ZESPÓŁ ELEKTROWNI PĄTNÓW–ADAMÓW–KONIN SA
CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

3 APRIL 2020

(in thousand PLN)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For a year ended 31 December 2019

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
Continuing operations			
Revenues, including:	*14.1*	**2 877 920**	**2 304 824**
Revenues from the contracts with clients		2 660 231	2 104 024
Other revenues		217 689	200 800
Costs of goods sold	*14.6*	(3 185 762)	(2 627 910)
including a write-off revaluating fixed assets and mining assets		*(632 042)*	*(372 540)*
Gross profit / (loss)		**(307 842)**	**(323 086)**
Other operating revenues	*14.2*	13 089	10 964
Selling and distribution expenses	*14.6*	(4 492)	(4 001)
Administrative expenses	*14.6*	(116 648)	(123 779)
Other operating expenses	*14.3*	(7 696)	(37 360)
Gross profit / (loss) from operations		**(423 589)**	**(477 262)**
Finance income	*14.4*	11 341	7 201
Finance costs	*14.5*	(27 644)	(45 387)
Profit / (loss) before tax		**(439 892)**	**(515 448)**
Income tax expense (taxation)	*15.1*	(6 254)	51 775
Net profit / (loss) for the period from continuing operations		**(446 146)**	**(463 673)**
Net profit / (loss) for the period		**(446 146)**	**(463 673)**
Net profit/ (loss) attributable to equity holders of the parent		(445 179)	(460 196)
Net profit/ (loss) attributable to non-controlling interests		(967)	(3 477)

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
Profit / loss per share (in zloty):			
Basic/diluted for profit for the period from continuing operations attributable to equity holders of the parent	*17*	(8,76)	(9,05)

(in thousand PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For a year ended 31 December 2019

	Nota	*Year ended 31 December 2019*	*Year ended 31 December 2018*
Net profit / (loss) for the period		**(446 146)**	**(463 673)**
Other comprehensive income			
Items to be reclassified to the profit / (loss) in subsequent reporting periods:			
Cash flow hedges		568	2 739
Income tax on other comprehensive income	*15.1*	(108)	(520)
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods		460	2 219
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:			
Profits / (losses) on provisions for post-employment		(3 848)	(862)
Income tax on other comprehensive income	*15.1*	610	252
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		(3 238)	(610)
Net other comprehensive income		**(2 778)**	**1 609**
Comprehensive income for the period		**(448 924)**	**(462 064)**
Comprehensive income attributable to equity holders of the parent		(447 957)	(458 587)
Comprehensive income attributable to non-controlling holders		(967)	(3 477)

(in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	*31 Dcemeber2019*	*31December 2018*
ASSETS			
Fixed assets			
Property, plant and equipment	*19*	1 959 861	2 791 141
Assets due to the right of use	*20*	56 209	-
Investment property		2 172	2 365
Intangible assets	*21*	2 748	3 773
Assets of removing overburden and other mining assets (long-term)	*22*	70 620	80 326
Other financial assets	*23.1*	3 220	4 748
Other non-financial assets	*23.2*	2 608	3 873
Deferred tax assets	*15.3*	84 593	81 817
Total fixed assets		**2 182 031**	**2 968 043**
Current assets			
Emission allowances	*21*	93 218	66 817
Inventories	*25*	104 341	109 239
Trade and other receivables	*26*	228 578	354 183
Income tax receivables		32 782	1 544
Other financial assets	*23.1*	-	36 698
Other non-financial assets	*23.2*	61 615	24 039
Amounts due from customers under long-term construction contracts	*14.8*	1 047	5 066
Cash and cash equivalents	*27*	414 634	304 658
Total current assets		**936 215**	**902 244**
Assets classified as held for sale		-	1 010
TOTAL ASSETS		**3 118 246**	**3 871 297**

(in thousand PLN)

	Note	*31 December 2019*	*31 December 2018*
LIABILITIES AND EQUITY			
Equity			
Share capital	*28*	101 647	101 647
Reserve capital	*29*	1 124 376	1 124 376
Revaluation reserve from valuation of hedging instruments		-	(460)
Other reserve capital	*29.1*	3 472	3 472
Retained earnings / Accumulated losses		389 831	915 020
Net profit / (loss)		(445 179)	(460 196)
Equity attributable to equity holders of the parent		**1 174 147**	**1 683 859**
Equity attributable to non-controlling interests		2 321	3 288
Total equity		**1 176 468**	**1 687 147**
Long-term liabilities			
Interest-bearing loans and borrowings	*30*	29 773	59 424
Long-term employee benefits	*24*	45 505	45 555
Trade liabilities and other long-term financial liabilities	*32.2*	8 796	11 468
Long-term financial derivatives (liabilities)		55 016	-
Long-term subsidies	*32.5*	41 793	43 007
Other long-term provisions and accruals	*31*	425 129	450 033
Deferred tax liability	*15.3*	382 282	364 652
Total long-term liabilities		**988 294**	**974 139**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities	*32.1*	108 969	154 890
Current portion of interest-bearing loans and borrowings	*30*	46 767	360 955
Short-term financial derivatives (liabilities)	*32.4*	1 757	921
Other non-financial liabilities	*32.3*	102 932	95 960
Current income tax liability		223	21
Short-term employee benefits	*24*	6 897	5 445
Short-term subsidies	*32.6*	1 502	1 502
Amounts due to customers under long-term construction contracts	*14.8*	1 730	2 482
Other short-term provisions and accruals	*31*	682 707	587 835
Total short-term liabilities		**953 484**	**1 210 011**
Total liabilities		**1 941 778**	**2 184 150**
TOTAL LIABILITIES AND EQUITY		**3 118 246**	**3 871 297**

(in thousand PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Cash flow from operating activities			
Profit /(loss) before tax		(439 892)	(515 448)
Adjustments for:			
Depreciation and amortization	*27*	183 401	193 012
Interests and shares in profits		3 117	17 158
(Profit) / loss on foreign exchange differences		3 083	1 217
(Profit) / loss on investing activities		536	(2 497)
(Increase) / decrease in receivables	*27*	93 370	(115 290)
(Increase) / decrease in inventories		(8 229)	(11 480)
Increase / (decrease) in payables except for loans and borrowings	*27*	(29 754)	11 491
Change in provisions, prepayments, accruals and employee benefits	*27*	560 482	515 132
Income tax paid		(21 933)	(9 604)
Allowances for emission of CO_2	*31.3.1*	(530 408)	(93 103)
Impairment write-down on fixed assets and mining assets		632 042	372 540
Other		2 222	3 626
Net cash flow from operating activities		**448 037**	**366 754**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		18 543	8 854
Purchase of property, plant and equipment and intangible assets		(2 181)	(70 293)
Proceeds and expenses relating to other financial assets		2 793	641
Dividends received		49	93
Interest received		9	2
Other		(15)	-
Net cash flow from investing activities		**19 198**	**(60 703)**
Cash flow from financing activities			
Payment of finance lease liabilities		(1 421)	(1 571)
Proceeds from loans and borrowings and debt securities		66 688	43 414
Repayment of loans and borrowings and debt securities		(410 804)	(284 949)
Dividends paid		-	(60 988)
Interest paid		(10 380)	(21 218)
Other		-	7
Net cash flow from financing activities		**(355 917)**	**(325 305)**
Net increase / (decrease) in cash and cash equivalents		**111 318**	**(19 254)**
Cash and cash equivalents at the beginning of the period		**303 316**	**322 570**
Cash and cash equivalents at the end of the period	*27*	**414 634**	**303 316**

(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For a year ended 31 December 2019

	Note	*Issued capital*	*Reserve capital*	*Capital from valuation of hedging instruments*	*Other reserve capital*	Retained earnings / accumulated losses	Total	Non-controlling interest	*Total equity*
As of 1 January 2019		**101 647**	**1 124 376**	**(460)**	**3 472**	**454 824**	**1 683 859**	**3 288**	**1 687 147**
Adjustment concerning IRFS 9	*9*	-	-	-	-	(61 754)	(61 754)	-	(61 754)
Transformed data as of 1 January 2019		**101 647**	**1 124 376**	**(460)**	**3 472**	**393 070**	**1 622 105**	**3 288**	**1 625 393**
Net (Loss)/profit for the period		-	-	-	-	(445 179)	(445 179)	(967)	(446 146)
Total other comprehensive income, incl:		-	-	460	-	(3 238)	(2 778)	-	(2 778)
Cash flow hedges		-	-	*460*	-	-	*460*	-	*460*
Actuarial profit / (loss)		-	-	-	-	*(3 238)*	*(3 238)*	-	*(3 238)*
Total income for the period		**-**	**-**	**460**	**-**	**(448 417)**	**(447 957)**	**(967)**	**(448 924)**
Other changes		-	-	-	-	(1)	(1)	-	(1)
As of 31 December 2019		**101 647**	**1 124 376**	**-**	**3 472**	**(55 348)**	**1 174 147**	**2 321**	**1 176 468**

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

(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For a year ended 31 December 2018

	Issued capital	*Reserve capital*	*Capital from valuation of hedging instruments*	*Other reserve capital*	Retained earnings / accumulated losses	Total	Non-controlling interest	*Total equity*
As of 1 January 2018	**101 647**	**1 094 493**	**(2 678)**	**3 472**	**1 014 113**	**2 211 047**	**-**	**2 211 047**
Adjustment concerning IRFS 9	-	-	-	-	(4 338)	(4 338)	-	(4 338)
Transformed data as of 1 January 2018	**101 647**	**1 094 493**	**(2 678)**	**3 472**	**1 009 775**	**2 206 709**	**-**	**2 206 709**
Net profit for the period	-	-	-	-	(460 196)	(460 196)	(3 477)	(463 673)
Total other comprehensive income, incl:	-	-	2 219	-	(610)	1 609	-	1 609
Cash flow hedges	-	-	*2 219*	-	-	*2 219*	-	*2 219*
Actuarial profit / (loss)	-	-	-	-	*(610)*	*(610)*	-	*(610)*
Total income for the period	**-**	**-**	**2 219**	**-**	**(460 806)**	**(458 587)**	**(3 477)**	**(462 064)**
Distribution of profits from previous years	-	29 649	-	-	(29 649)	-	-	-
Dividend for previous years	-	-	-	-	(60 988)	(60 988)	-	(60 988)
Transactions with non-controlling shareholders	-	-	-	-	(3 199)	(3 199)	6 765	3 566
Other changes	-	234	(1)	-	(309)	(76)	-	(76)
As of 31 December 2018	**101 647**	**1 124 376**	**(460)**	**3 472**	**454 824**	**1 683 859**	**3 288**	**1 687 147**

RULES (POLICIES) OF ACCOUNTANCY AND ADDITIONAL EXPLANATORY NOTES

1. General information

The Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin SA ("the Group") consists of Zespół Elektrowni Pątnów – Adamów – Konin SA ("the parent company", "the Company", "ZE PAK SA"), with its head office in Konin at 45 Kazimierska str., and its subsidiaries (see Note 2). The Group's consolidated financial statement covers the year ended 31 December 2019 and includes comparative data for the year ended 31 December 2018. The parent company is entered into 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 the 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,

4) trade in electricity.

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

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

The consolidated statements for 2019 of Elektrim SA Capital Group as a higher level unit also contain the consolidated data of the ZE PAK SA Capital Group included in this report.

(in thousand PLN)

2. Composition of the Group

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

Entity	*Registered office*	*Scope of operations*	*Group's share in the capital in %*	
			As at 31 December 2019	*As at 31 December 2018*
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100,00%	100,00%
„Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric Energy production and distribution from the 464 MW power unit	100,00%*	100,00%*
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	100,00%	100,00%
„PAK Górnictwo" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Exploration and recognition of lignite	100,00%	100,00%
„PAK Kopalnia Węgla Brunatnego Konin" SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	97,68%*	97,68%
„PAK Kopalnia Węgla Brunatnego Adamów" SA	62-700 Turek Warenka 23	Lignite extraction	99,35%	99,35%
„Aquakon" sp. z o.o. in liquidation	62-610 Sompolno Police	In liquidation	96,20%*	96,20%*
„PAK-Volt" SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%
„PAK Adamów" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Buying and selling real estate	100,00%	100,00%

* *Entities with partial or total indirect share via other companies from ZE PAK Group.*

As of 31 December 2019, 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

The Management Board of the Company started 2019 in the following composition:

1) Adam Kłapszta – President of the Management Board,
2) Aneta Lato-Żuchowska – Vice President of the Management Board,
3) Zygmunt Artwik – Vice President of the Management Board,
4) Elżbieta Niebisz – Vice President of the Management Board,
5) Marcin Ginel – Vice President of the Management Board.

On January 10th, 2019 Mr. Adam Kłapszta resigned from the membership in the Management Board and performing the position of the President of the Management Board. Ms. Elżbieta Niebisz also ceased to be a Member of the Management Board of the Company, who also resigned from the position of Vice President of the Management Board on January 10th 2019. In this situation, at the meeting held on January 10th, 2019, until the election of the new President of the Company's Management Board, the Supervisory Board entrusted the management of the Company as acting President of the Management Board to Mr. Marcin Ginel - Vice-President of the Management Board. During the same meeting, i.e. January 10, 2019, the Supervisory Board of the Company appointed Mr. Paweł Markowski as the Vice-President of the Management Board.

On April 12th, 2019 Mr. Marcin Ginel resigned from the membership in the Management Board and performing the position of the Vice President acting President of the Management Board. The same day the resignation from membership in the Management Board and the function of the Vice President was also submitted by Ms. Aneta Lato-Żuchowska. At the meeting held on April 12, 2019, the Supervisory Board of the Company, acting pursuant to art. 383 § 1 of the Code of Commercial Companies delegated a member of the Company's Supervisory Board – Mr. Henryk

Sobierajski, for a period of three months to temporarily perform the duties of a Member of the Management Board, entrusting him with the duties of the President of the Management Board.

On May 10, 2019, the Company's Supervisory Board appointed Mr. Paweł Lisowski as the Vice President of the Management Board.

At the meeting on July 2, 2019, the Company's Supervisory Board, acting pursuant to art. 383 § 1 of the Code of Commercial Companies delegated a member of the Company's Supervisory Board - Mr. Henryk Sobierajski for a period of up to 3 months, to temporarily perform the duties of a Member of the Company's Management Board, entrusting him with the duties of the President of the Management Board. Also on July 2, 2019, the Company's Supervisory Board appointed Mr. Maciej Nietopiel to the Company's Management Board, entrusting him with the function of the Vice President of the Management Board.

On October 10, 2019, Mr. Henryk Sobierajski resigned from his position as a member of the Company's Supervisory Board.

At the meeting of the Company's Supervisory Board on October 10, 2019, the Supervisory Board appointed Mr. Henryk Sobierajski to the Management Board, entrusting him the function of the President of the Management Board. The resolution on the appointment entered into force upon its adoption.

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

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

4. Approval of the financial statement

This consolidated financial statement was approved for issuing by the Management Board on 3 April 2020.

5. Essential values based on professional judgement and estimates

5.1. Professional judgement

The preparation of the consolidated financial statement of the Group requires, from the Management Board of the parent company, the judgements, estimates and assumptions, which affect the reported income, costs, assets, liabilities and the related notes and disclosures related to contingent liabilities. Uncertainty about these assumptions and estimates may result in the significant impairment of balance sheet values of assets and liabilities in the future.

In the process of application of the rules (policies) of accounting, the Management Board made the following judgements that have the greatest impact on the presented balance sheet values of assets and liabilities.

Leasing contracts

The Group concludes contracts regarding the use of such underlying assets such as land, including perpetual usufruct right to land, machinery and cars.

The application of IFRS 16 requires the Group to make various judgments, including determining which contracts fall under the definition of the lease, which parameters (including the amount of fees, length of the lease period or interest rate) should be used to measure the lease liability and whether there are premises indicating the need to reassess the lease period, discount rate or variable leasing fees.

Leasing definition

In situations where the assessment of whether a contract contains a lease is ambiguous, the Group makes a professional judgment as to whether the definition of a lease in accordance with IFRS 16 is met. In particular, this applies to cases in which it is necessary to determine whether an identified asset exists, the right of conversion on the part of the lessor or whether the lessee has the right to manage use.

Leases regarding the exploration or use of minerals, crude oil, natural gas and similar non-renewable resources are excluded from the scope of IFRS 16 (IFRS 16.3.a). The Group has analyzed the possibility of using the above exclusion from the scope of IFRS 16 with respect to lease contracts for land used for lignite mining or land reclamation after lignite exploitation, including perpetual usufruct rights. The Group assessed that the above-mentioned exclusion applies only to concessions for the extraction of non-renewable natural resources, and not land used for this purpose. As a consequence, the Group recognized an asset under the right to use and a lease liability in respect of all land leases, irrespective of the purpose and manner of use.

Non-leasing components

The subject of the judgment is determining whether a given contract contains non-leasing components, which, in accordance with the accounting policy chosen by the Group for a given asset class, should be separated or treated together with the leasing component as one leasing component for the purposes of recognizing the contract in accordance with IFRS 16.

The duration of leasing contracts

The Group determines the leasing period, taking into account the irrevocable period during which the Group has the right to use the underlying asset, together with:

- periods for which the lease may be extended if it can be assumed with sufficient certainty that the Group will exercise this right; and
- periods in which you can withdraw from the lease if it can be assumed with sufficient certainty that the Group will not exercise this right.

When assessing the length of the irrevocable lease period and determining the lease period, the Group takes into account the provisions of the contract and past practices regarding the lease of a given type of assets. In particular, the Group makes the following assumptions when determining the lease term:

- in the case of perpetual usufruct right to land, the leasing period is determined as the remaining period of validity of the decision;
- in the case of land lease contracts from State Forests and private owners:
  - when contracts are concluded for a definite period, the leasing period is the period resulting from the contract;
  - when contracts are concluded for an indefinite period or until certain events occur (e.g. until the purchase of the property), the Group estimates the lease period, taking into account, inter alia, period of operation of the open pit for which the Group uses the leased land;
- in the case of other leasing agreements (car leasing, vulcanization presses), the leasing period is the period resulting from the agreements, taking into account the individual consideration of the extension option.

The Group analyzes the use of the option to extend the lease for each contract separately. When assessing the likelihood of using the option to extend the contract, the Group considers all relevant facts and events that give rise to economic incentives (or not) for such an option, including, for example, the significance of the underlying component from the operating perspective or the costs of terminating the contract, including the costs of reallocation and searching for a new lease subject to the needs of the tenant. When assessing the likelihood of using the lease withdrawal option, the Group considers all relevant facts and events that give rise to the conditions for using such an option.

Interest rate

The Group applies the following assumptions in determining the discount rate:

- The Group applies the leasing interest rate for contracts for which it can be easily determined (car leasing).
- In the case of other leasing agreements, the Group applies the lessee's marginal interest rate.
- The current sources of financing for the Group have too short a time horizon to use them when estimating the lessee's marginal interest rate. The group determines the rate by estimating:

  - Risk-free rate based on publicly available data,

- Credit margin

- Discount rates vary depending on the leasing period.
- The Group only has lease contracts denominated in PLN, therefore there is no differentiation of discount rates due to the currency of the contracts.

5.2. Uncertainty of estimates

Basic assumptions concerning the future and other key sources of uncertainty occurring at the balance sheet date, to which vital risk of the significant adjustment of balance sheet value of assets and liabilities in the next financial year are related, are discussed below. The Group adopted assumptions and estimates concerning the future on the basis of the knowledge possessed during development of the financial statement. Occurring assumptions and estimates may be subject to change due to future events resulting from market fluctuations or fluctuation not controlled by the Group. Such fluctuations are reflected in estimates or assumptions at the moment of occurrence.

Loss in fixed assets

As a result of analyses conducted as of 31 December 2019, the Group identified the existence of circumstances, which would indicate possible loss in value of the asset components, in the form of the balance sheet net value of the Group's assets higher than the value of its market capitalisation. In relation to the above fact, the Group conducted value impairment tests of components of fixed assets. On the basis of the conducted tests, it was stated that there is no need to identify the Impairment write-downs against tangible fixed assets. Information about the conducted test is presented in note 19.1.

Evaluation of provisions for employee benefits

Provisions for employee benefits were estimated using actuarial methods. The assumptions adopted for that purpose were presented in the note 24.1.

Estimate was developed on the basis of following main assumptions:

- Discount rate 2,1%
- Estimated inflation rate 2,5%
- Estimated salary increase rates 1,25% for 2020, 3% for later years

Changes of the financial indexes, which are a basis of the estimation, would change the balance of the provisions by the amounts presented in the table below (in thousands zloty).

	(+) increase by 1 p.p.	*(-) decrease by 1 p.p.*
dsicount rate	(3 744)	4 313
salary increase rates	4 228	(2 332)

Component of deferred tax assets

The Group recognises the component of deferred tax assets on the basis of assumption that tax profit enabling to its use will be achieved. The deteriorations of the achieved tax results in the future, could lead to a situation, in which this assumption would become unjustified. Details concerning the deferred tax are described in note 15.3.

Settlement period for assets related to overburden stripping and other mining assets

On a periodic basis, the Group verifies the settlement periods of assets related with overburden stripping and other mining assets, on the basis of current forecasts regarding the open pit exploitation. Data on assets related to overburden stripping and other mining assets are described in note 22.

