

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions in EUR thousand*	*Currency of transactions*	*Maturity*
Forward transactions	4 658 140	152 783	EUR	Up to 1 year
Forward transactions	1 320 000	74 473	EUR	Over 1 year

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

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 of 9 months ended 30 September 2021 as well as at 31 December 2020, there were no introduced amendments to goals, rules and processes applying in this area.

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

	30 September 2021 (unaudited)	*31 December 2020*
Interest-bearing credits and loans	416 578	55 003
Trade liabilities and other financial liabilities	327 175	193 509
Minus cash and its equivalents	363 306	497 861
Net debt	380 447	(249 349)
Equity	1 055 349	949 463
Total capital	1 055 349	949 463
Net capital and debt	1 435 796	700 114
Leverage ratio	26,50%	(35,62%)

33. Significant events after the balance sheet date

Conclusion of a Letter of Intent with Orsted Wind Power

On October 14, 2021 the Company signed a Letter of Intent with Orsted Wind Power A/S with its seat in Fredericia, Denmark.

The intention of the Parties is the implementation and development of wind farm projects in the maritime areas of the Republic of Poland. The cooperation will be developed through joint ventures in which both parties will own 50% of shares. The parties plan to jointly prepare and submit applications for the issuance of permits for the construction and use of artificial islands, structures and devices in the maritime areas of the Republic of Poland for offshore wind farm projects in the upcoming deciding procedure, conducted in accordance with Art. 27d et seq. of the Act of March 21, 1991 on the maritime areas of the Republic of Poland and maritime administration.

The parties intend to define the terms of cooperation in the partnership agreement, which is the subject of negotiations, and in other agreements to be negotiated and concluded in the performance of the agreement.

The implementation of the goal described in the Letter of Intent depends on the fulfilment of the condition precedent in the form of the competent antimonopoly authority issuing a decision granting the parties unconditional consent for cooperation or the expiry of the statutory deadline by which the antimonopoly authority should issue a decision expressing such consent, and after that date, the consent is deemed to have been issued under the law.

Start-up of the Photovoltaic Farm in Brudzew

On October 27, 2021, a solar farm with a capacity of 70 MWp started operating in the Brudzew commune. The value of the investment was nearly PLN 164 million net.

The farm consists of 155 thousand photovoltaic modules with a capacity of 455 Wp each and covers about 100 ha of land. Until recently, it was an area used by Adamów Lignite Mine for opencast lignite mining. The contractor of the project was a consortium of Esoleo sp. z o.o. and PAK Serwis sp. z o.o. An investment loan agreement was signed to finance the construction of the farm with a consortium of banks composed of: Pekao SA, PKO BP SA and mBank SA. PAK - PCE Fotowoltaika sp. z o.o., the special purpose vehicle implementing the project has signed a 15-year contract with Polkomtel sp. z o.o. for the sale of the entire volume produced by the farm with the option of extending the contract for another 5 years.

November 10, 2021 PAK-PCE Fotowoltaika sp. z o.o. obtained a license to generate electricity. The license was granted by the President of the ERO for the period from November 10, 2021 to December 31, 2040.

Konin, 26 November 2021