Compensation for the termination of long-term contracts for sale of power and electricity

Note 33 presents the descriptions of essential contingent liabilities and essential law suits, including these concerning compensations for the termination of long-term contracts for the sale of power and electricity.

Revenue recognition

Long-term contracts for construction services

The Group recognizes revenues from long-term construction contracts over time, measuring the degree of full compliance with this obligation to perform the service. The Group applies an input-based method. The application of this method requires the Group to measure the proportion of works performed so far to all services to be performed. Revenue is recognized on the basis of the transaction price, excluding amounts that the Group collects as a leader on behalf of consortium members when executing contracts under a consortium.

At each balance sheet date, the Group updates the transaction price and the degree of fulfillment of the obligation to perform the service, i.e. the implementation of a long-term construction contract. The expected total loss on the contract is recognized as costs of the period in which it was recognized, in accordance with IAS 37. For data on long-term construction contracts, see Note 14.8.

Depreciation rates

The amount of depreciation rates is determined on the basis of the projected period of economic usability of tangible fixed asset components and intangible assets. The Group verifies accepted periods of economic usability on the basis of current estimates annually.

Assets due to the right of use are amortized over the period of economic usability of the underlying asset, provided that the lease agreement transfers the ownership of the underlying asset to the Group at the end of the lease period or if the cost of the asset due to the right of use takes into account that the Group will use call options. Otherwise, the Group amortises the asset due to the right of use from the date of leasing commencement until the end of the useful life of the asset or to the end of the leasing period, whichever is earlier.

Provision for the liquidation of tangible fixed assets components

The group creates provisions for the liquidation of tangible assets in the event of such an obligation or undertaking such a liability by the Group’s management. The provision is created in the amount resulting from the received offers concerning liquidation of components of tangible fixed assets. The Group updates the value of the provision on every balance sheet date. The value of the provision due to liquidation of components of tangible fixed assets is discounted on every balance sheet date. Provisions for the disassembly of Adamów Power Plant assets are not created due to the lack of a legal obligation. The provision described in note 11.24.

Provision for liquidation of ash storage yards

The Group creates the provision for liquidation of ash dumps due to a legal obligation resulting from the integrated approval entries. The basis of estimation are developments, technical and economic analyses developed by the Group, as well as received external offerings for planned directions of reclamation. At the end of each reporting period, the Group updates the value of the provision. As at the balance sheet date, the Management Board of ZE PAK SA Group estimated the value of reclamation costs to be borne in the future based on knowledge about the area of ash landfills used and the currently incurred costs of reclamation for similar areas. When calculating the provision, the Group adopted the following assumptions: average discount rate settled for the period of 3 years at 3.0%, inflation level at 2.5%.

The provision is described in note 31.3.2.

Reclamation and other provisions related to mining activity

The Group creates both, the provision for reclamation costs related to current extraction of coal on a given open pit, and the provision for costs of the final excavation. The provision is created on the basis of the estimates of future reclamation costs, as well as assumed start and finish dates of reclamation, on the basis of reports by independent experts estimating reclamation costs on the order of the Management Board, as well as internal estimates of the Group, and is discounted on every balance sheet date. The Group has adopted the following assumptions: average discount rate calculated over a 3-year period at 3.0%, and inflation at 2.5%.

The provision is described in note 31.3.3.

Valuation of Energy certificates

The Group recognises the energy certificates of origin (green certificates) due to the energy production from renewable energy, gas, and peak load co-generation sources according to the fair value at the end of the month, in which they were produced. On the balance sheet date, the Group appraises certificates of origin to the net value possible to achieve – for green certificates on 31 December 2019 to the price of 144.91 PLN /MWh. Data on prices come from listings on Towarowa Giełda Energii SA. A write-down against the certificate value is created in case the sale price possible to achieve, diminished by the disposition costs, is lower than the historical production cost. The amount of the impairment loss is PLN 101 thousand. The value of the write-down decreases the value of stocks for certificates of origin and increases the cost of sales. The source of uncertainty are legal regulations regarding the RES market.

Provision for liabilities for the emission of greenhouse gases and provisions for the redemption of certified emission reductions (EUA)

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

Emission in ZE PAK SA Group in 2018 amounted to 7 234 878 tons of CO_2, and in 2019 amounted to 6 609 742 tons of CO_2.

In April 2019 the Group redeemed CO_2 emissions for 2018 in the amount of 7 234 878 tons of CO_2.

As at December 31, 2019, the Group created a provision for allowances in respect of the actual volume of issue for the period from January 1, 2019 to December 31, 2019.

The value of the provision is affected by the variable nature of CO2 prices and the related actual value of redemption costs.

Details regarding the provision for liabilities for greenhouse gas emissions are presented in Note 31.3.1.

6. Basis for development of the consolidated financial statement

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

The balance sheet value of the recognised hedged assets and liabilities is adjusted with fair value changes, which may be attributed to the risk against which such assets and liabilities are hedged

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

6.1. Going concern assumptions

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

1) The Group closed 2019 with a net loss of PLN (446,146) thousand. The net loss was significantly affected by the results of impairment tests of property, plant and equipment in the amount of PLN 615,300 thousand. In addition, due to outdated design documentation and the loss of validity of the environmental decision and building permit regarding the gas project at the Konin power plant, a decision was made to write down an item under fixed assets under construction for PLN 16,001 thousand. The EBITDA result at the end of 2019 amounted to PLN 393 356 thousand, which means a significant improvement compared to the EBITDA result for 2018, which was realized at the level of PLN 89 792 thousand.

2) As at December 31, 2019, short-term liabilities, including bank loans, exceed the Group's current assets by PLN 17,268 thousand, which means an improvement compared to the end of 2018 when the difference was PLN 307,767 thousand.

The improvement in the above-described EBITDA, net profit (adjusted for one-off events) and the difference between short-term liabilities and current assets may arouse optimism. However, it should be remembered that the assessment of the Group's future functioning, including the assessment of the Group's ability to continue as a going concern is influenced by a large number of factors, among which the historical results are not the most important ones.

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

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

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

It should also be emphasized that the current market situation is also of concern, caused on the one hand by uncertainty as to the scale of social and economic consequences, the spread of the global pandemic associated with COVID-19 disease (for a broader description in point 41 of this report, which refers to events after the balance sheet date). The scale of the dynamics of economic development in Poland and in the world as well as the scale of the decrease in demand for electricity in the coming months and the future remain unknown. The level of price volatility on commodity markets is also worrying at the moment. Regardless of the direction of changes in energy prices and emission allowances, special attention in the context of results should be given to the level of the difference between electricity prices and emission allowances, while the dynamics of price changes may affect the level of liquidity. The Management Board would like to emphasize that the Group companies continue their strategy of simultaneously hedging prices of energy sold and CO2 emission allowances purchased. Operations at the operational level are also continuing to improve the efficiency of all Group companies.

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

Despite the events described above, after the balance sheet date, the assumptions adopted by the Management Board regarding the estimates, including the impairment test, are current.

6.2. Statement of compliance

This consolidated financial statement was developed in conformity with the International Financial Reporting Standards ("IFRS"), approved by the EU ("EU IFRS").

EU IFRS covers standards and interpretations adopted by the International Accounting Standards Board ("IASB") and The International Financial Reporting Interpretation Committee ("IFRIC").

The Group's companies keep their accounting books in accordance with the policy (rules) specified in the Act of 29 September 1994 on accounting ("the Act"), as amended, and the regulations issued therein ("Polish accounting standards"). The consolidated financial statement includes adjustments, which are not included in the accounting books of the Group's units, introduced in order to make their financial statements comply with IFRS.

6.3. Functional currency and financial statements currency

The functional currency of the parent company and other companies included in this consolidated financial statement and the presentation currency of this consolidated financial statement is the Polish zloty (zloty).

7. Changes in applied accounting principles and data changes comparative

The accounting (policy) rules applied for the development of this consolidated financial statement are coherent with the ones used for the development of the Company's consolidated financial statement for the year concluded on 31 December 2018, except those shown below:

Implementation of IFRS 16 leasing

Changes regarding the entry into force of IFRS 16 are described in note 9.

Significant spare parts

After an in-depth analysis, the Group identified significant (key for the operation of the power plant and mine) spare parts that were previously presented in the inventory line of the statement of financial position. As of January 1, 2019, such spare parts are presented in the asset, plant and equipment line of this report. The Management Board considered the impact of such a change on comparative data to be insignificant, therefore there was no change in the presented data as at December 31, 2018.

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

- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – as per the decision of the European Committee, the approval process for the standard in the preliminary version will not be initiated prior to the standard being issued in the final version – until the day of approval of this financial statement not approved by the EU – applicable to the annual periods beginning on 1 January 2016 or later,
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014) – works leading to the approval of these changes were delayed indefinitely by the EU - the effective date was delayed indefinitely by IASB,
- IFRS 17 Insurance Contracts (published on May 18, 2017) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2021 or later,
- *Amendments to IFRS 3 "Business combinations"* - the definition of a business (effective for business combinations where the acquisition date falls at the beginning of the first annual period beginning on or after January 1, 2020, and for the acquisition of assets that occurred on the day of commencement on / in an annual period or later),

- *Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies (Policy), Changes in Estimates and Correction of Errors"* - Definition of Materiality (effective for annual periods beginning on or after 1 January 2020),
- *Amendments to IAS 34 Interim Financial Reporting* - effective for annual periods beginning on or after 1 January 2020,
- *Amendments to IAS 37 Provisions, contingent liabilities and contingent assets* - effective for annual periods beginning on or after 1 January 2020,
- *Amendments to References to the Conceptual Assumptions contained in International Financial Reporting Standards* (published on March 29, 2018) - until the date of approval of these financial statements not approved by the EU - applicable to annual periods beginning on January 1, 2020 or later,
- *Amendments to IFRS 9, IAS 39 and IFRS 7*- reform of the interest rate reference indicator - (effective for annual periods beginning on or after January 1, 2020).

As at the date of approval of these consolidated financial statements for publication, the Management Board has not yet completed work on the assessment of the impact of introducing the above standards and interpretations on the accounting principles (policy) applied by the Group with respect to the Group's operations or financial results.

The dates of entry into force are dates resulting from the content of standards announced by the International Financial Reporting Council. The dates of application of standards in the European Union may differ from the dates of application resulting from the content of standards and are announced at the time of approval for application by the European Union. The Group did not decide to apply earlier any standard, interpretation or amendment that was published but has not yet entered into force in the light of European Union regulations.

9. Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued the International Financial Reporting Standard 16 Lease ("IFRS 16"), which replaced IAS 17 Leasing, IFRIC 4 Determining whether the contract includes leasing, SKI 15 Operating leases - special promotional offers and SKI 27 Significant transactions using the form of leasing. IFRS 16 sets out the accounting principles for leasing in terms of valuation, presentation and disclosure. IFRS 16 applies to annual periods beginning on or after January 1, 2019.

IFRS 16 introduces a single model of the lessee's accounting and requires the lessee to recognize assets and liabilities resulting from each lease with a period exceeding 12 months, unless the underlying asset is of low value. On the date of the commencement, the lessee recognizes an asset component due to the right of use of the underlying asset and a lease liability that reflects his obligation to make lease payments.

The lessor's accounting under IFRS 16 remains substantially the same as the lessor's accounting under IAS 17. The lessor will continue to recognize all lease contracts using the same classification principles as in IAS 17, distinguishing operating lease and financial lease.

IFRS 16 requires broader disclosures from both the lessee and the lessor than in the case of IAS 17.

First application of IFRS 16

As required, as of January 1, 2019, the Group applied IFRS 16 Leasing for the first time. As a consequence, the Group changed its accounting policy regarding the recognition of lease contracts. The changes in accounting policy were made in accordance with the transitional provisions included in IFRS 16.

The Group has implemented IFRS 16 using a modified retrospective approach, according to which the combined effect of the first application of the standard was recognized in retained earnings as at January 1, 2019. Therefore, comparative data for 2018 has not been restated.

Lease definition

The Group has so far used the definition of leasing specified in accordance with IAS 17 and IFRIC 4. In accordance with IFRS 16, the Group assesses whether the contract is or concludes a lease based on the definition of lease contained in this new Standard.

The Group as a lessee

Pursuant to the IAS 17 Leasing applied so far, the Group classified lease contracts as financial or operational leasing based on the assessment whether substantially all the risk and benefits arising from the ownership of the leased item were transferred to the lessee. Pursuant to IFRS 16, the Group recognizes in the balance sheet an asset under the right to use and a liability under the lease for most leases (irrespective of their prior classification).

For lease contracts classified until December 31, 2018 as operating leases (and contracts not classified in accordance with IAS 17 as leasing), the Group recognized assets due to the right to use and lease liabilities as follows:

- the leasing liability was measured at the present value of the remaining leasing payments, discounted using the marginal interest rate on the date of first application,
- the value of the right to use the underlying assets for individual leasing contracts (separately for each contract) has been determined at a value equal to the leasing liability, adjusted for previously recognized prepaid or accrued leasing fees (according to their value as at December 31, 2018).

Applying the modified retrospective method of implementing IFRS 16, the Group took advantage of practical solutions in relation to leases previously classified as operating leases in accordance with IAS 17 consisting in:

- the Group applied an exclusion in application, in respect of lease contracts, which period ends up to 12 months from the date of the first application of IFRS 16,
- The Group used the knowledge acquired after the fact to determine the lease period, for contracts containing the option to extend or terminate the lease.

For leases that were previously classified as finance leases in accordance with IAS 17, the carrying amount of the right of use and lease liability as at 1 January 2019 was determined as the carrying amount of the leased asset and lease liabilities directly prior to that date, measured in accordance with IAS 17.

The discount rates used to calculate lease liabilities recognized in the statement of financial position as at January 1, 2019 were as follows:

- for leases with a duration of up to 5 years - discount rate on average 3.49%,
- for leases with a duration of 5 to 10 years - discount rate at 5.07%,
- for leases with a duration exceeding 10 years - discount rate at 8.01%.

The Group has carried out a comprehensive analysis of the impact of IFRS 16 on its financial statements. The Group analyzed its contracts in terms of identifying contracts that, according to IFRS 16, include leasing or a leasing component.

The Group has determined that it is a lessee in the case of contracts for the use of land, including perpetual usufruct rights to land, car rental and leasing as well as machinery leasing.

The Group availed itself of the possibility of simplified recognition of contracts concluded for periods shorter than 12 months and contracts that end within 12 months from January 1, 2019. The Group has not identified lease contracts for low-value assets.

The Group has adopted the following assumptions regarding the determination of the leasing period:

- right of perpetual usufruct of land - the leasing period was determined as the remaining period of validity of the decision,
- land lease contracts concluded for an indefinite period or until the purchase of real estate / disassembly of infrastructure - the Group will estimate the lease period in accordance with the period of operation of the open pit,
- fixed-term contracts - the leasing period was determined in accordance with the contract, taking into account the individual consideration of the extension option.

The impact on the financial statements as at the date of initial application is as follows:

As at January 1, 2019, the Group recognized an additional PLN 60,830 thousand of assets under the right to use and PLN 54,579 thousand of lease liabilities. The impact of IFRS 16 on individual items of the consolidated statement of financial position of the Group as at January 1, 2019 is presented below.

(in thousand PLN)

	1 January 2019
Asset due to the right of use [1, 3, 4]	60 830
Property, plant and equipment [2, 3, 4]	(68 005)
Total assets	**(7 175)**
Liabilities	
Finance lease liability (acc. to IAS 17)[5]	(2 670)
Lease liabbility[1, 5]	57 249
Total liabilities	**54 579**
Equity capital	
Retained earnings [2]	(61 754)
Total equity	**(61 754)**

[1] Recognition of the asset due to the right of use and lease liability on the basis of identified leasing agreements in accordance with IFRS 16

[2] Correction due to derecognition of IFRS 1 effect (PWUG measurement at fair value) as at December 31, 2018

[3] Transfer of property, plant and equipment recognized as at 31/12/2018 under finance lease agreements in accordance with IAS 17 to the item Asset due to the right of use

[4] Transfer of the value of PWUG recognized as at 31/12/2018 under property, plant and equipment to the position Asset due to the right of use. As at January 1, 2019, the company adjusted the effect of IFRS 1 in the books of the asset due to the right of perpetual usufruct of land and recognized it in retained earnings.

[5] Transfer of the value of finance lease liabilities recognized as at 31/12/2018 to the item Lease liabilities

There are no variable components of leasing fees in the group.

The table below presents the reconciliation of the amounts of future minimum operating lease payments in accordance with IAS 17 Leasing with the estimated lease liabilities in accordance with IFRS 16 Leasing as at December 31, 2019.:

Future minimum operating lease payments in accordance with IAS 17 Leases	170 653
Discount using a marginal interest rate	(115 637)
Lease liability in accordance with IFRS 16 Leases	55 016

Impact of applying IFRS 16 on the statement of financial position as at December 31, 2019 and the income statement for 2019

	31 December 2019	*Impact of IFRS 16 application*	*31 December 2019 without IFRS 16*
ASSETS			
Fixed assets			
Property, plant and equipment	1 959 861	(68 900)	2 028 761
Assets due to the right of use	56 209	56 209	-
Investment property	2 172	-	2 172
Intangible assets	2 748	-	2 748
Assets of removing overburden and other mining assets (long-term)	70 620	-	70 620
Other long-term financial assets	3 220	-	3 220

(in thousand PLN)

Other long-term non-financial assets	2 608	-	2 608
Deferred tax assets	84 593	454	84 139
Total fixed assets	**2 182 031**	**(12 237)**	**2 194 268**
Current assets			
Short-term intangible assets	93 218	-	93 218
Inventories	104 341	-	104 341
Trade and other receivables	228 578	-	228 578
Income tax receivables	32 782	-	32 782
Other short-term non-financial assets	61 615	-	61 615
Amounts due from customers under long-term construction contracts	1 047	-	1 047
Cash and cash equivalents	414 634	-	414 634
Total current assets	**936 215**	**-**	**936 215**
Total Assets	**3 118 246**	**(12 237)**	**3 130 483**

	31 December 2019	*Impact of IFRS 16 application*	*31 December 2019 without IFRS 16*
LIABILITIES AND EQUITY			
Equity			
Share capital	101 647	-	101 647
Reserve capital	1 124 376	-	1 124 376
Revaluation reserve from valuation of hedging instruments	-	-	-
Other reserve capital	3 472	-	3 472
Retained earnings / Accumulated losses	389 831	(61 754)	451 585
Net profit / (loss)	(445 179)	(2 852)	(442 327)
Equity attributable to equity holders of the parent	**1 174 147**	**(64 606)**	**1 238 753**
Equity attributable to non-controlling interests	2 321	-	2 321
Total equity	**1 176 468**	**(64 606)**	**1 241 074**
Long-term liabilities			
Interest-bearing loans and borrowings	29 773	-	29 773
Long-term employee benefits	45 505	-	45 505
Trade liabilities and other long-term financial liabilities	8 796	-	8 796
Long-term financial derivatives (liabilities)	55 016	55 016	-
Long-term subsidies	41 793	-	41 793
Other long-term provisions and accruals	425 129	-	425 129
Deferred tax liability	382 282	-	382 282
Total long-term liabilities	**988 294**	**55 016**	**933 278**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities and short-term leasing liabilities	108 969	(2 647)	111 616
Current portion of interest-bearing loans and borrowings	46 767	-	46 767
Short-term financial derivatives (liabilities)	1 757	-	1 757

(in thousand PLN)

Other non-financial liabilities	102 932	-	102 932
Current income tax liability	223	-	223
Short-term employee benefits	6 897	-	6 897
Short-term subsidies	1 502	-	1 502
Amounts due to customers under long-term construction contracts	1 730	-	1 730
Other short-term provisions and accruals	682 707	-	682 707
Total short-term liabilities	**953 484**	**(2 647)**	**956 131**
Total liabilities	**1 941 778**	**52 369**	**1 889 409**
TOTAL LIABILITIES AND EQUITY	**3 118 246**	**(12 237)**	**3 130 483**

Profit and loss account

	31 December 2019	*Impact of IFRS 16 application*	*31 December 2019 without IFRS 16*
Continuing operation			
Sales revenue	**2 877 920**	-	**2 877 920**
Cost of goods sold	(3 185 762)	883	(3 186 645)
Gross profit / (loss)	**(307 842)**	**883**	**(308 725)**
Other operating revenues	13 089	-	13 089
Selling and distribution expenses	(4 492)	-	(4 492)
Administrative expenses	(116 648)	-	(116 648)
Other operating expenses	(7 696)	-	(7 696)
Gross profit / (loss) from operations	**(423 589)**	**883**	**(424 472)**
Financial income	11 341	-	11 341
Financial costs	(27 644)	(4 189)	(23 455)
Profit / (loss) before tax	**(439 892)**	**(3 306)**	**(436 586)**
Income tax expense (taxation)	(6 254)	454	(6 708)
Net profit / (loss) for the period from continuing operations	**(446 146)**	**(2 852)**	**(443 294)**
Discontinued operations			
Profit / (loss) for the financial year from discontinued operations	-	-	-
Net profit / (loss) for the period	**(446 146)**	**(2 852)**	**(443 294)**
Net profit/ (loss) attributable to equity holders of the parent	(445 179)	(2 852)	(442 327)
Net profit/ (loss) attributable to non-controlling interests	(967)	-	(967)

10. Change of estimates

During the period covered by the financial statement, the following changes of estimates, affecting the values shown in the financial statements, occurred:

- estimates in the assumptions for the valuation of actuarial provisions,
- estimates in the scope of assumptions regarding the valuation of derivative instruments,
- estimates in the assumptions regarding the calculation of the revenue for compensation of LTC,
- estimates in the assumptions regarding the periods of economic usability of the capital work,

- estimates related to realisation of the deferred tax assets,
- estimates in the scope of assumptions regarding the valuation of provisions for ash storage reclamation,
- estimates in the assumptions for the valuation of the provision for the liquidation of components of tangible fixed assets,
- estimates regarding the valuation of long-term contracts,
- estimates in the scope of assumptions regarding the valuation of the reclamation provisions associated with mining activity
- estimates in the scope of fixed asset impairment,
- estimates in the scope of prices of CO_2 emission allowances.

The impact of changes in estimates on the value of the recoverable amount of property, plant and equipment was presented in Note 19.1.

The impact of estimate changes on the value of actuarial provisions was presented in note 5.2.

In case of the valuation of derivatives (IRS, options), the change in estimates is due to the market changes of risk factors on the interbank market, i.e. the exchange rate and market interest rates. The description of the used protections was included in note 38.3.1.

In the calculation of the revenue due to compensation, the change of estimates relates primarily to changes in the sale prices and purchase of energy on the Commodity Power Exchange and balancing market, the volume of energy production and purchase of energy in order to meet sale plans as well as the interest rate of the 5-year government bonds and the NBP deposit rate, affecting the discount rate. The value of the yearly impairment due to compensations for 2019 is (+) zloty 47.05 million. The principles of recognition of revenue for compensations to cover stranded costs are described in note 11.26.41.

The period of economic usability of the fixed assets is subject to verification at the end of each reporting period based on the expected functionality period, verified against the Management Board’s plans related to the modernisation, sale, and liquidation of the main components of assets. The effect of the changes is recognised in the year in which the verification was performed.

With reference to the deferred tax asset, for each balance sheet day an analysis is carried out and, if necessary, a revaluation write-down is created, which is described in more detail in note 15.3.

The description of the titles of the main recognised provisions and changes of provision items in the current and previous fiscal year was described in note 31.

Note 13.8 shows the values of revenues for construction contracts, taking into account the balance sheet measurement and the expected losses due to these contracts.

11. Significant accounting rules

11.1. Consolidation rules

This consolidated financial statement includes the financial statement of Zespół Elektrowni Pątnów – Adamów – Konin SA as well as financial statements of its subsidiaries, developed each time for the year concluded on 31 December 2019. The financial statements of the entities controlled by it (subsidiaries), after the taking into account the adjustments to ensure compliance with IFRS, are prepared for the same reporting period as the parent company’s statement, using consistent accounting rules, based on uniform accounting policies applied for transactions and economic events of a similar nature. In order to eliminate any differences in the applied accounting methods, adjustments are implemented.

All significant balances and transactions between the Group's entities, including unrealised profits arising from transactions within the Group, were entirely eliminated. Unrealised losses are eliminated, unless they prove the impairment.

Subsidiaries are subject to consolidation from the date on which they are controlled by the Group and cease to be consolidated from the date on which such control ends. The control of the parent company over an entity takes place when:

- it has power over a given entity,

(in thousand PLN)

- it is exposed to variable returns or has rights to variable returns due to its commitment in a given entity,
- it has the possibility to use the power to shape the level of the generated returns.

The Company verifies the fact of having control over other entities, if the situation, which indicates a change of one or more of the above-mentioned control conditions, occurred.

If the company has less than a majority of the voting rights of the entity, but the held voting rights are sufficient to unilaterally manage the relevant activities of the entity, it means that it holds power over the entity. When assessing whether the voting rights in a given entity are sufficient to ensure power, the Company analyses all significant circumstances, including:

- the size of the held voting rights block in comparison to the scale of shares and the degree of dispersion of the voting rights held by other shareholders;
- potential voting rights held by the Company, other shareholders, or other parties;
- rights under other contractual arrangements; and
- additional circumstances that may demonstrate that the Company has or does not have the possibility to manage relevant activities in the decision-making moments, including voting schemes observed during previous meetings of the shareholders.

Changes in the parent company's ownership that do not result in the loss of control of the subsidiary are recognised as equity transactions. In such cases, in order to reflect changes in relative shares in the subsidiary, the Group adjusts the balance value of the controlling and non-controlling shares. Any differences between the amount of the adjustment of non-controlling shares and the fair value of the paid or received amount are recognised in the equity and attributed to owners of the parent company.

11.2. Calculation of items denominated in foreign currency

Transactions denominated in currencies other than zloty are calculated into Polish zloty using the exchange rate applicable on the date of conclusion of the transaction.

At the balance sheet date, assets and liabilities denominated in currencies other than zloty are calculated into Polish zloty using the average exchange rate determined for a given currency by the Polish National Bank at the end of the reporting period. The foreign exchange differences, which arise from the calculation, are respectively recognised in the financial revenue item (costs), or in cases of the rules (policy) of accounting, capitalised in the value of assets. Assets and non-monetary liabilities recognised at historical cost in a foreign currency are disclosed at the historical exchange rate of the transaction date. Assets and non-monetary liabilities recognised as per the fair value expressed in a foreign currency are converted to the fair value at the rate of the evaluation date. Profits or losses arising from the recalculation of assets and non-monetary liabilities recognised within the fair value are recognised in accordance with the recognition of profit or loss, which arises from changes in the fair value (i.e., in other comprehensive income or profit or loss, respectively, depending on where the change in the fair value is recognised).

The following exchange rates were adopted for the purposes of the balance sheet valuation:

	31 December 2019	*31 December 2018*
EUR	4,2585	4,3000
GBP	4,9971	4,7895
USD	3,7977	3,7597

11.3. Tangible fixed assets

Tangible fixed assets are stated according to the acquisition price / production cost reduced by the redemption and impairment write-downs for the loss in value. The initial value of fixed assets includes the acquisition price increased by all costs directly related to the acquisition and adaptation of the asset components to a condition for its intended use. The cost also includes the cost of replacing the individual components of machinery and devices when incurred, if the recognition criteria are met. Any costs incurred after the date when a fixed asset is put into operation, such as the maintenance and repair costs, encumber the profit or loss when incurred. The initial value includes disassembly, removal and restoration costs.

Fixed assets, at the time of their acquisition, are divided into components with a significant value, to which a separate period of the economic usability can be attributed. The costs of general overhauls are also classified as components. The

(in thousand PLN)

Group capitalizes only compulsory repairs resulting from legal provisions, guarantees and the like. The period of amortization of renovation components is the time planned for the next major overhaul of a given facility. Lands classified as fossil are subject to depreciation until they are reclassified for another type of use.

11.3.1. *Strategic spare parts*

Inventories recognized as parts of strategic repairs and breakdowns of machinery and equipment are recognized in property, plant and equipment. The main criteria for recognizing materials under Property, plant and equipment are:

- a key element to maintain continuity of production, the purchase of which is difficult due to the long waiting process associated with the complicated manufacturing process,
- an element being a set or subassembly of a machine or device that will be used in the production process for more than one year,
- spare parts can only be used for the proper operation of individual items of property, plant and equipment.

Strategic spare parts are amortized to the expected period of their use. For day

On January 1, 2019, the Group transferred spare parts with a net value of PLN 14,399 thousand from inventory to property, plant and equipment.

The revaluation write-off is created for non-rotating materials over 3 years. For spare parts with a value above PLN 100,000, the write-off amounts to 100% of the value.

The redemption is calculated on a straight-line basis for an estimated useful life of a given component of assets, amounting to:

Type	Period
Lands	2 - 18 years
Buildings and structures	2 - 40 years
Machinery and technical devices	2 - 32 years
Means of transport	2 - 30 years
Other fixed assets	2 - 31 years
General renovations	3 - 8 years
Startegic spare parts	2 - 6 years

The final value, useful life and a depreciation method for the asset components are annually verified and, if necessary, adjusted with effect from the beginning of the just ended financial year. Any changes resulting from the conducted review are recognised as a change in estimates.

A given item of the tangible fixed assets may be removed from the balance sheet after its sale, or if any economic benefits, arising from the further use of such a component of assets, are expected. Any profits or losses resulting from removal of a given component of assets from the balance sheet (calculated as the difference between potential net income from the net sale and the balance sheet value of a given item) are recognised in the profit and loss of the period, in which such removal was made.

Commenced investments relate to fixed assets under construction or assembly and are reported in accordance with the acquisition or production costs reduced by potential impairment write-downs for the loss in value. The fixed assets under construction are not subject to redemption until the completion of their construction and putting the fixed asset into operation. Financing costs subject to capitalisation are also a value element of fixed assets under construction. The question of their capitalisation is described in more detail in note 11.11.

11.3.2. *Fixed assets intended for sale*

Fixed assets and their groups are deemed as held for sale when their balance sheet value is recovered rather by means of a sale transaction than through their further use. This condition can be met only when the sale transaction is highly probable and the assets' component is available for immediate sale in its present condition. The classification of the assets' component as intended for sale assumes the intention of the company's management board to conduct the sale transaction within one year from the date of classification. The fixed assets classified as held for sale are measured at the lower of two values:

the balance sheet value or fair value reduced by costs related to the sale.

If the Group wants to make a sale transaction, which would result in losing control over its subsidiary, all assets and liabilities of this entity are classified as held for sale, regardless of whether the Group keeps non-controlling interests after this transaction.

11.4. Investment properties

The initial recognition of the investment properties takes place according to the acquisition price or production cost, taking into account the transaction costs. The balance sheet value of the investment properties includes the cost of replacing the individual components of the investment property at the time of its incurrence, if the recognition criteria are met, and it does not include costs of the current maintenance of these properties. After the initial recognition, the value of investment properties is reduced by redemption and impairment write-downs for the loss in value.

Investment properties are removed from the balance sheet upon their sale or permanent withdrawal of the given investment property from use, when no future benefits of its sale are expected. Any profits or losses arising from removal of the investment property from the balance sheet are recognised in the income statement of the period in which the aforementioned removal took place.

The transfer of assets to investment properties is made when there is a change in their use confirmed by the owner ceasing to use the assets' component or the conclusion of an operating leasing agreement.

The Group as investment properties presents post-mining lands for which the reclamation process was completed. Such lands, in accordance with the plans of companies executing extraction activities, will be sold in the future.

11.5. Assets concerning stripping off and other mining assets

Assets related to stripping off and other mining assets include capitalized costs incurred in the mine's pre-production phase, in particular outlays related to the creation of an accessing site.

The initial value of the asset includes the discounted costs of liquidation, i.e. reclamation, in part in which it relies on the removed overburden as part of works related to the establishment of the primary lump, which, pursuant to the applicable law, are subject to liquidation after the end of activity. The principles for recognizing and measuring the costs of liquidation are presented in Note 31.3.3

The initial value of the asset also includes costs related to the creation of provisions for significant, one-off costs related to the areas on which open-cast construction works, for example liquidation and reconstruction of roads, liquidation of cemeteries, transfer of public construction objects.

In any case, the Group settles activated costs on a straight-line basis in the period of the economic usability of the duration of particular open pits (the exploitation period adopted for particular open pits). The linear method was used because the deposits are mined according to the schedule evenly throughout the entire concession period. The adopted depreciation periods and depreciation methods are periodically reviewed, at least at the end of each financial year. The assets related to the removal of overburden and other mining assets with the economic usability of less than 12 months are classified within short-term assets. The periods of economic utility of individual outcrops are as follows:

Drzewce open pit till 2021, Tomisławice open pit till 2030, Jóźwin open pit till 2021, Adamów open pit until May 2026. The period of validity of the concession for Open Pit Adamów was changed by the decision of the Minister of Climate of February 28, 2020.

The write-down against settlement of mining assets is recognised as operating costs within the depreciation costs.

11.6. Expenses related to exploration and evaluation of mineral resources

Within the assets related to stripping off and other mining assets item, the Group also shows expenses related to the exploration and evaluation of mineral resources.

The Group activates the expenses related to the exploration and evaluation of mineral resources until the end of the exploration works. The next step is to verify if the identified resources demonstrate the technical feasibility and economic viability of extracting. In the absence of viability of extracting, all the incurred expenses are written off in other operating costs.

Within the costs associated with the exploration and evaluation of mineral resources, the following element can be distinguished, among other things:

- topographical, geological, geochemical, and geophysical analyses,
- drilling,
- open-pit mining works,
- sampling,
- acquisition of extraction rights.

Assets related to the exploration for and evaluation of mineral resources are measured at cost less accumulated impairment losses.

Impairment tests on a single unit (project), the Group obligatorily performs when it demonstrates the technical feasibility and commercial viability of extracting mineral resources when facts and circumstances indicate that the carrying amount of assets from exploration and evaluation of mineral resources may exceed their recoverable amount. Any write-downs are recognized prior to the reclassification resulting from the demonstration of technical feasibility and economic viability of extracting mineral resources.

11.7. Intangible assets

Intangible assets acquired in a separate transaction or created (if they meet the recognition criteria for development costs) are measured at initial recognition, at their acquisition price or production cost, respectively. The acquisition price of intangible assets acquired in a business combination transaction is equal to their fair value at the date of the combination. Following the initial recognition, intangible assets are stated at their acquisition price or production cost reduced by the redemption and value impairment write-downs. The expenses incurred on the intangible assets produced internally, except for the activated assets incurred on the development works, are not activated and are recognised in the costs for the period, in which they were incurred.

Intangible assets are depreciated over the period of use and are subjected to the value impairment tests whenever there are premises indicating their value loss. The depreciation period and method of intangible assets with a definite useful life are verified at least at the end of each fiscal year. Changes in the expected useful life or the expected method of consuming the economic benefits from a given component of assets are recognised through a change of the period or depreciation method, and treated as changes in estimates. Depreciation write-downs for components of intangible assets with a definite useful life are recognised in the profit or loss in the expense of the category, which corresponds to the function of a given component of intangible assets.

Usufruct periods are verified annually and, if necessary, adjusted with effect from the beginning of the just ended financial year. Any changes resulting from the conducted review are recognised as a change in estimates.

A summary of the policies applied in relation to the Group's intangible assets is as follows::

	Concessions, patents and licenses	*Computer software*	*Other*
Periods of use	5 years	2 years	5 years
Applied depreciation method	Straight-line method	Straight-line method	Straight-line method
Internally produced or acquired	Acquired	Acquired	Acquired
The value impairment test	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.	The annual assessment of whether there are any prerequisites indicating the occurrence of the loss in value.

Profits or losses resulting from removal of intangible assets from the balance sheet are valued according to the difference between the income from the net sales and the balance sheet value of a given asset component and are recognised in the profit or loss, when they are removed from the balance sheet.

The company also shows the CO_2 emission allowances received or acquired for own needs, as intangible assets. A detailed description of the accounting policy in respect of CO_2 emission allowances was included in note 11.25.

11.8. Lease

The Group as a lessee.

Lease, rent, lease and other contracts granting the Group the right to use assets that fall under the definition of leasing in accordance with the requirements of IFRS 16 are recognized as assets under the right to use the underlying assets and on the other side as liabilities under leasing fees.

The Group is a lessee in the case of machinery and car leasing contracts and uses land, including for perpetual usufruct.

The Group applies the exemptions provided for in IFRS 16 and does not recognize assets due to the right of use for short-term leases and leases involving low-value assets. Short-term leases are defined as leases that have a period of not more than 12 months as at the commencement date (including periods for which the lease can be extended if it can be assumed with sufficient certainty that the lessee will exercise this right). Low-value assets are considered to be assets that, when new, have a value of no more than USD 5,000.

For all individual leasing contracts that meet the leasing criteria, the Group sets:

- date of commencement of the leasing period in which the lessor provides the underlying asset,
- the leasing period, including the irrevocable period for which the Group has the right to use the underlying asset along with periods for which the lease may be extended, if it can be assumed with sufficient certainty that the lessee will exercise this right and the periods in which the lease can be withdrawn if it can be assumed with sufficient certainty that the lessee will not exercise this right,
- leasing fees, and
- discount rate, which is the leasing interest rate (e.g. in the case of car leasing contracts) or, if the leasing interest rate is not easily available, the marginal interest rate of the Group, understood as the cost of credit interest that the Group would have to incur when taking a loan to purchase a given component assets and with appropriate collateral.

As at the start of the lease, the Group measures the asset due to the right of use at cost. The cost of the asset due to the right of use includes:

- the amount of the initial measurement of the lease liability,
- payments made to the lessor before or at the start of the lease, less leasing incentives received
- initial direct costs incurred by the Group,
- estimated costs that will be incurred by the Group for dismantling and removing the asset, restoring the area where the asset is located or restoring the asset to the condition required by the terms and conditions of the lease agreement. The liability regarding dismantling costs is recognized and measured in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets".

The measurement of the asset due to the right to use at a later date is made by the Group using the cost model - i.e. according to the cost less amortization and accumulated impairment losses and adjusted in connection with the revaluation of the leasing liability, which reflects changes in leasing, not resulting in the need to recognize a separate lease component.

Assets used on the basis of a lease-based contract are amortized on a straight-line basis over the shorter of the two periods: the duration of the lease contract or the useful life of the underlying asset, unless the Group has reasonable assurance that it will obtain ownership before the end of the lease term - then the right to use it is amortized from the day the lease begins to the end of the asset's useful life.

Asset components of the right to use are subject to impairment regulations in accordance with IAS 36 'Impairment of assets'.

As at the beginning of the lease period, the Group measures the value of the lease liability at the current value of the lease payments to be made during the lease period, including:

- • fixed leasing fees (including essentially fixed leasing fees), less leasing incentives received from the lessor,

- variable lease payments, which depend on the index or rate, initially valued using the index or rate in the amount applicable at the date of leasing,
- the call option exercise price if it can be assumed with sufficient certainty that the lessee will exercise this option,
- financial penalties for early termination of the lease agreement, if determining the lease period, it was assumed that the lessee will use the option to withdraw from the lease,
- amounts expected to be paid by the lessee in relation to the residual value guarantee.

Variable fees that do not depend on an index or rate and do not have a certain minimum level are not included in the value of the lease liability. These fees are recognized in the income statement in the period of the event that causes them to be due.

After the commencement date, the lease liability is measured using the effective interest rate.

The lessee separately recognizes the depreciation of the asset due to the right to use and interest on the lease liability.

The lessee updates the valuation of the lease liability after specific events (e.g. changes with respect to the lease period, changes in future lease payments resulting from a change in the index or the rate used to determine these charges). As a rule, the lessee recognizes the revaluation of the lease liability as an adjustment to the value of the asset due to the right of use.

If the contract includes service components deemed by the Group to be immaterial in the context of the entire contract, the Group applies a practical solution consisting of treating leasing and non-leasing components as one leasing component and treating as fees also the fees assigned to non-leasing components.

11.9. Fair value measurement

The Group measures financial instruments such as debt / equity instruments and derivatives at fair value as at each balance sheet date - IFRS 9. In addition, the fair value of financial instruments measured at amortized cost is disclosed in Note 38.

The fair value is defined as the price that would be received from the sale of an asset or paid in order to transfer a liability in the transaction conducted on normal sale conditions of a component of assets between market participants at the valuation date in the current market conditions. The valuation of fair value is based on the assumption that the sale transaction of a component of assets or the transfer of a liability occurs either:

- on the main market for a given component of assets or liability,
- in the event of absence of a principal market, in the market, this is most advantageous for the asset or liability.

Both, the main and the most advantageous markets must be available to the Group.

The fair value of a component of assets or liability is measured at the assumption that market participants, when determining the price of a component of assets or liability, act in their best economic interest.

The fair value of a component of non-financial assets takes into account the market participant's ability to generate economic benefits by making the greatest and the best use of the component of assets or its sale to another market participant that would provide the greatest and the best use of this component of assets.

The Group uses measurement techniques that are relevant to the circumstances and for which sufficient data to determine the fair value, with maximum use of relevant observable input data and minimal use of unobservable input data, are available.

All assets and liabilities that are measured at the fair value, or their fair value is disclosed in the financial statement, are classified in the fair value hierarchy as described below on the basis of the lowest level of input that is significant to the valuation of fair value treated as a whole:

- Level 1 – Quoted (unadjusted) market prices on the active market for identical assets and liabilities,
- Level 2 – Valuation techniques, for which the lowest level of input data, which is significant for the fair value measurement as a whole, is directly or indirectly observable,
- Level 3 – Valuation techniques, for which the lowest level of input data, which is significant for the valuation of the fair value as a whole, is unobservable.

At each balance sheet date, in the event of assets and liabilities existing per each balance sheet date in the financial statement, the Group evaluates whether there were transfers between levels of the hierarchy through a re-assessment of the classification into different levels, following the materiality of input data from the lowest level, which is essential for the valuation to the fair value treated as a whole.

Summary of essential procedures for the fair value measurement

The Management Board of the Group determines the rules and procedures for both, the systematic valuation of non-listed financial assets at the fair value, as well as one-time valuations, e.g. in case of assets intended for sale within a discontinued activity.

In order to determine the fair value, independent experts are engaged to perform the valuation of significant assets and financial liabilities, measured at the fair value. Internal valuation models are also used.

In order to perform the above valuations, independent experts, unrelated to the Group and with qualifications appropriate to conduct such valuations, as well as having current experience in such valuations in locations, where there are assets of the Group are appointed.

For the purposes of disclosure of the fair value measurement, the Group established classes of assets and liabilities based on the type, characteristics, and risks of the various components of assets and liabilities and the level in the fair value hierarchy, as described above.

11.10. Loss in value of non-financial fixed assets

At the balance sheet date, the Group evaluates whether there are any prerequisites indicating that loss in value of the component of non-financial fixed assets may have occurred. In the event when there are such prerequisites, or in case of the necessity to conduct an annual impairment test, the Group estimates the recoverable value of a given component of assets or a cash generating unit, which the component of assets belongs to.

The recoverable value of a component of assets or a cash generating unit corresponds to the fair value reduced of effecting the sale of the given component of assets or respectively the cash generating unit, or its value in use, depending on which one is higher. The recoverable value is determined for an individual asset, unless a given asset component does not independently generate cash inflows that are largely independent of those generated by other assets or groups of assets. If the balance sheet value of a component of assets is higher than its recoverable value, the loss in value occurs, and the write-down to the determined recoverable value is made.

In assessing the value in use, the projected cash flows are discounted to their current value using a discount rate prior to entailing the effects of taxation reflecting the current estimated value of money in time as well as the risk typical for a given component of assets. Impairment write-downs for the loss in value of assets used in the continued activity are recognised in the category of costs, which are consistent with the function of the asset component, in case of which the loss in value was identified.

At each balance sheet date, the Group assesses whether there are any prerequisites indicating that the value impairment write-down, which was recognised in previous periods, in relation to a given asset component, is unnecessary or whether it should be reduced. If such prerequisites exist, the Group estimates the recoverable value of the component of assets. The previously recognised impairment write-down for the loss in value is reversed only if, from the time of recognition of the impairment write-down, a change of the estimated values applied to determine the recoverable value of a given component of assets occurred and there was a cessation of premises indicating impairment. In this case, the balance sheet value of the component of assets is increased to its recoverable value. The increased amount cannot exceed the balance sheet value of the component of assets that would have been determined (after taking into account redemption) if, in the previous years, the impairment write-down for the loss in value, in relation to this component of assets, was not recognised. A reversal of the impairment write-down for the loss in value of the component of assets is immediately recognised as income. After the reversal of the impairment write-down, in the following periods, the depreciation write-down related to a given component is adjusted in a way, which within the remaining period of use of this component of assets allows systematically writing down the verified balance sheet value of the component of assets reduced by the final value.

11.11. Borrowing costs

Borrowing costs are capitalised as part of the fixed assets production cost. Borrowing costs consist of interests calculated using the effective interest rate method, financial encumbrances due to financial lease agreements and foreign exchange differences resulting from the external financing up to the amount corresponding to the adjustment of the interest cost. In terms of foreign exchange differences, the cumulative approach is applied.

11.12. Financial assets

Financial assets are initially recognized at fair value.

After the initial recognition, the Company classifies financial assets into the following valuation categories:

- measured at amortized cost,

- measured at fair value through profit or loss,

- valued at fair value through other comprehensive income.

The classification depends on the financial asset management model adopted by the Company and the contractual terms of cash flows.

In July 2014, the International Accounting Standards Board published the International Financial Reporting Standard 9 Financial Instruments ("IFRS 9"). IFRS 9 covers three aspects related to financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 applies to annual periods beginning on January 1, 2018 and later, with the possibility of earlier application.

The Group has applied IFRS 9 from the effective date of the standard, without transforming the comparative data.

- **Classification and valuation**

All financial assets so-far measured at fair value will continue to be measured at fair value. Trade receivables are maintained to obtain cash flows arising from the contract. The Group has no trade receivables subject to factoring. The Group uses a practical exemption and for trade receivables under 12 months does not identify significant elements of financing.

Financial assets are recognized in the statement of financial position when the Group becomes a party to a binding contract. The acquisition and sale of the financial assets are recognised at the transaction date. At the time of the initial recognition, a component of financial assets is measured at the fair value, increased, in case of the component of assets not classified as the measured at the fair value by the financial result, with the transaction costs, which can be directly attributed to the acquisition.

The component of financial assets is removed from the balance sheet when the Group loses control over the contractual rights that comprise a given financial instrument; it usually occurs when the instrument is sold or when all the cash flows attributed to a given instrument are transferred to an independent third party

In a situation, in which the Group:

- has a legally enforceable right to compensate the recognised amounts, and
- intends to settle on a net basis, or at the same time to realise the component of assets and settle the liability

a financial asset component and financial liability are compensated and presented in the financial statement in the net amount.

The framework agreement described in IAS 32.50 does not constitute grounds for compensation, if both above described criteria are not met.

11.13. Loss in value of financial assets

In accordance with IFRS 9, the entity measures the write-down for expected credit losses in the amount equal to the 12-month expected credit loss or expected credit losses over the life of the financial instrument. In the case of trade receivables, the Group applies a simplified approach and measures the write-off for expected credit losses in the amount equal to the expected credit losses throughout their life.

For the purpose of estimating the expected credit losses, IFRS 9 indicates the validity of using both historical data in the field of repayment as well as reliable data available at the balance sheet date that may increase the accuracy of estimating the expected credit losses in future periods.

The Company identified the following classes of financial assets for which, in accordance with IFRS 9, it estimated the impact of expected loan losses on the financial statements:

- Trade receivables for deliveries and services,
- Other receivables, including those due to LTC settlement
- Sureties and bank deposits,
- Cash.

With respect to trade receivables, it is assumed that the repayment data can be used to estimate credit risk in the future, and therefore the credit losses were estimated using historical data on the maturities of trade receivables and their fulfilment. In order to estimate the expected loss for other financial assets, the insolvency risk was determined based on other data, in particular rating assessments made by rating agencies or given to counterparties as part of the internal credit risk assessment process, adjusted for the probability of default assessment.

11.14. Other non-financial assets

The Group recognises prepayments as other non-financial assets, if the following conditions are met:

- they result from past events – expenses incurred for the operational purpose of entities,
- their extent can be reliably determined,
- they will result in the impact of economic benefits to the entities in the future,
- they apply to future reporting periods.

Write-offs of active prepayments of costs can occur appropriately to the passage of time and the amount of benefits. The time and method of settlement is justified by the nature of the settled costs, respecting the precautionary principle.

At the end of the reporting period, the Group verifies the active prepayments of costs in order to check whether the degree of certainty associated with the achievement of economic benefits by the entity, after the expiry of the current financial period, is sufficient to show a given item as a component of assets.

During the reporting period, the subjects of prepayments are, among others:

- costs of property insurance,
- costs of current charges for perpetual usufruct of lands,
- deductions for social insurance fund,
- subscriptions,
- other costs related to next reporting periods.

Other non-financial assets include, in particular, the public and legal settlement receivables (except for CIT settlements, which are presented in a separate item of the financial statement), as well as advance payments for future purchases of tangible fixed assets, intangible assets and inventories. The advance payments are presented according to the nature of the assets, to which they relate – respectively, as fixed or current assets. As non-monetary assets, the advance payments are not subject to discount.

11.15. Financial derivative instruments and securities

The derivatives used by the Group in order to secure against the risk related to the changes of interest rates and exchange rates are mainly the forward foreign exchange contracts and contracts for the interest rates change (interest rate swaps). Such derivatives are measured at the fair value. Derivatives are stated as assets when their fair value is positive, and as liabilities – when their value is negative.

Profits or losses for the fair value changes of derivatives, which do not comply with the hedge accounting principles are directly stated in the net financial result of the financial year.

The fair value of forward foreign exchange contracts is determined by the reference to the current forward rates for contracts with a similar maturity date. The fair value of contracts for the interest rate swaps is determined by the reference to the market value of similar instruments.

Within the hedge accounting, securities are classified as:

- cash flow hedges securing against the changes in cash flows, which can be attributed to a specific kind of risk related to a recognised component of assets, liability or forecasted transaction,

- Securing the currency risk of the substantiated future liability is settled as the cash flow hedge.

At the inception of the hedge, the Group formally determines and documents the hedging relationship as well as the risk management objective and strategy for establishing the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the characteristics of the hedged risk as well as a method of assessing the hedge instrument effectiveness in the compensation for the risk of changes value of cash flows related to the hedged risk.

It is expected that the hedge will be highly effective in the compensation for changes of cash flows resulting from the hedged risk. The hedge effectiveness is constantly assessed to determine whether it is highly effective within all the reporting periods for which it was established.

In addition, the Group secures the cash flow associated with purchasing CO_2 emission allowances in the form of short-term forward contracts. In addition, the Group hedges cash flows related to the purchase of electricity. Due to the fact that contracts for the purchase of non-financial assets are concluded in order to secure own needs, they are excluded from the scope of IFRS9.

11.15.1.Cash flow security

The cash flow hedge is a hedge against the exposure to variability in cash flows, which can be attributed to a specific type of risk related to a recognised component of assets, liability, or highly probable planned transaction, and which could influence profit or loss. The part of profits or losses related to the hedge instrument, which constitutes an effective security is recognised in other comprehensive income, and an ineffective part is recognised in profit or loss.

If a hedged planned transaction subsequently results in the recognition of a component of financial assets or a financial liability, the associated profits, or losses, which were included in other comprehensive income and accumulated in equity, are transferred to the income statement within the same period, or in the periods, during which the acquired component of assets or liability affect the profit or loss.

If hedging the planned transaction subsequently results in the recognition of a component of non-financial assets or non-financial liability, or the planned transaction related to a component of non-financial assets or non-financial liability becomes a substantiated future liability, to which the fair value hedge will be applied, then, the profits or losses that were recognised in other comprehensive income are excluded from the equity and included in the acquisition price or other balance sheet value of the component of assets of liability.

The profits or losses resulting from changes of the fair value of derivatives, which do not meet the conditions for the application of hedge accounting principles are directly recognised in the net financial result for the current period.

The Group discontinues using the hedge accounting principles when the hedging instrument expires or was sold, its use terminated or it was executed, or the hedge no longer meets the conditions, which allow the application of hedge accounting principles to it. In such a case, the total profit or loss on a hedging instrument, which were recognised in other comprehensive income and accumulated in the equity are still stated in the equity until the forecast transaction takes place.

If the Group no longer expects that the forecast transaction will occur, then the total net profit or loss, accumulated in the equity, are charged to the net financial result for the current period.

11.16. Inventories

The production item includes production fuel, non-strategic spare parts and other materials as well as certificates of energy origin. Spare parts presented in inventories are recognized annually with revaluation allowances that reflect the technological and economic consumption of these parts. A description of the strategic spare parts presented in property, plant and equipment is provided in Note 11.3.1.

Inventories are measured at the lower of the two values: the acquisition price/production cost and the net sale price possible to achieve.

The Group uses the weighted average price method to determine the value of inventory turnover.

The net sale price, which is possible to achieve, is an estimated sale price in the ordinary course of business, decreased with costs of completion as well as the estimated costs necessary to complete the sale.

As at the balance sheet date, the Company measures these inventories at cost (i.e. the initial value) not higher than the net selling price by analyzing the value of inventories for impairment. Any impairment loss is presented in the cost of sales.

Certificates of Energy origin

As part of inventories, the Group presents certificates of origin of energy purchased for redemption, acquired for resale and manufactured on its own. These rights are transferable and constitute a commodity.

Certificates of origin obtained free of charge for production in renewable sources, gas and cogeneration (green, red certificates) are recognized at the time of first recognition at fair value at the time of probable receipt, ie at the end of the month in which they were produced. The fair value is a reflection of the market situation, i.e. quotations on the commodity energy exchange (TGE). The gratuitous acquisition of certificates is recognized in correspondence with other revenues. The Group sells surplus certificates, which are presented in the inventory.

Purchased certificates of origin of energy are recognized as a reserve at purchase price.

The issue of certificates of energy origin is valued according to the FIFO method.

The Group is required to obtain and submit for redemption by June 30 of the year following the accounting year.

In the absence of a sufficient number of certificates required to fulfill the obligations imposed by the Energy Law and the Energy Efficiency Act as at the reporting date, the Group creates provisions for redemption of energy origin certificates and energy efficiency certificates or payment of substitution fees. See note 31.

11.17. Trade receivables and other receivables

Trade receivables

Trade receivables are measured at the initial moment at fair value. After initial recognition, trade receivables and other receivables of a financial nature are measured at amortized cost using the effective interest rate (all trade receivables meet the SPPI test and are maintained to collect contractual cash flows), including impairment write-downs. Trade receivables are maintained to obtain cash flows resulting from the agreement, and the Group does not sell trade receivables as part of factoring.

The Group uses a practical exemption and for trade receivables under 12 months does not identify significant elements of financing. Trade receivables with a maturity of less than 12 months from the date of creation (ie without element of financing), are not discounted and are valued at face value.

In accordance with IFRS 9, in the case of trade receivables, the Group applied a simplified approach and measures the write-off for expected credit losses in the amount equal to the expected credit losses over their entire life, using the reserve matrix counting non-fulfillment ratios on the historical data basis.

In order to estimate the expected loan losses, IFRS 9 used both historical data in the field of repayment as well as available data as of the balance sheet date, reliable data that may increase the accuracy of the estimation of expected credit losses in future periods. Historical analysis is carried out for a period of 5 years. The main customers are several large entities from the energy industry with an established position. With respect to trade receivables, it is assumed that the repayment data can be used to estimate credit risk in the future, and therefore the credit losses were estimated using historical data on the maturity intervals of trade receivables and their fulfillment. The group applies individual analysis to all recipients. Receivables are not insured.

The Group classified trade receivables up to Level 2 of classification of financial assets in terms of their impairment provided for in IFRS 9, except for receivables for which impairment was recognized - these receivables were classified as Stage 2 of am. classification. For the moment of impairment, the Group recognizes the moment of transferring receivables to be recovered, however not later than on the 90th day of expiry. Irrecoverable receivables are written off as costs when they are found not to be recoverable, that is when there is no reasonable expectation that they will be recovered.

Other financial assets

Liquidation Fund for the Mining Plant

In accordance with the Act of 9 June 2011 (Journal of Laws No. 163, item 981) Geological and Mining Law, the Company is obliged to create a liquidation fund. The purpose of the fund is to secure and cover the costs associated with the liquidation of the mining activities in the areas that were undergoing the mining process. The Company makes periodic write-offs in the amounts resulting from the Act and transfers funds in this respect to a separate bank account. Expenses from this fund may be used for areas of liquidated outcrops after prior approval of the Mining Office approving the plan for the liquidation of the mining plant. The write-off for the mining plant liquidation fund is 10% of the exploitation fee for the extracted mineral.

Deposits and shares in other entities

They include deposits and shares in other entities that are not assessed for impairment.

Other receivables

Other receivable, which are not financial instruments in scope of IFRS 9, include, in particular, receivables for settlements with employees.

Advance payments for future purchases of tangible fixed assets, intangible assets and inventories are recognised in the item for other non-financial assets. The advance payments are shown according to the nature of the assets, to which they relate – as fixed or current assets, respectively. As non-monetary assets, the advance payments are not subject to discount.

Budgetary receivables are presented as other non-financial assets, except for the receivables due to corporate income tax, which constitute a separate item in the financial statement.

Other receivables that are not financial assets as at the last day of the reporting period are valued at the amount due.

11.18. Cash and cash equivalents

Cash and short-term deposits in the balance sheet include cash in bank and in hand as well as short-term deposits with the original maturity date that does not exceed three months.

The balance of cash and cash equivalents in the consolidated statement of cash flows consists of the above-mentioned cash and cash equivalents.

The Group classifies cash and cash equivalents as financial assets at amortized cost, taking into account impairment losses determined in accordance with the expected loss model. To estimate the expected loss on cash, the risk of insolvency was determined based on other data, in particular the assessment of credibility made by credit rating agencies or given to counterparties as part of the internal credit risk assessment process, corrected for the purpose of assessing probability of default.

The analysis showed that these assets have a low credit risk as at the reporting date. The Group used the simplification allowed by the standard and the impairment loss was determined based on 12-month loan losses. Calculation of the write-off showed a negligible amount of the impairment loss.

11.19. Interest-bearing bank loans, borrowings and debt securities

At the time of the initial recognition, all bank credits, loans, and debt securities are recognised at the fair value, decreased by the transaction costs associated with obtaining a credit or loan.

After the initial recognition, the interest credits, loans and debt securities are measured in accordance with the depreciated cost using the effective interest rate method.

While determining the depreciated cost, the costs associated with obtaining a credit or loan as well as discounts or premiums achieved in connection with the liability are taken into account.

Revenues and costs are recognised in the profit or loss, when the liabilities are removed from the balance, and also as a result of the settlement with the effective interest rate method.

11.20. Trade liabilities and other financial liabilities

Short-term liabilities include trade liabilities and other financial liabilities that become due within 12 months from the end of the reporting period. Initially, the liabilities are carried at fair value, where the valuation corresponds to the amount due or liability, and subsequently financial liabilities are carried at amortized cost using the effective interest rate method (in the case of trade payables it corresponds to the amount due) while other non-financial liabilities - in the amount due.

The Group excludes a financial liability from its balance when the liability expires – i.e. when the contractual obligation is fulfilled, redeemed or terminated. Replacing the existing debt instrument with the instrument of essentially different conditions made between the same entities is recognised by the Group as termination of the original financial liability and recognition of a new financial liability. Similarly, significant modifications of the contractual provisions concerning an existing financial liability are recognised by the Group as termination of the original one and recognition of a new financial liability. The difference of reference balance sheet values arising due to the replacement is shown in the profit or loss.

11.21. Other non-financial liabilities

Other non-financial liabilities include, in particular, liabilities for the value added tax, other public-legal liabilities (except for liabilities due to the corporate income tax, which is recognised in a separate item of the financial statement), as well as liabilities for the received advance payments, which will be settled by the supply of goods, services or fixed assets. Other non-financial liabilities are recognised in the amount that requires payment.

11.22. Special funds for employee purposes

In accordance with Polish economic practice, entities may contribute to a social fund and other special funds. In the IFRS-compliant report, the amounts transferred are included in the operating costs for the period.

11.23. Share-based payments

Share-based payments is a transfer of equity instruments of the entity or their equivalents made by the entity or its shareholders to the third parties (including employees), who provided goods and services to a given company, unless the transfer is made for the purpose that is other than paying for goods and services provided for the entity.

The Group includes goods and services received or acquired within the framework of the share-based payment transactions in the equity instruments as well as the corresponding increase in the equity when it obtains these goods and services. If the goods or services obtained or acquired within the framework of the share-based payment transactions are not classified to be recognised as assets, the entity includes them as the cost.

The Group evaluates the obtained goods or services and the corresponding increase in the equity at the fair value of the obtained goods or services, unless it is impossible to reliably estimate their fair value. If the group is unable to reliably estimate the fair value of the obtained goods or services, it indirectly determines their value and the corresponding increase in equity by the reference to the fair value of the granted equity instruments.

11.24. Provisions

Provisions are created when the Group is burdened with the existing liability (the legal or customary expected one) resulting from past events, and when it is probable that the fulfilment of this liability will result in the necessity of the economic benefits outflow, and the amount of this liability can be reliably estimated. If the Group expects the costs covered by the provision to be reimbursed, for example under an insurance contract, then the reimbursement is recognised as a separate component of assets, but only when it is virtually certain that the reimbursement of this will actually occur. The costs related to a given provision are stated in the income statement after the reduction by any reimbursement.

When the impact of the time value of money is significant, the value of the provision size is determined by discounting the forecast future cash flows to the current value, using the discount rate reflecting the current market estimates of the time value of money as well as the possible risk related to a given liability. If a method of discounting was applied, then the increase in liabilities due to the passage of time is recognised as financial costs.

In particular, the Group creates the following provisions:

- **provisions for post-employment benefits as well as jubilee awards**

In accordance with the remuneration systems, the Group's employees are entitled to the following benefits:

- retirement or disability benefits, payable at the time of retirement,
- death benefits for families of deceased employees,

- coal benefits for employees of PAK KWB Konin SA and PAK KWB Adamów SA

The amount of benefits depends on the number of years of employment and the average salary of the employee. The Group creates provisions for these future liabilities for the purpose of allocating the costs to the periods that they concern. The current value of these liabilities at each balance sheet date is calculated by an independent actuary. The accumulated liabilities are equal to the discounted payments, which will be made in the future, taking into account the rotation of employment and they relate to the balance sheet date. Demographic information and information about the rotation of employment are based on historical data. Profits and losses of actuarial calculations are recognised in other comprehensive income.

The cost of created provision is presented in the income statement in the cost of sales and general administrative expenses.

- **Provision for the submission of redemption of Energy origin certificates**

The provision for the obligation to present the redemption of certificates of origin of energy produced from renewable energy sources or in peak load co-generation is recognised as follows:

- in a part covered by the certificates of origin held at the balance sheet date – in the value of the held certificates,
- in a part uncovered by the certificates of origin at the balance sheet date – at the lower value of the market value of the certificates required to fulfil the obligation at the balance sheet date, and a possible penalty.

The cost of the created provision is presented in the profit and loss account at the cost of sales.

- **o provisions for liabilities related to CO_2 emission allowances**

Carbon dioxide emission allowances (European Union Allowances - EUA) received for free are included in the financial statements as allowances for own purposes at a zero value in the item intangible assets. Emission allowances and their equivalents purchased by the Group for its own needs are recognized as intangible assets. These allowances are valued at the purchase price. The provision for liabilities due to gas emissions covered by the emission allowance system is created only when the actual production emission shows a shortage of emission allowances in relation to the allowances granted for the accounting period. This reserve is created in accordance with the FIFO rule. The cost of the created provision is presented in the profit and loss account in operating activities and is recorded in the calculation system in the item cost of sales, while in the comparative system in the item taxes and fees.

The provision for liabilities due to the emission of greenhouse gases included in the system of emission allowances is created only when the actual production shows a shortage of emission allowances in respect of the allowances granted for the whole reporting period. The provision is created in correspondence with the cost of sales in the item taxes and fees.

The provision is created by net liabilities method, in the amount of:

- in a part covered by the allowances held at the balance sheet date – in the value of the held allowances, i.e. at the purchased prise (in case of purchased at the balance sheet value, received in the zero value.
- in the part uncovered by the allowances on the balance sheet date – at the lower of the market values of the allowances required to satisfy the obligation and a possible penalty.
- in the part for which forward transactions with the implementation for the next year were purchased.

The cost of the created provision is presented in the profit and loss account at the cost of sales.

- **Provision for the liquidation of ash storage yards**

The Group creates a provision for liquidation of ash dumps due to a legal obligation resulting from the integrated approval entries. This provision is created on the basis of ash storage yard future reclamation cost estimates, resulting from the studies and technical-economic analyses, developed by external expert.

The Group recognizes the asset and provision for the reclamation of ash landfills at the discounted value of the estimated costs of reclamation to be incurred in the future. In subsequent periods, the asset is amortized using the straight-line method over the estimated useful life of the ash landfill. At the same time, in subsequent periods, the Group recognizes an increase in provision resulting from the effect of unwinding the discount in correspondence with financial costs. Subsequent possible changes to the estimated cost of restoration adjust the value of the asset and provisions.

When calculating the provision, the Group adopted the following assumptions: discount rate calculated for the last 3 years at 3.0%, inflation level at 2.5%.

The cost of the created provision is presented in the profit and loss account at the cost of sales.

- **Reclamation and other provisions associated with mining activity**
  - the provision for liquidation of facilities and mining areas

On the basis of the Geological and Mining Law act, the companies conducting extraction activities are obliged to reclaim the areas of extraction works. Due to this, the Group creates a provision both, for the costs of area reclamation related to current coal extraction on a given open pit and for the costs of the final excavation reclamation in the state of advancement of coal extraction in particular open pits on every reporting date.

The provision for the final excavation reclamation is created in correspondence with the assets' component (in the part in which it relates to the initial excavation, on the basis of the volume of the final excavation), and in correspondence with the income statement (in the remaining part, taking into account the state of advancement of coal extraction in particular open pits on a given reporting date). In correspondence with the assets' component, the Group also creates a provision for the external dump reclamation. The provision for reclamation costs associated with current coal mining is created in correspondence with the income statement.

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 company's management boards executing extraction activities. Estimates concerning projected reclamation costs are analysed periodically; on every reporting date, the size of provision is verified in accordance with current assumptions within discount rate, inflation, and the size of extraction. Write-down for the provision related to extraction of a given year charges operating costs (other costs by type), and the difference resulting from the provision discount from previous years influences financial costs. The use of the provision is settled in correspondence with financial costs at the end of every reporting period.

- The provision for the costs related to the preparation of exploitation areas

The Group, within run activities, is 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 projected costs related to the mine operations are updated on every reporting date. The creation of the provision is recognised, on the other side, within the framework of mining assets. When calculating provisions, the Group adopted the following assumptions: discount rate calculated for a period of 3 years at 3.0%, and inflation at 2.5%.

The cost of the created provision is presented in the profit and loss account at the cost of sales.

11.25. CO_2 emission allowances

The CO2 emission allowances obtained free of charge are recognised in the financial statement as allowances intended for own needs at a zero value in the intangible assets item. The emission allowances and their equivalents purchased by the Group for own needs are recognised as intangible assets. These allowances are measured at the acquisition price. The provision for liabilities due to the emission of greenhouse gases included in the system of emission allowances is created only when the actual production emission shows a shortage of emission allowances in respect of the allowances granted for the entire reporting period. This provision is created according to the FIFO principle.

The cost of the created provision is presented in the income statement, in the cost of sales.

11.26. Revenues

The Group applies a five-step method of recognizing revenues resulting from contracts with customers, i.e.:

1: Identification of contracts with the client;

2: Identification of obligations to perform the benefit contained in the contract;

3: Determining the transaction price;

4: Assigning the transaction price to the obligations to perform the service contained in the contract;

5: Recognition of revenue when the entity complies with its obligations.

In accordance with IFRS 15, revenues are recognized in the amount of remuneration which, according to the entity's expectation, is due in exchange for the transfer of promised goods or services to the client.

The Group's companies operate in the area of generation and sale of electricity, production and sale of heat, lignite mining as well as maintenance and repair-construction services.

The generic structure of sales revenues and the way they are recognized in the Group are as follows:

Revenues from the sale of goods:

- Revenues from the sale of electricity (own production and resale)
- Revenues from the sale of heat,
- revenues from the sale of other goods, products and materials are recognized at the time of the sale / transfer transaction.

Revenues from the sale of electricity:

Revenues from the sale of electricity and heat are recognized by the Company at the end of each settlement period, which is no longer than one month, according to the amount of electricity and heat delivered to the customer in a given settlement period. The Company recognizes revenue over a period of time and benefits from simplification regarding the recognition of revenues as invoiced, because it reflects the level of performance of the obligation to perform the service as at the reporting date. Sales prices result from signed contracts, tariffs or their amount on the stock exchange. With respect to excise duty, the Group acts as an agent, therefore the excise duty decreases sales revenues.

Revenues from the sale of services:

The Group's business is also service activities aimed in particular at satisfying the needs and comprehensive service of the energy industry. The recipients of services are primarily entities dealing in the generation and transmission of electricity. The services performed under these agreements are provided over time. The contract implementation period varies from 2 months to 6 years, although they are often 1-2 year contracts. The contracts do not include obligations to perform more than one benefit under each contract. Extensions of the scope of work do not create a new obligation. The entity recognizes revenue over time by measuring the level of total fulfillment of its obligation to provide performance-based method, comparing expenditures incurred so far with the total expected expenditures necessary to perform the contract.

The contracts executed by the Group are characterized by a fixed price. If the scope of works is extended, this does not create a separate obligation - the work carried out additionally constitutes an integral part of the Company's liability.

The Group does not have unfulfilled obligations to perform services with a period of implementation exceeding 12 months.

Other revenues:

Other revenues include:

- compensation for termination of LTCs is recognized as revenues from the sale of electricity, revenues from compensations are recognized successively to the rights to compensation developed at the end of each financial year until the end of their validity. For each moment of revenue recognition, the Company determines the ratio of estimated stranded costs to the total amount of received, returned and expected discounted annual advances (including annual advances received so far). The amount of revenue for a given financial year is the product of the ratio and the amounts of advances received so far adjusted for annual adjustments, less the revenues from compensations recognized in previous years. See also the policies described below.
- revenues from property rights from certificates of origin are recognized at the moment of their production, certificates of origin intended for sale are recognized in revenues at the time of the sale transaction. At the time of their subsequent sale through the Polish Power Exchange (TGE), the sales invoice is included in other revenues item, while the costs of sold certificates are recognized as an adjustment to theses sales,
- donation.

11.26.1. Revenues from compensation for stranded costs

The Group receives compensation for the coverage of the stranded costs pursuant to the Act of 29 June 2007 on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity. Revenue from compensation is recognised successively with the earned compensation rights at the end of each fiscal year, until the end of their validity period.

Per each revenue recognition moment, the Group determines a factor for estimated stranded costs to the total amount of received, returned, and expected discounted annual advance payments (including the previously received advance payments). The revenue amount for a given fiscal year is the product of the indicator and previously received amounts of advance payments adjusted with annual impairments, decreased by the revenues for compensation recognised in the previous years.

The difference between the total amount of the recognised revenue and the total amount of the received advance payments to the total amount of the stranded costs are recognised by the Group as:

- receivables, in the event of a negative difference between the total amount of received advance payments and the revenue recognised in relation to compensation,
- liabilities, in the event of a positive difference between the total amount of received advance payments and the revenue recognised in relation to compensation.

11.27. Costs

Costs of goods sold

The cost of goods sold includes:

- the production cost incurred during the reporting period, adjusted for the change in the level of products (finished products, semi-finished products and production in progress), as well as adjusted for the cost of manufacturing products for own needs,
- the value of sold goods and materials according to the acquisition cost,
- the creation of the impairment write-downs against the value of tangible fixed assets, intangible assets and inventories,

The production costs, which can be directly allocated to the revenues achieved by the entities, influence the financial result of the entities for the reporting period, in which the revenues occurred.

The production costs, which can be only indirectly allocated to the revenues and other benefits achieved by the entities, influence the financial result of the entities in the part, in which they relate to a given reporting period, providing their adequacy to the revenues and other economic benefits, including the valuation of fixed assets and inventories.

11.28. Other operating revenues and costs

Other operating income and costs include items mainly related to:

- the disposal of tangible fixed assets, intangible assets,
- the creation and reversal of provisions, except for the provisions related to the financial operations or included in operating expenses,
- free transfer or receiving, including the way of donation of assets, as well as cash.
- the compensation, penalties, and fines, as well as other costs not related to the usual business activity.

11.29. Government subsidies

If there is reasonable certainty that the subsidy will be obtained and all related conditions will be met, government subsidies are recognized at their fair value.

If the subsidy concerns a given cost item, then it is recognized as income in a manner commensurate with the costs, the grants is intended to compensate. If the grant relates to an asset component, then its fair value is recognised on the revenue account for future periods and then, gradually, through equal yearly write-downs, recognised in the profit or loss over the estimated period of use of the associated asset component.

If the Group receives non-monetary grants, both the component of the assets and the grant are recognised at nominal value and gradually, by equal annual write-offs, are included in profit or loss during the estimated useful life of the received component of assets.

11.30. Revenues and financial costs

Revenues and financial costs especially include the revenues and costs related to:

- the sale of financial assets,
- revaluation of financial instruments, excluding financial assets valued at fair value, whose revaluation effects are referred to revaluation capital,
- the interest (including the valuation effect with a depreciated cost),
- the changes in the value of the provision resulting from the fact of approaching the date of incurring the cost (the unwinding of the discount effect),
- the foreign exchange differences which are a result of the operations performed during the reporting period and the balance sheet valuation of assets and liabilities at the end of the reporting period, except for the foreign exchange differences recognised in the initial value of the fixed asset, to the extent in which they are considered as an adjustment of the interest costs and foreign exchange differences,
- other items connected with the financial activity of the company.

Revenues and costs for the foreign exchange rates are presented after compensation.

The revenues and costs due to the interest are successively presented as they grow, including the effective interest rate method in relation to the net balance sheet value of a given financial instrument, based on the concept of materiality.

Dividends are recognised at the time of establishment of the shareholders' rights to these dividends.

11.31. Taxes

Income tax for the reporting period includes current and deferred tax. The tax is recognized in profit or loss, except for the extent to which it relates directly to items recognized in other comprehensive income or equity. In this case, the tax is also recognized in other comprehensive income or equity, respectively.

11.31.1. Current tax

The liabilities and receivables for the current tax for the current period and previous periods are measured in the amount of the expected payment to the tax authorities (subject to return from tax authorities), using the tax rates and regulations, which were legally or actually applicable as at the balance sheet date.

11.31.2. Deferred tax

Deferred income tax liability and assets resulting from temporary differences between the tax value of assets and liabilities and their book value in the consolidated financial statements - are recognized in full, using the balance sheet method.

The provision for the deferred tax is recognised in reference to all positive temporary differences:

- except for the situation when the provision for the deferred tax arises from the initial recognition of the company's value or of the assets' component or liability on a transaction other than a combination of the entities, and at the time of its conclusion have no influence on the gross financial result, as well as on the taxable income or tax loss, and
- in case of positive temporary differences resulting from the investment in subsidiaries or associates and shares in joint ventures – except for the situations where dates of the reversal of temporary differences are subject to

the investor's control and it is probable that in the predictable future, temporary differences shall not be reversed.

The assets for the deferred tax are recognised in relation to all negative temporary differences, as well as unused tax credits and unused tax losses transferred to future years, to the extent that it is probable that the taxable income, which allows using the above-mentioned differences, assets, and losses, will be achieved:

- except for a situation when the assets for the deferred tax associated with negative transition differences as a result from the initial recognition of the assets or liability component for a transaction other than a combination of the entities, and at the time of its conclusion, have no influence on the gross financial result, nor on the taxable income or tax loss, and
- in case of negative temporary differences resulted from the investment in subsidiaries or associates and shares in joint ventures, the assets' component for the deferred tax is recognised in the balance sheet only to the extent that it is probable that in the predictable future, the above mentioned temporary differences will be reversed and the taxable income, which enables the negative temporary differences to be deducted, will be achieved.

The balance sheet value of the asset component for the deferred tax is reviewed on every balance sheet date and reduced to the extent that it is no longer probable that the taxable income sufficient for a partial or complete realisation of the assets' component for the deferred tax will be achieved.

An unrecognised deferred tax asset is re-assessed as at each balance sheet date, and is recognised at the amount reflecting the likelihood of achieving the future taxable income allows the recovery of this asset component.

The deferred tax assets and provisions for the deferred tax are evaluated with the use of the tax rates that are expected to be applicable in the period, in which the assets component is realised or the provision is reversed, the basis for which will be tax rates (and tax regulations) applicable at the balance sheet date, or those which will certainly be effective as at the balance sheet date in the future.

The income tax on items recognised outside of the profit or loss is recognised outside of the profit or loss: other total income related to the items recognised in other comprehensive income or directly in the equity, relating to the items recognised directly in the equity.

The companies of the Group compensate the deferred income tax assets with the provisions for the deferred income tax provisions only and solely if it has an executable legal right to compensate receivables with current tax liabilities, and the deferred income tax is related to the same taxpayer and the same tax authority.

11.31.3. Value added tax and excise tax

Revenues, costs, assets and liabilities are recognised after deducting the value added tax, with the exception of:

- the situation when the value added tax paid at the time of the assets or service purchase is impossible to be recovered from the tax authorities; it is then recognised as part of the acquisition price of the assets' component or as a cost item part, and
- receivables and liabilities, which are stated with the amount of the value added tax.

The net amount of the value added tax, which is recoverable or payable to the tax authorities, is included in the financial statement as part of receivables or liabilities.

The net amount of the value added tax and excise tax, which are recoverable or payable to tax authorities are included in the financial statement as parts of receivables or liabilities.

11.32. Net profit per one share

The net profit per share for each period is calculated by dividing the net profit for a given period by the weighted average number of shares in a given reporting period.

11.33. Acquisition under joint control

The situation, in which a particular transaction or economic phenomenon, requiring inclusion in the statement drawn up in accordance with IFRS, is not regulated by the provisions of the various standards, was settled by IAS 8 point 10–12. These provisions impose on the entity, which draws up the statement in accordance with IFRS, the obligation to create its own list of accounting rules, indicating the characteristics of the following accounting principles: a faithful presentation of the financial position, results of operations and cash flows, reflection of the substance of the transaction, neutrality, caution and completeness in all aspects.

According to the analyses conducted by the Company, the commonly used method for the settlement of such transactions is pooling of interests, and such a method was applied by the Company. At the bottom of this method, there is an assumption that merging entities, both before and after the transaction, were controlled by the same shareholder, and therefore the consolidated financial statement reflects the continuity of joint control and does not reflect any changes in the value of net assets to fair values (or recognition of new assets), or the valuation of the company's value, since none of the merging entities is not actually acquired. The settlement takes place on the day of the merger and the previous data is not adjusted.

12. Acquisition of ventures

In the period between 1 January 2019 and 31 December 2019, there were no new acquisitions of ventures.

13. Operating segments

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

Therefore, there are following operating segments:

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

ZE PAK SA Group also conducts other types of activities that have been included in the "Other" column. In 2019, the activities of PAK Górnictwo sp.z o.o., Aquakon sp.z o.o. in liquidation and PAK Adamów sp.z o.o.

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

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

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

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

(in thousand PLN)

EBITDA for the entire Capital Group of ZE PAK SA:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Net profit / (loss)	(446 146)	(463 673)
Financial revenues	-11 341	- 7 201
Financial costs	+27 644	+ 45 387
Income tax	+6 254	- 51 775
Depreciation and impairment write-down	+816 945	+ 567 054
EBITDA	393 356	89 792

The segment results for the years ended December 31, 2019 and December 31, 2018 are shown below

(in thousand PLN)

12 months period ended 31 December 2019	**Generation**	**Mining**	**Renovation**	**Sale**	**Other**	**Consolidation adjustment**	**Total**
Sales revenue to external customers	1 922 337	9 876	75 179	650 775	2 064	-	2 660 231
Other revenues	217 689	-	-	-	-	-	217 689
Sales revenue between segments	243 430	626 066	76 047	-	210 738	(1 156 281)	-
Sales revenue	**2 383 456**	**635 942**	**151 226**	**650 775**	**212 802**	**(1 156 281)**	**2 877 920**
Cost of goods sold	(2 721 900)	(630 924)	(135 596)	(649 313)	(208 427)	1 160 398	(3 185 762)
Gross profit / (loss)	**(338 444)**	**5 018**	**15 630**	**1 462**	**4 375**	**4 117**	**(307 842)**
Other operating income	7 944	15 784	496	4 325	689	(16 149)	13 089
Selling and distribution expenses	(2 005)	-	-	(1 938)	(549)	-	(4 492)
Administrative expenses	(54 415)	(42 498)	(10 201)	(2 956)	(6 578)	-	(116 648)
Other operating expenses	(1 422)	(2 468)	(361)	(2 991)	(454)	-	(7 696)
Finance income	4 888	34	287	7 060	41	(969)	11 341
Finance costs	(11 717)	(16 208)	(462)	(12)	(214)	969	(27 644)
Profit before tax	**(395 171)**	**(40 338)**	**5 389**	**4 950**	**(2 690)**	**(12 032)**	**(439 892)**
Income tax expense	(11 684)	6 703	(1 325)	(1 949)	(285)	2 286	(6 254)
Net profit/loss for the period from continuing operations	**(406 855)**	**(33 635)**	**4 064**	**3 001**	**(2 975)**	**(9 746)**	**(446 146)**
Profit / (loss) from operating activities, without financial operations and income tax	**(388 342)**	**(24 164)**	**5 564**	**(2 098)**	**(2 517)**	**(12 032)**	**(423 589)**
Depreciation / Amortization	114 935	57 920	3 490	20	5 324	3 214	184 903
Change in impairment	603 001	29 041	-	-	-	-	632 042
EBITDA	**329 594**	**62 797**	**9 054**	**(2 078)**	**2 807**	**(8 818)**	**393 356**

(in thousand PLN)

12 months period ended 31 December 2018

	Generation	Mining	Renovation	Sale	Other	Consolidation adjustment	Total
Sales revenue to external customers	1 478 303	5 743	82 567	532 987	4 424	-	2 104 024
Other revenues	200 800	-	-	-	-	-	200 800
Sales revenue between segments	305 864	564 866	78 194	4	241 016	(1 189 944)	-
Sales revenue	**1 984 967**	**570 609**	**160 761**	**532 991**	**245 440**	**(1 189 944)**	**2 304 824**
Cost of goods sold	(2 137 301)	(766 226)	(148 842)	(540 015)	(228 936)	1 193 410	(2 627 910)
Gross profit / (loss)	**(152 334)**	**(195 617)**	**11 919**	**(7 024)**	**16 504**	**3 466**	**(323 086)**
Other operating income	4 557	3 885	1 459	1 034	612	(583)	10 964
Selling and distribution expenses	(1 921)	-	-	(1 064)	(1 016)	-	(4 001)
Administrative expenses	(56 686)	(43 839)	(11 460)	(3 898)	(7 896)	-	(123 779)
Other operating expenses	(32 029)	(3 518)	(1 400)	(1)	(412)	-	(37 360)
Finance income	7 616	226	32	272	56	(1 001)	7 201
Finance costs	(22 604)	(16 406)	(379)	(6 770)	(229)	1 001	(45 387)
Profit before tax	**(253 401)**	**(255 269)**	**171**	**(17 451)**	**7 619**	**2 883**	**(515 448)**
Income tax expense	45 271	6 366	(497)	3 211	(2 027)	(549)	51 775
Net profit/loss for the period from continuing operations	**(208 130)**	**(248 903)**	**(326)**	**(14 240)**	**5 592**	**2 334**	**(463 673)**
Profit / (loss) from operating activities, without financial operations and income tax	**(238 413)**	**(239 089)**	**518**	**(10 953)**	**7 792**	**2 883**	**(477 262)**
Depreciation / Amortization	120 884	67 043	3 585	67	5 884	(2 949)	194 514
Change in impairment	226 584	145 956	-	-	-	-	372 540
EBITDA	**109 055**	**(26 090)**	**4 103**	**(10 886)**	**13 676**	**(66)**	**89 792**

(in thousand PLN)

14. Revenues and costs

14.1. Revenues from the contracts with clients

	Year ended 31 December 2019	*Year ended 31 December 2018*
Material structure		
Revenues from the sale of goods, including:		
Revenues from the sale of electricity	1 602 553	1 303 787
Revenues from the sale of electricity from trade	922 626	674 033
Revenues from the sale of heat	46 205	36 745
Other sale revenues	30 517	25 860
Revenues from service contracts	60 575	71 119
Total revenues from the sale of goods	**2 662 476**	**2 111 544**
Excise	(2 245)	(7 520)
Total revenues from the sale of goods, including excise duty	**2 660 231**	**2 104 024**
Property rights from energy certificates	54 524	48 221
Compensation for LTC termination	143 788	152 579
Income from the price difference amount	19 377	-
Total revenues	**2 877 920**	**2 304 824**

	Year ended 31 December 2019	*Year ended 31 December 2018*
Poland	2 866 541	2 297 931
UE countries	11 379	6 893
outside UE	-	-
Total sale revenues	2 877 920	2 304 824

Revenue realized for the moment	2 802 910	2 221 783
Revenues realized in the period	75 010	83 041

14.2. Other operating revenues

	Year ended 31 December 2019	*Year ended 31 December 2018*
Revenues from the sale of CO2 allowances	1 384	-
Revenue from damages	1 753	1 206
Reversal of write-downs against receivables	172	262
Grants settlement	1 502	1 502
Profit from disposal of non-financial fixed assets	919	1 600
Return of the ERO penalty	-	1 500
Release of the provision for costs and losses and cancellation of liabilities	5 117	1 013
Other	2 242	3 881
Total of other operating revenues	13 089	10 964

(in thousand PLN)

14.3. Other operating expenses

	Year ended 31 December 2019	*Year ended 31 December 2018*
Loss on the sale of property, plant and equipment	394	1 959
Creation of provisions	-	30 821
Impairment write-down on receivables	3 536	407
Costs of court and enforcement proceedings	181	325
Electricity-related damage	424	597
Donations given	182	256
Real estate tax for previous years	851	32
Compensatory pensions	204	231
Other	1 924	2 732
Total other operating expenses	7 696	37 360

14.4. Financial income

	Year ended 31 December 2019	*Year ended 31 December 2018*
Interest income	3 403	3 875
Foreign exchange gains	259	174
Valuation of hedging instruments exchange rate (forward)	667	2 746
Release of write-offs on futures contracts	6 765	-
Other	247	406
Total financial income	11 341	7 201

14.5. Financial costs

	Year ended 31 December 2019	*Year ended 31 December 2018*
Interest expenses	9 506	13 367
Valuation and realization of derivative financial instruments	1 208	3 300
Valuation of futures contracts	-	6 765
Foreign exchange losses	3 235	5 534
Reserve discount for the liquidation of power units	799	799
Actuarial reserves discount	1 191	1 251
Reserve discount for reclamation	10 438	13 290
Other	1 267	1 081
Total of financial costs	27 644	45 387

In the 'Other' item in 2019, mainly bank fees in the amount of PLN 986 thousand are presented.

(in thousand PLN)

14.6. Costs by type

	Year ended 31 December 2019	*Year ended 31 December 2018*
Depreciation / Amortisation	184 903	194 514
Impairment write-downs on fixed assets	632 042	372 540
Impairment write-downs on inventories	1 536	8 890
Materials	314 341	243 126
External services	102 558	99 747
Taxes and charges, excluding excise duty	176 742	173 709
Costs of allowances for emission of CO_2	587 450	492 367
Employee benefits, including	406 080	423 628
Salaries	*319 146*	*331 507*
Social insurance and other benefits	*86 934*	*92 121*
Other costs by type	35 111	44 092
Cost of goods for resale and raw materials sold and resale of electricity from the market	879 128	743 682
Total cost by type	3 319 891	2 796 295
Items included in cost of goods sold	3 185 762	2 627 910
Items included in selling and distribution expenses	4 492	4 001
Items included in administrative expenses	116 648	123 779
Change in the stocks of finished goods	10 747	35 110
Cost of goods and services for internal needs	2 242	5 495

14.7. Depreciation costs and impairment write-downs included in the profit or loss

	Year ended 31 December 2019	*Year ended 31 December 2018*
Items included in the cost of manufacture of sold products:		
Fixed assets depreciation	156 392	172 020
Depreciation of mining asset	9 100	8 579
Intangible assets depreciation	806	819
Depreciation of assets due to the right of use	7 265	-
Impairment of inventory	-	8 890
Impairment of tangible fixed assets	632 042	372 540
	805 605	562 848
Items included in selling and distribution costs:		
Fixed assets depreciation	3	5
	3	5
Items included in administrative costs		

Fixed assets depreciation	10 844	12 646
Intangible assets depreciation	493	445
	11 337	13 091

14.8. Construction agreements

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

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

The revenue of 2018 did not include the part of revenue for which the obligation to meet the service was already included in previous reporting periods

In the Group, during 2018, there were no adjustments of revenues that would affect assets or liabilities under contracts resulting from a change in the method of measuring the stage of completion or amending the contract.

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

	01.01.2019	*Change in the valuation of contracts*	*Revenues recognized in 2019 included in the balance of liabilities as at 31.12.2018*	*Change of the period in which the right to remuneration becomes unconditional*	*31.12.2019*
Valuation of construction contracts	5 601	1 563		(5 601)	1 563
Assets due to contracts with clients	5 601	1 563		(5 601)	1 563
Valuation of construction contracts	2 683	1 231	(1 835)		2 079
Liabilities due to contracts with clients	2 683	1 231	(1 835)		2 079

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

The item change in the period in which the right to remuneration becomes unconditional means the realization of revenue on contracts in 2019 (in 2018 the determined amount of revenue was higher than the partial net invoices, and the surplus was statistically calculated).

Revenues recognized in 2019 are shown in negative figures, because the valuation of contracts on the liabilities side was reduced by 2019 in these amounts (in 2018 the sum of partial invoices was higher than the value of services rendered, and the surplus was transferred to deferred income).

Remaining commitments to perform the obligations

The total amount of the transaction price assigned to the obligation to perform the service, which remained unmet (or partially unfulfilled) at the end of the reporting period to be implemented:	*31.12.2019*	*31.12.2018*
- up to 1 year	11 346	24 720
- over 1 year		
Total	11 346	24 720

(in thousand PLN)

	Year ended 31 December 2019	*Year ended 31 December 2018*
The gross amount due from the contracting parties for works under the contract:	1 047	5 066
The gross amount due to the contracting parties for work under the contract:	1 730	2 482

15. Income tax

15.1. Tax load

The main components of tax load for the year ended 31 December 2019 and 31 December 2018 are as follows:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Included in the profit or the loss		
Current income tax		
Current income tax load	15 770	2 086
Deferred income tax load	(9 552)	(53 720)
Related to creation and reversal of temporary differences	36	(141)
Other changes		
	6 254	**(51 775)**
Tax load in the consolidated profit or loss		
Included in the consolidated statement of the comprehensive income	(108)	(520)
Net profit (loss) tax due to revaluation of cash flow securities	610	252
Actuarial allowance concerning actuarial profits/losses		
Tax advantage/(tax load) included in comprehensive income	**502**	**(268)**

15.2. Fixing of an effective tax rate

The agreement of income tax on the gross financial result before taxation according to the statutory tax rate with the income tax calculated according to the effective tax rate of the Group for the year ended on 31 December 2019 and 31 December 2018 is as follows:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Gross profit before taxation from continuing operations	**(439 892)**	**(515 448)**
Tax at the statutory tax rate applicable in Poland, amounting to 19%	(83 579)	(97 935)
Not included tax losses	52 741	23 822
Usage of the tax losses not recognised earlier	-	393
Fixed costs that are not tax deductible costs	43 847	5 468

(in thousand PLN)

Revenues that are not taxable	(5 202)	(528)
Others	(1 553)	17 005
Tax at the effective tax rate amounting to 1,42% (in 2018 - 10,04%)	6 254	(51 775)
Income tax in profit and loss account	**6 254**	**(51 775)**

(in thousand PLN)

15.3. Deferred income tax

Deferred income tax results from the following items:

			Consolidated profit and loss account for the year ended	
	31 December2019	*31 December 2018*	*31 December 2019*	*31 December 2018*
Deferred tax asset				
Balance sheet provisions	66 869	127 458	(60 589)	14 429
Overburden and other mining assets	5 478	5 105	373	(2 841)
Interest and exchange rate differences	181	4 947	(4 766)	115
Hedging instruments	-	175	(175)	(86)
Valuation of non-terminated agreements for building services	493	612	(119)	(998)
Tax loss from previous years	19 735	19 384	351	(10 977)
Impairment write-down on inventories	7 370	2 972	4 398	1 497
Impairment write-down on receivables	849	738	111	102
Impairment write-downs on fixed assets	15 087	8 773	6 314	6 996
Difference between the balance sheet value and the tax value of fixed assets	15 384	35	15 349	28
Settlements with employees	3 580	3 169	411	(644)
Other	3 693	34 677	(30 984)	9 498
Total	138 719	208 045	(69 326)	17 119
Provision under deferred income tax				
Difference between the balance sheet value and the tax value of fixed assets	422 069	471 631	(49 562)	(15 677)
Receivables under PPAs	8 939	10 961	(2 022)	(117)
Energy certificates	4 728	3 948	780	3 596

(in thousand PLN)

Interest and exchange rate differences	62	1 029	(967)	573
Valuation of non-terminated construction agreements	364	1 103	(739)	(748)
Purchased CO_2 allowances	-	2 203	(2 203)	(47 942)
Other	246	5	241	29
Total	436 408	490 880	(54 472)	(60 286)
After offsetting the balances at the level of the Group companies, the deferred tax is presented as:				
Asset:	**84 593**	**81 817**		
Provision:	**382 282**	**364 652**		
Deferred tax liability:				
- in correspondence with total incomes			(381)	1 594
- in correspondence with the financial result			(110 102)	205 113

The decrease in the deferred tax asset in the balance sheet reserves compared to 2018 results from the change in the moment of recognizing the tax cost of CO2 emissions.

(in thousand PLN)

The table below presents tax losses in the Group's companies

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

** deferred income tax assets were not recognized*

16. Social services fund assets and liabilities of the Company Social Benefits Fund MFŚS

The Act of 4 March 1994 (as amended) on the Company Social Benefits Fund as amended, states that the Social Insurance Fund is formed by employers employing more than 50 full-time employees. The Group forms such a fund and makes periodical write-offs based on the amounts agreed with trade unions. In addition, the Group's companies contribute some social assets to the Fund. The aim of the Fund is to finance social activities, loans granted to the Group's employees and other social costs.

The subsidiaries, PAK KWB Konin SA, PAK KWB Adamów SA, Aquakon Sp. z o.o. – in liquidation, PAK-Volt SA, PAK Adamów Sp. z o.o. do not belong to the Intercompany Social Benefits Fund.

The Group compensated the assets of the Fund with their obligations to the Fund because these assets do not constitute separate assets of the Group. According to the above fact, the net balance as of 31 December 2019 is zloty 8 991 thousand (as of 31 December 2018 – zloty 9 374 thousand respectively).

The below tables present the analytics of assets, liabilities, and costs of the Fund.

	31 December 2019	*31 December 2018*
Loans granted to the employees	6 578	5 020
Cash	5 633	6 303
Liabilities due to the Fund	(3 220)	(1 949)
Balance after compensation	8 991	9 374

	Year ended	*Year ended*
	31 December 2019	*31 December 2018*

(in thousand PLN)

Write-offs for the Fund in the financial period	3 883	4 724

17. 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:

	31 December 2019	*31 December 2018*
Net profit / (loss) on continued activities of the parent company's shareholders	(445 179)	(460 196)
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	(445 179)	(460 196)
The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share	50 823 547	50 823 547

The below table shows the profit per one share in Polish zlotys for the year ended 31 December 2019 and 31 December 2018 presented in the profit and loss account.

	Year ended	*Year ended*
	31 December 2019	*31 December 2018*
Basic and diluted from profit for the financial year attributable to the shareholders of the parent company	(8,76)	(9,05)
Basic and diluted from profit from continuing operations attributable to the shareholders of the parent company	(8,76)	(9,05)

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

18. Dividends paid and proposed for payment

ZE PAK SA did not pay or declare dividend in 2019.

(in thousand PLN)

19. Tangible fixed assets

12 months period ended 31 December 2019

	*Lands**	*Buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2019 (transformed data)	218 269	2 033 360	4 995 479	68 092	33 721	176 500	7 525 421
Direct purchase	288	-	8 120	4 463	386	17 877	31 134
Repairs	-	-	(49)	-	-	-	(49)
Transfer from fixed assets under construction	6 434	30 983	6 317	-	88	(43 822)	-
Sale and liquidation	(1 743)	(7 235)	(10 839)	(4 286)	(500)	-	(24 603)
Strategic parts reclassification	-	-	46 982	-	-	(46 982)	-
Abandoned investments	-	-	-	-	-	(33 204)	(33 204)
Other changes	-	(2 534)	(37 176)	-	-	39 710	-
Gross value as at 31 December 2019	223 248	2 054 574	5 008 834	68 269	33 695	110 079	7 498 699
Depreciation and impairment write-downs as at 1 January 2019 (transformed data)	46 383	1 223 454	3 324 187	46 528	22 150	131 412	4 794 114
Depreciation write-down for the period	3 789	45 184	111 902	4 915	1 449	-	167 239
Impairment write-down (change of the state)	-	222 180	392 134	986	-	16 742	632 042
Sale and liquidation	(284)	(5 421)	(10 668)	(3 191)	(486)	(653)	(20 703)
Strategic parts reclassification	-	-	31 274	-	-	(31 274)	-
Abandoned investments	-	-	-	-	-	(33 899)	(33 899)
Other changes	-	-	-	45	-	-	45
Depreciation and impairment write-downs as at 31 December 2019	49 888	1 485 397	3 848 829	49 283	23 113	82 328	5 538 838
Net value as at 1 January 2019	171 886	809 906	1 671 292	21 564	11 571	45 088	2 731 307
Net value as at 31 December 2019	173 360	569 177	1 160 005	18 986	10 582	27 751	1 959 861

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

(in thousand PLN)

12 months period ended 31 December 2018

	*Lands**	*Buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other*	*Assets under construction*	*Total*
Gross value as at 1 January 2018 (transformed data)	264 070	2 019 714	4 941 958	69 440	29 741	222 654	7 547 577
Direct purchase	-	48	4 454	6 971	5 278	52 297	69 048
Repairs	-	2 218	689	-	-	2	2 909
Transfer from fixed assets under construction	24 777	15 237	57 620	659	162	(98 455)	-
Sale and liquidation	(5 170)	(4 951)	(19 428)	(2 324)	(1 460)	-	(33 333)
Gross value as at 31 December 2018	283 677	2 032 266	4 985 293	74 746	33 721	176 498	7 586 201
Depreciation and impairment write-downs as at 1 January 2018	11 065	1 169 349	2 892 319	44 041	21 404	124 896	4 263 074
Depreciation write-down for the period	3 487	42 151	130 018	6 886	2 129	-	184 671
Impairment write-down (change of the state)	31 844	16 593	316 821	724	41	6 517	372 540
Sale and liquidation	(13)	(4 639)	(17 062)	(2 086)	(1 425)	-	(25 225)
Depreciation and impairment write-downs as at 31 December 2018	46 383	1 223 454	3 322 096	49 565	22 149	131 413	4 795 060
Net value as at 1 January 2018 (transformed data)	253 005	850 365	2 049 639	25 399	8 337	97 758	3 284 503
Net value as at 31 December 2018	237 294	808 812	1 663 197	25 181	11 572	45 085	2 791 141

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

On April 23, 2019, Elektrownia Pątnów II sp.z o.o. and on December 20, 2019, ZE PAK SA made early repayments of loans. Therefore, on July 2, 2019 (Elektrownia Pątnów II sp.z o.o.) and January 20, 2020 (ZE PAK SA), they filed with the Land and Mortgage Register Department of the District Court in Konin applications for deletion of mortgages securing these loans.

The Group sold post-mining land with a net value of PLN 588 thousand.

The value of capitalized borrowing costs in the year ended December 31, 2019 amounted to PLN 6,035 thousand (in the year ended December 31, 2018 it amounted to PLN 5,137 thousand). The capitalization rate was 43.9% calculated as a percentage of total financial costs related to general loans.

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

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

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

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

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

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

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

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

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

As at 31 December 2019, the PAK KWB Konin SA and PAK KWB Adamów SA lignite mines run business operations on Jóźwin, Tomisławice, Drzewce and Adamów open pit lands. PAK KWB Konin SA plans to start mining in the open-pit Ościsłowo. The issue of obtaining consent for the open-pit Ościsłowo has been described in note 33.2.

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

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

- fixed assets (manufacturing) of ZE PAK SA such as the Pątnów I power plant, Konin power plant collector, Konin biomass power plant ("CGU ZE PAK"),

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

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

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

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

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

- Production of electricity from Pątnów I was founded by 2030, production from Pątnów II was established until 2036, production from biomass from Konin was established until 2047.
- Heat production was set up until 2047 in connection with the operation of the biomass block that was created up to this year, from which heat is generated to the city of Konin.
- Production assumptions result from the adopted investment and renovation program for the Generation segment.
- Receipts from the capacity market in 2021-2040 based on the results of the auction were adopted; participation in the secondary power market was also assumed.
- Electricity sales prices were adopted on the basis of developed forecasts broken down into BASE, PEAK and OFFPEAK prepared for ZE PAK SA by an independent external advisor, taking into account own estimates, based on the current market situation for the first years of the forecast.
- Heat sales prices were adopted on the basis of currently realized deliveries along with forecasted steady growth in subsequent years.
- Price forecasts for CO2 emission allowances, based on assumptions from the Ministry of Energy document - "National Plan for Energy and Climate for 2021-2030" (Project - item 3.1 of 4 January 2019), including own estimates, based on current market situation for the first years of the forecast.
- The purchase costs of lignite purchased for production were determined on the basis of the delivery schedule and prices agreed with the relevant schedules included in the financial projections of mining companies.
- The costs of biomass purchase were set at the level of contracted prices for 2020 together with forecasted steady growth in subsequent years.
- The forecast of the margin on the biomass block was estimated with the assumption of support mechanisms. It is assumed that the margin in constant prices will decrease after 2027, with the growing price of biomass. The "Poland’s Energy Policy until 2040" and the "National Energy and Climate Plan for 2021-2030" submitted for public consultations outline a clear direction for the further development of RES, which is necessary to meet the indicators adopted by Poland that meet the RES obligation. For this purpose to be achieved, and in the following years at least maintained Poland as an EU member must ensure maintenance of existing RES sources, including existing biomass units, which in the next few years will end their participation in the support system, and because of their good technical condition will be able to work further. The factor that gives such powers today to adopt the above thinking is the current provisions on statistical transfer, which on the one hand impose penalties on a member state that fails to fulfill the obligation and on the other hand already included in the act on RES providing a signal about the organization of the NERO auction for units that after the end of the support period they will be able to continue to participate in the newly created mechanisms. The provisions of the applicable RES Act authorize this for this purpose. At the same time, the provisions of the Act provide for the possibility of extending support for RES installations over 15 years. It is also important that the Ministry of Energy withdrew from the proposals for changes in the rules for determining the substitution fee. The Ministry took into account the recommendations of both the renewable energy industry and international chambers of commerce, banks and representatives of conventional energy, which alarmed about the harmful effects of these provisions for existing RES installations. In the opinion of TGPE, it would hinder the planning of the work of

units for biomass, which would hit Polish producers. As a consequence, the implementation of the RES objective would widen.

- The Company assumed the use of free allowances for CO2 emissions in the amount resulting from Art. 10a of Directive 2003/87 / EC of the European Parliament and of the Council of October 13, 2003.
- The effects of labor cost optimization resulting from the implemented etatization policy have been taken into account,
- The weighted average post-tax capital (WACC) was assumed in the projection period at 7.686%.
- Within the scope of BAT conclusions for ZE PAK SA, it was assumed to receive derogations from the required emission limit values due to the planned short life span of generation assets, whereas in the case of Elektrownia Pątnów II sp. z o. o. A periodic release was assumed until 2024 to realize investments as part of the general renovation planned for this year.
- In the case of Elektrownia Pątnów II sp. z o.o. the participation of this unit in the stranded costs scheme (LTC) was accepted.

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

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

- The volume of production (coal extraction) and revenues was determined based on the forecasts of the main coal recipients, i.e. ZE PAK SA and Elektrownia Pątnów II sp. z o.o. and anticipated price pathways for coal based on the opencast finance agreement. The planned mining of lignite on individual outcrops is as follows:
  - Adamów – 3,95 m tons till2023,
  - Tomisławice – 28,79 m tons till 2030,
  - Jóźwin – 6,24 m tons till 2021,
  - Drzewce – 5,39 m tons till 2021,
  - Ościsłowo – 31,32 tons till 2024 till 2036.
- The level of investment expenditures allowing the construction of a new Ościsłowo open pit ensuring the supply of the power plant and maintaining specific production capacities during their operation was adopted.
- The effects of employment restructuring processes were taken into account.
- There were taken into account the costs of such events as:
  - costs of pitting reclamation,
  - pension reserves,
  - for PAK KWB Adamów SA, severance pay for group layoffs,
  - for PAK KWB Adamów SA revenues from the sale of assets after the exploitation of the open pit,
  - the extension of the concession in PAK KWB Adamów SA for Adamów deposit was concluded.
- the weighted average cost of capital after tax (WACC) was assumed in the projection period for PAK KWB Adamów SA at 7.09% and for PAK KWB Konin SA at 7.55%, the higher discount rate reflects the higher risk related to the functioning of PAK KWB Konin SA in the longer term (longer horizon of the forecast), in particular with regard to investment activities related to the development of new lignite deposits.

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

The tests were performed as at 31 December 2019.

Based on the tests, it was found that there was a need to make a write-down for the following companies: Elektrownia Pątnów II sp.z o.o., ZE PAK SA, PAK KWB Konin SA, PAK KWB Adamów SA.

The results of tests performed for individual CGUs for which impairment was found are presented below:

(in thousand PLN)

Test results as at 31 December 2019	*ZE PAK SA*	*Elektrownia Pątnów II sp. z o.o.*	*PAK KWB Konin SA*	*PAK KWB Adamów SA*
Tested value	565 811	1 454 247	535 039	27 147
Value after write-off	431 811	1 001 247	508 039	25 847
Impairment found	**134 000**	**453 000**	**27 000**	**1 300**

In relation to other CGUs operating within the Repairs, Sales and Other segments, no indications of possible impairment of assets were identified.

Sensitivity analysis

Changes of financial parameters underlying the evaluation of the recoverable amount would change the present value of the discounted cash flow with the amounts presented below.

The results of the sensitivity analysis showed that the value in use of the tested assets for CGU ZE PAK is significantly affected by the consideration of support for the biomass unit after 2027. In the pessimistic scenario, in the absence of support mechanism after 2027, the price of biomass would have to be lower by 18.28% in the analyzed period, with the remaining assumptions remaining unchanged, to cover the loss of revenues.

Zespół Elektrowni Pątnów-Adamów-Konin SA	***(+) increase by 1,0 p.p.***	***(-) decrease by 1,0 p.p.***
Weighted average cost of capital	(PLN 54 m)	PLN 64 m
	(+) increase by 1%	(-) decrease by 1%.
Change in sales revenues (electricity price)	PLN 66 m	(PLN 66 m)
	(+) increase by 5%	(-) decrease by 5%.
Change in cost of sales (price of 1 EUA)	(PLN 96 m)	PLN 96 m
	(+) increase by 5%	(-) decrease by 5%
Change of biomass price (PLN/GJ)	(PLN 115 m)	PLN 115 m

In the event of a 2.03% increase in sales revenues over the forecast horizon with other parameters of the model unchanged, as well as in the case of a weighted average cost of capital decrease of 1.96 pp. with the other parameters of the model unchanged, the recoverable amount of CGU would be equal to the carrying amount.

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

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

(in thousand PLN)

PAK KWB Konin SA	***(+) increase by 1,0 p.p.***	***(-) decrease by 1,0 p.p.***
Weighted average cost of capital	(PLN -53 m)	PLN 58 m
	(+) increase by 1%	(-) decrease by 1%
Change in sales revenues	PLN 47 m	(PLN -47 m)

In the event of a 0.58% increase in sales revenue over the forecast horizon, with the remaining parameters of the model determining the recoverable amount unchanged, or in the event of a reduction of weighted average cost of capital by 0.48 pp. with the other parameters of the model unchanged, the recoverable amount of CGU would be equal to the carrying amount.

PAK KWB Adamów SA	***(+) increase by 1,0 p.p.***	***(-) decrease by 1,0 p.p.***
Weighted average cost of capital	PLN 0,5 m	(PLN 0,6 m)
	(+) increase by 1%	(-) decrease by 1%
Change in sales revenues	PLN 4,5 m	(PLN 4,6 m)

In the event of a 3.32% increase in sales revenues over the forecast horizon, with the remaining parameters of the model determining the recoverable amount unchanged, or in the event of a weighted average cost of capital decrease of 30.38 pp. with the other parameters of the model unchanged, the recoverable amount of CGU would be equal to the carrying amount.

20. 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. A description of the implementation of IFRS 16 is provided in note 9, a description of accounting policies regarding leasing is provided in note 11.8.

The Group as a lessee

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

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

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

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

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

All leasing contracts were concluded in PLN.

Maturity analysis of leasing liabilities as at December 31, 2019:

	31 December 2019
Up to 1 year	6 620
1 to 3 years	11 199
3 to 5 years	9 189
Over 5 years	143 645
Total according to undiscounted payments	170 653

(in thousand PLN)

Book value	55 016

Amounts recognized in the cash flow statement

	Year ended 31 December 2019
Total cash outflow	9 360

The right to use

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

	Year ended 31 December 2019
Gross value as at 1 January	67 296
Remission as at 1 January	(3 822)
Net value as at 1 January	63 474
Deprectiation for the period	(7 265)
As at the end of the period	56 209

Additional qualitative and quantitative information on leasing activities

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

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

Variable leasing fees

Current lease contracts do not contain variable lease payments

Extension option

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

(in thousand PLN)

21. Intangible assets

Long-term intangible assets – 12 months period ended 31 December 2019

	CO_2 Emission units (EUA)	*Patents and licenses*	*Computer software*	*Other*	*Total*
Gross value as at 1 January 2019	-	22 333	2 133	417	24 883
Increases	-	-	(5)	-	(5)
Decreases	-	274	-	-	274
Gross value as at 31 December 2019	-	22 607	2 128	417	25 152
Depreciation and impairment write-downs as at 1 January 2019	-	18 734	2 015	361	21 110
Depreciation write-down for the period	-	1 177	118	4	1 299
Impairment write-down	-	-	-	-	-
Decreases	-	-	(5)	-	(5)
Depreciation and impairment write-downs as at 31 December 2019	-	19 911	2 128	365	22 404
Net value as at 1 January 2019	-	3 599	118	56	3 773
Net value as at 31 December 2019	-	2 696	-	52	2 748

(in thousand PLN)

Long-term intangible assets – 12 months period ended 31 December 2018

	CO_2 Emission units (EUA)	*Patents and licenses*	*Computer software*	*Other*	*Total*
Gross value as of 1 January 2018	2 266	21 886	1 981	428	26 561
Transfer EUA	(2 266)	-	-	-	(2 266)
Increases	-	(11)	(9)	(11)	(31)
Decreases	-	458	161	-	619
Gross value as of 31 December 2018	-	22 333	2 133	417	24 883
Depreciation and impairment write-downs as at 1 January 2018	-	17 561	1 958	363	19 882
Depreciation write-down for the period	-	1 184	66	14	1 264
Impairment write-down	-	-	-	-	-
Decreases	-	(11)	(9)	(16)	(36)
Depreciation and impairment write-downs as at 31 December 2018	-	18 734	2 015	361	21 110
Net value as at 1 January 2018	2 266	4 325	23	65	6 679
Net value as at 31 December 2018	-	3 599	118	56	3 773

In the EUA Transfer, the Group presents transfer of CO_2 allowances between long-term and short-term intangible assets.

(in thousand PLN)

Short-term intangible assets

	31 December 2019	*31 December 2018*
	CO2 emission unit (EUA)	*CO2 emission unit (EUA)*
Gross value as at 1 January	66 817	261 654
Decrease	(11 940)	
Purchase	530 408	93 102
Redemption of EUA	(492 067)	(290 205)
Transfer of EUA	-	2 266
Net value as at 31 December	93 218	66 817

22. Assets for overburden removal and other mining assets

As of 31 December 2019, 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 70 620 thousand.

	31 December 2019	*31 December 2018*
As of 1 January	80 326	72 536
Increases	1	16 369
Decreases	(607)	-
Depreciation for the period	(9 100)	(8 579)
As of December	70 620	80 326
long-term	70 620	80 326
short-term	-	-

23. Other assets

23.1. Other financial assets

	31 December 2019	*31 December 2018*
Deposits for debt service security	-	36 679
Investments and MLF* deposits	2 690	4 203
Shares	352	352
Other	178	212
Total other financial assets	3 220	41 446
short-term	-	36 698
long-term	3 220	4 748

* *MLF – Mining Liquidation Fund*

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

(in thousand PLN)

23.2. Other non-financial assets

	31 December 2019	*31 December 2018*
VAT receivables	58 315	18 378
Insurance	337	1 516
Other receivables from the state budget	916	1 842
Other non-financial assets	-	2 682
Other accruals	1 924	2 149
Delivery prepayments	7	66
Prepayments for assets under construction	2 311	751
Other	413	528
Total other non-financial assets:	64 223	27 912
short-term	61 615	24 039
long-term	2 608	3 873

The largest components of the item "other accruals" in 2018 are the settlements regarding the valuation of properties for sale owned by PAK KWB Konin SA, in the amount of PLN 607 thousand. The costs are charged at the time of sale of the real estate that the valuation concerned. A significant component of other accruals is also the settlement of royalties in the amount of PLN 330 thousand.

24. Employee benefits

24.1. Pension benefits and other post-employment benefits

The Group's entities pay the retiring employees amounts of one-time retirement benefits and other post-employment benefits in the amount specified by the Collective Labour Agreement. In relation to this, the Group, on the basis on the evaluation made by a professional pension actuary company, creates a provision for the current value of the liability due to one-time retirement and other benefits.

The amount of the provision and the agreement of changes in provisions during the accounting period are presented in the following table:

	Provision for pension, retirement, and post-mortem benefits	*Anniversary premiums*	*Subsidies to electricity/coal benefits*	*Total*
As of 1 January 2019	**25 973**	**1 915**	**23 112**	**51 000**
Current service cost	1 069	192	354	1 615
Interest costs	779	57	693	1 529
Actuarial profits and losses	4 689	38	(860)	3 867
Paid benefits	(3 756)	(333)	(2 407)	(6 496)
Past service cost	1 152	(265)	-	887
Other	-	-	-	-
As of 31 December 2019	**29 906**	**1 604**	**20 892**	**52 402**
Long-term provisions	25 740	1 241	18 524	45 505
Short-term provisions	4 166	363	2 368	6 897

(in thousand PLN)

	Provision for pension, retirement, and post-mortem benefits	*Anniversary premiums*	*Subsidies to electricity/coal benefits*	*Total*
as of 1 January 2018	**28 645**	**2 535**	**22 443**	**53 623**
Current service cost	1 196	214	1 181	2 591
Interest costs	957	84	741	1 782
Actuarial profits and losses	161	(17)	(1 384)	(1 240)
Paid benefits	(3 460)	(407)	(2 636)	(6 503)
Past service cost	(1 974)	(494)	2 767	299
Other	448	-	-	448
as of 31 December 2018	**25 973**	**1 915**	**23 112**	**51 000**
Long-term provisions	23 412	1 623	20 520	45 555
Short-term provisions	2 561	292	2 592	5 445

The main assumptions adopted by the actuary as of the balance sheet date for calculation of the amount of the liability are as follows:

	Year ended 31 December 2019	*Year ended 31 December 2018*
discount rate	2,1%	3,0%
expected inflation rate	2,5%	2,5%
expected remuneration growth rate	1,25% for 2020, 3% for next years	Depending on the company in range from 0 % to 3%,

25. Inventories

	31 December 2019	*31 December 2018*
Production fuel	9 828	7 131
Other materials and non-strategic spare parts	58 447	75 205
Certificates of origin of energy	36 065	26 897
Goods	1	6
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	104 341	109 239

As at December 31, 2019, the Group held, in accordance with records, 46 109,333 MWh of property rights for green certificates of green energy produced and verified by the Energy Regulatory Office. From January 1, 2019 to December 31, 2019, the Group received 374 459.704 MWh certificates for production in September, October, November 2018 and 275 673.370 MWh for production from January to September 2019. During this period, an application was submitted for the issue of 26 630.737 MWh for production in December 2018 and an application for the issue of 36 651.931 MWh for production in October 2019. By December 31, 2019, 349 548 345 MWh on TGE SA was sold, revenue in this amount 47,669,323.46 PLN, recognized in Other income. Applications for November and December 2019 were submitted in the first quarter of 2020. Income on this account is PLN 13,427 thousand.

Spare parts are the stock for ongoing renovations and service. The impairment loss on other materials and non-strategic spare parts as at December 31, 2019 is PLN 1,536 thousand.

(in thousand PLN)

26. Trade and other receivables

	31 December 2019	*31 December 2018*
Trade receivables	100 807	150 765
Receivables due to compensation related to the termination of the PPAs	47 045	57 691
Receivables due to security of purchase of electricity in the balancing market	16 111	14 761
Other receivables	64 615	130 966
Net receivables	228 578	354 183
Impairment write-down on receivables	45 469	42 110
Gross receivables	274 047	396 293

In the line of other receivables, as at December 31, 2019, the Group presents mainly receivables under the deposit of PLN 26,388 thousand and from margins on the Polish Power Exchange in the amount of PLN 34,080 thousand.

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

Failure rates:

	31 December 2019	*31 December2018*
On time	0,11%	0,10%
< 30 ays	0,25%	0,28%
30 – 60 days	28,82%	15,24%
60 – 90 days	54,90%	25,28%
Over 90 days	100%	100%

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

The Group 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.

As at December 31, 2019, trade and other receivables in the amount of PLN 45,469 thousand (as at December 31, 2018: PLN 42,110 thousand) were written off. Changes in the write-down of receivables were as follows:

	31 December 2019	*31 December 2018*
Impairment write-down as at	42 110	41 522
Acquisition of a company	-	(151)
Increase	3 552	874
Use	(1)	(69)
Redemption	(192)	(66)
Impairment write-down as at 31 December	45 469	42 110

Below is an analysis of trade receivables and other receivables which as at 31 December 2019 and as at 31 December 2018 were past due, but were not considered as irrecoverable and were not written off. The write-off balance mainly consists of a receivable from several counterparties that has been written off historically in 100% (grade 3 in accordance with IFRS 9). The Group has identified a high probability of non-recoverability of written off receivables.

(in thousand PLN)

			Expired but recoverable				
31 December 2019	Total without write-down	unexpired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
Net receivables	228 578	225 553	1 561	454	125	-	885
Impairment write-down		42 444	1 561	454	125	-	885
31 December2018	354 183	304 141	42 239	6 124	580	38	1 061
Impairment write-down		-	34 307	6 124	580	38	1 061

27. Cash and cash equivalents

Cash at bank are subject to interest at volatile interest rates, whose amount depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group's demand for cash and are subject to interest at fixed interest rates. The fair value of cash and cash equivalents as of 31 December 2019 amounts to PLN 414 634 thousand (as of 31 December 2018: PLN 304 658 thousand).

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

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

Cash structure

	31 December 2019	*31 December 2018*
Cash in hand and at bank:	220 853	260 467
Short-term deposits	193 781	44 191
Total cash and cash equivalents in the balance sheet:	414 634	304 658
Foreign exchange differences	-	(1 342)
Total cash and cash equivalents in cash flow statement	414 634	303 316

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

	31 December 2019	*31 December 2018*
Depreciation:		
Depreciation shown in the income statement	184 903	194 514
Settlement of subsidies	(1 502)	(1 502)
Depreciation shown in the cash flow statement	183 401	193 012

	31 December 2019	*31 December 2018*
Receivables:	-	-
Balance sheet change in trade receivables and other receivables	125 605	(100 922)

(in thousand PLN)

Balance sheet change in other long and short-term non-financial assets	(36 310)	(14 366)
Balance sheet change in amounts due from clients under PPAs	4 018	2 014
Change in advances for fixed assets under construction	862	(1 701)
Other changes	(805)	(315)
Change in receivables shown in the cash flow statement	93 370	(115 290)

	31 December 2019	*31 December 2018*
<u>Liabilities:</u>		
Balance sheet change in trade liabilities and other financial liabilities, long and short-term	(48 593)	18 363
Balance sheet change in other non-financial liabilities	6 972	(11 426)
Balance sheet change in amounts paid to clients under PPAs	(752)	(3 144)
Change in liabilities under investment settlements	14 701	5 879
Purchase of debt securities	-	-
New lease agreements and payment of lease liabilities	(503)	1 426
Other changes	(1 579)	393
Change in liabilities shown in the cash flow statement	(29 754)	11 491

	31 December 2019	*31 December 2018*
<u>Change in provisions, prepayments and accruals and employee benefits:</u>		
Change in provisions and prepayments	69 965	282 980
Change in long and short-term employee benefits	1 403	(364)
Decrease of provision from redemption EUA	492 068	290 205
Change in actuarial provisions indicated in other comprehensive income	(3 848)	(862)
Other changes	894	(56 827)
Change in provisions, prepayments and accruals and employee benefits	560 482	515 132

	31 December 2019	*31 December 2018*
<u>Inventories</u>		
Balance change in inventories	4 898	(11 480)
Transfer to strategic spare parts	(13 127)	-

(in thousand PLN)

Change in inventories disclosed in the statement of cash flows	(8 229)	(11 480)

28. Share capital and other capitals

28.1. Share capital

Share capital	*31 December 2019*	*31 December 2018*
50 823 547 shares with a nominal value of PLN 2 each	101 647	101 647

28.1.1. Share nominal value

All the issued shares have a nominal value of zloty 2 each and were paid up.

28.1.2. Shareholders rights

The shares of all series are equally preferred in terms of dividend and return on the capital.

28.1.3. Shareholders with significant share

	3 April 2020	*31 December 2019*	*31 December 2018*
Elektrim SA			
share in capital	0,39%	0,39%	0,39%
share in voting right	0,39%	0,39%	0,39%
Embud II sp. z o.o.			
share in capital	1,16%	1,16%	1,16%
share in voting right	1,16%	1,16%	1,16%
Trigon XIX Fundusz Inwestycyjny Zamknięty			
share in capital	-	-	19,68%
share in voting right	-	-	19,68%
Argumenol Investment Company Limited			
share in capital	59,75%	56,68%	30,32%
share in voting right	59,75%	56,68%	30,32%
Nationale - Nederlanden OFE			
share in capital	8,86%	8,86%	9,97%
share in voting right	8,86%	8,86%	9,97%
Towarzystwo Funduszy Inwestycyjnych PZU SA			
share in capital	-	-	-
share in voting right	-	-	-
OFE PZU Złota Jesień			
share in capital	9,12%	9,12%	5,24%
share in voting right	9,12%	9,12%	5,24%
Others			
share in capital	20,72%	23,79%	33,24%
share in voting right	20,72%	23,79%	33,24%

(in thousand PLN)

	100,00%	100,00%	100,00%

Shareholders owning more than 5% share in the capital and the number of votes according to the knowledge of the Company based on notifications submitted by shareholders.

29. Supplementary capital

As of 31 December 2019, the structure of the supplementary capital origin in the amount of zloty 1 124 376 thousand is as follows:

• from the sale of shares above their nominal value	380 030
• created in accordance with the articles of association above the statutory (minimum) value	617 397
• other, including:	126 949
- Acquiring of PAK Odsiarczanie sp. z o.o. and PAK Holdco sp. z o.o.	66 126
- Liquidation of fixed assets	60 823

29.1. Other reserve capital

The ZE PAK SA Company was founded as a result of the commercialisation of the Zespół Elektrowni PAK State-owned Company made pursuant to the Act of 13 July 1990 on the privatisation of state-owned companies. The so-called Privatisation Fund, shown as part of the reserve capital in the balance sheet of the company, was created by the Zespół Elektrowni PAK state-owned company on the basis of the Act of 31 January 1989 on financial economy of state-owned companies.

The value of the reserve fund consists of the Privatisation Fund in the amount of zloty 3 472 thousand, which was created from the profit of 1994, on the basis of a resolution of the Extraordinary General Meeting of the newly established Company, and the values related to the redemption of own shares in the amount of zloty 2 405 thousand. Due to the negative result of ZE PAK SA for 2015 in the amount of zloty 1,515,851 thousand, the General Meeting of the Company, on 28 June 2016, adopted a resolution no. 5 on covering the Company’s loss for 2015. According to the resolution, the General Meeting allocated the amount of zloty 2 405 thousand from the reserve capital. The total value of other reserve capitals, as of 31 December 2019, is zloty 3 472 thousand.

Cash accumulated in this fund were to be reserved for employees’ purchase from the State Treasury shares after transformation of the enterprise into the company and its privatisation (purchase of up to 10% of the shares for a half price). The Act of 30 August 1996 on the commercialisation and privatisation of state-owned enterprises introduced in 1996 granted employees the right to acquire 15% of the company’s shares belonging to the State Treasury free of charge. Therefore, the objectives, which the privatisation fund was to serve, do not exist. However, the capital in the company’s liabilities remained.

29.2. Undivided financial result and restrictions on payment of dividend

The undivided profit also includes amounts, which are not subject to division that is they may not be paid in the form of dividend. They are:

- Retained profits/losses of subsidiaries owned by the shareholders of the parent company,
- differences in values of retained profits between the statutory statement and the IFRS statement of the parent company,
- The equivalent of 8% of the statutory write-offs from profit for the capital and other write-offs made on the basis of existing provisions in the contracts of subsidiaries.

In the Group, as of 31 December 2019, the full amount of undivided profit (including the equivalent of reserve and supplementary capitals created within the division of profits in the previous years) is subject to the restriction on payment of dividend. The following conditions are the basis of such an assumption:

(in thousand PLN)

- Statutory financial statements of all companies included in the ZE PAK SA Capital Group are prepared in accordance with the Polish accounting standards. The dividend may be paid on the basis of the financial result determined in a separate annual financial statement prepared for the statutory purposes.
- According to the requirements of the Code of Commercial Companies, a parent company is required to create a reserve capital for coverage of losses. At least 8% of the profit for a given financial year, recognised in a separate financial statement of the company is transferred to this category of the capital, until this capital reaches at least one third of the parent company's issued capital. The use of supplementary and reserve capitals is decided by the General Meeting. However, parts of the supplementary capital in the amount of the one-third of the initial capital can be used only to cover the loss demonstrated in the separated financial statement of the parent company and is not divided for other purposes.

As of 31 December 2019, there are no other restrictions on the payment of the dividend.

29.3. Non-controlling interest

	Year ended 31 December 2019	*Year ended 31 December 2018*
At the beginning of the period		
Acquisition - defining non-controlling interest at the acquisition date	30 971	30 971
Employee share program - correction of the original settlement	(955)	(955)
Result of subsidiaries in a given year - attribution to non-controlling interests	(967)	(3 477)
The result of subsidiaries in a given year - attribution to non-controlling interests	(278)	3 199
Settlement PUT options - the recognition of the commitment to purchase employee shares	(30 016)	(30 016)
Settlement PUT option - recognition of the difference between the value of non-controlling interest and obligation at end of period	3 566	3 566
Total	2 321	3 288

Allocation of the result to the non-controlling interests

In the consolidated financial statement, 15% of the PAK KWB Adamów SA's result and 15% of the PAK KWB Konin SA's result for the period from 19 July 2012 – 31 December 2013 and from 1 January 2014 – 31 December 2014 were allocated as a profit of non-controlling shareholders. In 2015, 2016, 2017 and 2018 in connection with the ongoing employee shares redemption, the profit for non-controlling shareholders was allocated in proportion to the shares volume of non-controlling shareholders.

The Company's obligation to buy employee shares was recognized as at the date of taking control and applies to situations in which employees have the option to sell shares. In accordance with the chosen policy, non-controlling interests received the allocation of the result and other comprehensive income in the next reporting periods. At the end of each reporting period, the value of non-controlling interests was adjusted as if they were acquired while simultaneously recognizing the liability for the share buyback option. The difference between the value of non-controlling interest derecognized as at the reporting date and the recognized financial liability was recognized in the position of retained earnings. As at 31 December 2019 and 31 December 2018, ZE PAK SA's obligation to buy employee shares expired.

(in thousand PLN)

Recognition of ZE PAK SA's obligation to purchase the remaining shares in PAK KWB Konin SA and PAK KWB Adamów SA

In accordance with the IFRS, ZE PAK SA recognised the obligation to purchase the shares of PAK KWB Konin SA and PAK KWB Adamów SA possessed by the non-controlling interest on the day of the acquisition of control.

In the shares sale agreement of KWB Konin SA and KWB Adamów SA concluded between ZE PAK SA and the State Treasury on 28 May 2012 (hereinafter "Shares Sale Agreement"), ZE PAK SA submitted an irrevocable offer of purchasing the remaining shares of both mines to the State Treasury, under the terms set forth in this agreement, which will not be acquired from the State Treasury by the entitled employees and their legal successors on the basis of the Act of 30 August 1996 on the commercialisation and certain powers of employees. In accordance with the provisions of this act, the entitled employees of KWB Konin SA and KWB Adamów SA are entitled to acquire free of charge up to 15% of the shares of the company covered by the State Treasury on the date of entering a given company into the register. In accordance with the Shares Sale Agreement, ZE PAK SA's purchase of the remaining mines' shares from the State Treasury, not covered by the entitled employees or by their legal successors, will take place at a price per share equal to, respectively, the price of one share of KWB Konin SA and KWB Adamów SA in the transaction of sale of 85% of KWB Konin SA and KWB Adamów SA's shares of Konin to ZE PAK SA by the State Treasury, index-linked by the consumption products and services price indicator announced by the CSO President. In accordance with the Shares Sale Agreement, the offer of purchasing the remaining shares of KWB Konin SA and KWB Adamów SA are submitted by ZE PAK SA to the State Treasury, which is referred to above, was binding until 28 February 2017. The remaining shares of KWB Konin SA and KWB Adamów SA were purchased from the Treasury.

In addition, in accordance with the Shares Sale Agreement, ZE PAK SA obliged to, under the terms as provided for in this agreement, submit to the entitled employees of KWB Konin SA and KWB Adamów SA, who acquired free of charge the shares from the State Treasury on the basis of the Act of 30 August 1996 on the commercialisation and certain powers of employees, the offer to purchase these shares at a prices equal to, respectively, the price of one share of KWB Konin SA and KWB Adamów SA in the transaction of sale of 85% of KWB Konin SA and KWB Adamów SA's shares of Konin to ZE PAK SA by the State Treasury. In the implementation of this obligation, after the expiry of the prohibition on trading the employee shares specified in article 38 paragraph 3 of the Act of 30 August 1996 on the commercialisation and certain powers of employees, ZE PAK SA began the process of employee share redemption, within which ZE PAK SA offered the people, who expressed the interest in disposal of PAK KWB Konin SA and PAK KWB Adamów SA's shares, to redeem them under terms set forth in the Shares Sale Agreement. By the end of 2016, as a result of that redemption process, most employee shares of PAK KWB Konin SA and PAK KWB Adamów SA were acquired. ZE PAK SA still plans to purchase the employee shares of PAK KWB Konin SA and PAK KWB Adamów SA and continues the redemption process at the currently offered price.

As at 31 December 2019, in the opinion of the Management Board of ZE PAK SA, the obligation to buy employee shares of PAK KWB Konin SA and PAK KWB Adamów SA expired.

30. Interest-bearing loans and borrowings

Short-term	*Maturity*	*31 December 2019*	*31 December 2018*
Bank loan (syndicated) in the amount EUR 240 000 thousand; interest rate at EURIBOR 3M + bank margin (Elektrownia Pątnów II sp. z o.o.)	23.04.2019	-	108 200
Overdraft facility at Santander Bank Polska SA in the amount of zloty 40 000 thousand; interest rate at WIBOR 1M + bank margin (PAK KWB Konin SA)	30.06.2020	14 747	38 998
Overdraft in Alior Bank SA in the amount of PLN 66 700 thousand, bearing interest at WIBOR 1M + bank margin (PAK KWB Konin SA)	26.07.2019	-	58 448
Non-revolving loan at Alior Bank SA in the amount of PLN 66,700 thousand, interest rate according to WIBOR 3M + bank's margin (PAK KWB Konin SA)	15.12.2021	32 020	-

(in thousand PLN)

Investment loan (syndicated) in the amount of PLN 577 000 thousand (Loan A), bearing interest at WIBOR 3M + bank margin (ZE PAK SA)	20.12.2019	-	139 188
Investment loan (syndicated)in the amount of PLN 90 000 thousand (Loan B), bearing interest at WIBOR 3M + bank margin (ZE PAK SA)	20.12.2019	-	11 683
Overdraft in mBank SA in the amount of PLN 10 000 thousand, bearing interest at WIBOR 1M + bank margin (PAK Serwis sp. z o.o.)	29.05.2020	-	4 438
TOTAL		**46 767**	**360 955**

Long-term	*Maturity*	*31 December 2019*	*31 December 2018*
Investment loan(syndicated) in the amount of PLN 577 000 thousand (Loan A), bearing interest at WIBOR 3M + bank margin (ZE PAK SA)	20.12.2019	-	19 447
Investment loan (syndicated) in the amount of PLN 90 000 thousand (Loan B), bearing interest at WIBOR 3M + bank margin (ZE PAK SA)	20.12.2019	-	39 977
Non-revolving loan at Alior Bank SA in the amount of PLN 66,700 thousand, interest rate according to WIBOR 3M + bank's margin (PAK KWB Konin SA)	15.12.2021	29 773	-
TOTAL		**29 773**	**59 424**

Change in loans and advances the year ended December 31, 2019

	Bank loans	*Investment loans*	*Total*
As of 1 January	101 885	318 494	420 379
Borrowing	70 007	-	70 007
Repayment, including:	(95 352)	(323 131)	(418 483)
Capital repayment	(92 139)	(316 279)	(408 418)
Interest repayment	(3 152)	(6 416)	(9 568)
Provisions paid	(61)	(436)	(497)
Change of valuation		4 637	4 637
As at the end of the year	76 540	-	76 540

Change in loans and advances the year ended December 31, 2018

	Bank loans	*Investment loans*	*Total*
As of 1 January	59 048	597 708	656 756
Borrowing	45 864	-	45 864
Repayment, including:	(3 027)	(300 247)	(303 274)
Capital repayment	(577)	(284 371)	(284 948)
Interest repayment	(2 420)	(15 376)	(17 796)
Provisions paid	(30)	(500)	(530)

(in thousand PLN)

Change of valuation		21 033	21 033
As at the end of the year	101 885	318 494	420 379

In 2019, two companies of the Group repaid their loans early. On April 23, 2019, Pątnów II Power Plant repaid the syndicated loan of January 14, 2011, fully and prematurely. The company repaid the capital installment in the amount of EUR 8,462 thousand ahead of schedule, which according to the schedule was due in July 2019. In addition to early loan repayment, the Company also terminated the IRS swap contract hedging the loan interest rate on April 23, 2019. On December 20, 2019, ZE PAK SA prematurely repaid the syndicated loan of March 13, 2014. The company repaid ahead of schedule a capital installment in the amount of PLN 61,174 thousand, which was scheduled to be repaid in March 2020.

31. Provisions and accruals

31.1. Accruals

	31 December 2019	*31 December 2018*
Provision for bonuses and holiday leaves	25 490	25 545
Compensation from an insurance company	313	38
Audit of financial statements	223	264
Other	1 280	1 545
Total	27 306	27 392
Short-term	27 306	27 392
Long-term	-	-

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

(in thousand PLN)

31.2. Change in provisions

	Provision for EUA redemption	*Provision for return of CO_2 emission allowances*	*Provision for the fixed assets liquidation costs*	*Provision for the reclamation of ash storage yards*	*Provision for the long-term contract loss*	*Provision for the certificates of origin of energy redemption*	*Reclamation provisions and other provisions related to mining activities*	*Other*	*Total*
As at 1 January 2019	492 104	30 640	17 391	63 656	65	21 919	358 718	25 983	1 010 476
increase	562 390	-	799	265	162	452	16 218	1 698	581 984
Decrease, including:	(467 007)	(24 278)	-	-	(161)	(3 122)	(13 802)	(3 560)	(511 930)
Use	*(467 007)*	*(24 278)*				*(3 122)*	*(12 494)*	*(2 039)*	*(508 940)*
Termination					*(161)*		*(1 308)*	*(1 521)*	*(2 990)*
As at 31 December 2019	587 487	6 362	18 190	63 921	66	19 249	361 134	24 121	1 080 530
Long-term	-	6 362	18 190	63 921	-	-	334 561	2 095	425 129
Short-term	587 487	-	-	-	66	19 249	26 573	22 026	655 401
As at 1 January 2018 (transformed data)	289 942	-	16 593	57 649	370	8 522	362 416	24 754	760 246
Increaes	492 104	30 640	798	6 223	290	14 201	13 559	15 174	572 989
Decrease, including:	(289 942)	-	-	(216)	(595)	(804)	(17 257)	(13 945)	(322 759)
Use	*(289 942)*			*(216)*	*(559)*	*(804)*	*(17 257)*	*(13 945)*	*(322 723)*
Termination					*(36)*				*(36)*
As at 31 December 2018	492 104	30 640	17 391	63 656	65	21 919	358 718	25 983	1 010 476
Long-term	-	30 640	17 391	63 440	-	-	333 005	5 557	450 033
Short-term	492 104	-	-	216	65	21 919	25 713	20 426	560 443

31.3. Description of significant titles of provisions

31.3.1. 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 December 31, 2019, the provision amounts to PLN 587,487 thousand. The provision is created in correspondence with the cost of sales.

CO_2 emission allowances

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

In February 2019, ZE PAK SA was granted EUA related to the heat generated for 2019, resulting from art. 10a, in the amount of 37 081 tonnes.

In 2019, as in the previous year, companies from ZE PAK SA Group did not apply for EUAs resulting from art. 10c of Directive 2009/29 / EC. The provision is created in correspondence with the cost of sales.

Return of the allocated CO2 emission allowances in connection with the abandonment of investments in units 3 and 4 at the Pątnów Power Plant and the risk of the refund of the allocated rights related to the investment in the gas and steam block at the Konin Power Plant

On October 10, 2019, the Supervisory Board decided to discontinue the modernization of units 3 and 4 at Elektrownia Pątnów and agreed to return the equivalent of the emission allowances granted to ZE PAK SA for this investment. In accordance with statutory requirements, ZE PAK SA notified the Ministry of the Environment about this fact. On December 6, 2019, the Minister of Climate issued a decision determining the amount of refund granted to ZE PAK SA free of charge to EUA for the amount of PLN 24 326 thousand. ZE PAK SA made the payment on December 18, 2019.

In 2018, a provision was created for the potential return of free CO2 emission allowances related to the investment in units 3 and 4 and a gas and steam block in the amount of PLN 30,640 thousand. In connection with the abandonment of investments in modernization of units 3 and 4 and the return of EUA granted free of charge, a part of the provision regarding blocks 3 and 4 in the amount of PLN 24,278 thousand was used. As at December 31, 2019, there was a provision for investments in the construction of a gas and steam block in the amount of PLN 6,362 thousand. The remaining repayment of the free CO2 emission allowances received should be settled by 30 June 2020.

In the case of the gas-steam block at Konin Power Plant, in October 2019 ZE PAK SA informed the Ministry of the Environment that analyses are still underway to clearly determine the profitability of the investment. If the construction is not completed, the equivalent of emission allowances will be returned at a later date. Most likely, the refund will become due when the Republic of Poland prepares the final report on the implementation of the KPI for the European Commission, which will take place in 2020.

CO2 emission allowances in the year ended 31 December 2019

		Zespół Elektrowni Pątnów-Adamów-Konin SA		*„Elektrownia Pątnów II" sp. z o.o.*	
	CO_2 emission (in tons)*	4 159 237		2 450 505	
		quantity (in tons)	amount (in thousand PLN)	quantity (in tons)	amount (in thousand PLN)
EUA	Balance at the beginning of the period	1 062 113	42 236	820 908	24 581
	Purchased	3 744 000	292 566	2 679 000	225 902
	Free of charge	37 081	-	-	-
	Redemption	(4 780 925)	(334 714)	(2 454 232)	(157 354)
	Balance at the end of the period	62 269	88	1 045 676	93 129
	Remain to purchase	4 096 968	365 157	1 404 829	129 113

The total acquisition amount is PLN 518 468 thousand and includes a decrease by EUA in the amount of PLN 11 940 thousand. Expenses for the acquisition of CO2 emission allowances disclosed in the cash flow statement are PLN 530 408 thousand.

CO2 emission allowances in the year ended 31 December 2018

		Zespół Elektrowni Pątnów-Adamów-Konin SA		*„Elektrownia Pątnów II" sp. z o.o.*	
	CO_2 emission (in tons)*	4 780 646		2 454 232	
		quantity (in tons)	amount (in thousand PLN)	quantity (in tons)	amount (in thousand PLN)
EUA	Balance at the beginning of the period	7 051 715	193 504	2 724 344	68 150
	Purchased	2 202 000	70 787	702 000	24 581
	Free of charge	69 066	-	-	-
	Redemption for 2017	(8 260 668)	(222 055)	(2 605 436)	(68 150)
	Balance at the end of the period	1 062 113	42 236	820 908	24 581
	Remain to purchase	3 718 533	292 546	1 633 324	132 741

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

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

The Group creates the provision for future costs of reclamation of the land on the basis of legal obligation resulting from the "Integrated Permits." The basis of estimation of the provision size are data prepared by domestic services. The value of the provision is estimated and verified on every balance sheet date on the basis of estimated cost to be incurred in the future and a discount. As of 31 December 2019, the created provision amounted to PLN 63 921 thousand. Descriptions of the created provision are included in notes 5 and 11.

Due to the legal obligation to liquidate fixed assets after their period of use, the Group creates the provision for projected future costs, which will be necessary to pay for fulfilment of this obligation. As of 31 December 2019, the provision due to this amounted to PLN 18 190 thousand. The provision is created in correspondence with the cost of sales. The discount amount recognized in financial costs is PLN 1,279 thousand.

31.3.3. Reclamation provisions and other provisions related to mining activities

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

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

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

The provision for decommissioning and reclamation of mining areas and for the preparation of operational areas at PAK KWB Konin SA and PAK KWB Adamów SA as at December 31, 2019 amounted to PLN 361 134 thousand and increased compared to the year ended December 31, 2018 by PLN 2 416 thousand. While calculating the provision, the Group adopted the following assumptions: discount rate, calculated for the period of 3 years, at 3.0%, inflation level at 2.5%. The provision is created in correspondence with the cost of sales. The discount amount charged to financial expenses is PLN 9 957 thousand.

(in thousand PLN)

31.3.4. Provision for redemption of Energy certificates

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load co-generation. As of 31 December 2019, the provision due to this amounted to PLN 19 249 thousand. The provision is created in correspondence with the cost of sales.

31.3.5. Other provisions

In PAK KWB Konin, the main items of other reserves as of 31 December 2019 are: provisions for mining damage in the amount of PLN 1 250 thousand, the provisions for pending legal proceedings in the amount of PLN 527 thousand. In PAK KWB Adamów: provisions for permanent taking out of production for the final reservoir of Adamów open pit in the amount of PLN 15 828 thousand, the provision for mining damage in the amount of PLN 5 000 thousand, the provisions for legal proceedings in the amount of PLN 524 thousand. Provisions for mining damage and provision for permanent exclusion from production are created in correspondence with the cost of sales and provisions for pending court proceedings in correspondence with other operating costs.

32. Trade liabilities, other liabilities and accruals

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

	31 December 2019	*31 December 2018*
Trade liabilties:	84 731	123 339
Other liabilities:		
Investment liabilities	4 484	9 468
Liabilities to employees due to salaries	15 848	16 313
other	3 906	5 770
total	108 969	154 890

In the line other liabilities as at December 31, 2018, the Group presents mainly liabilities due to settlements with employees and deductions from the payroll in the amount of PLN 2,094 thousand, settlements due to the security deposit in the amount of PLN 757 thousand and due to the deposit in the amount of PLN 209 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.

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

	31 December 2019	*31 December 2018*
Liability due to financial lease	-	1 389
Liability for a guarantee deposit	2 000	2 000
Short-term liabilities to other entities – over 12 months	6 652	8 017
Other financial liabilities	-	-
Other	144	62
Total	8 796	11 468

(in thousand PLN)

32.3. Other non-financial liabilities

	31 December 2019	*31 December 2018*
VAT tax liabilities	46 008	35 817
Liabilities due to environmental charges	18 496	15 832
Liabilities due to the excise tax	714	2 660
Liabilities due to social insurance	20 910	21 714
Income tax from individuals	4 596	5 244
Other budget liabilities	4 598	6 092
Advanced payments for deliveries	55	94
Service charge	7 092	7 517
Other	463	990
Total	102 932	95 960

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.

32.4. Derivative financial instruments

	31 December 2019	*31 December 2018*
Instruments securing floating interest rates (SWAP)	-	921
Exchange rate hedging instruments (forward)	1 757	-
Total	1 757	921
Short-term	1 757	921
Long-term	-	-

32.5. Grants and deferred income (long-term)

	31 December 2019	*31 December 2018*
Long-term grants	38 501	40 003
Other	3 292	3 004
Total	41 793	43 007

The main component of the item "Long-term subsidies": The subsidies in the amount of PLN 38 137 thousand presented as at December 31, 2019 arose as a result of the valuation received from the National Fund for Environmental Protection and Water Management, as if it had been granted on market terms. The loan was repaid in June 2015. The subsidy is settled in accordance with the useful life period of fixed assets included in the 464 MW block in Pątnów II Power Plant.

(in thousand PLN)

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

32.6. Grants and deferred income (short-term)

	31 December 2019	*31 December 2018*
Short-term grants	1 502	1 501
Other	-	1
Total	1 502	1 502

33. Contingent liabilities and description of significant judicial cases

Apart from liabilities described in notes 33.1 and 34 below, as of 31 December 2019, the Group did not have any other contingent liabilities, guarantees and sureties granted.

33.1. Impact of the Act amending the act on excise duty and some other acts

On January 1, 2019, the Act of December 28, 2018 amending the Act on excise duty and some other acts ('the Act') (Journal of Laws of 2018, item 2538, as amended) entered into force. In key issues, the Act refers to the Regulation of the Minister of Energy of 19 July 2019 on how to calculate the amount of the price difference and financial compensation and how to set reference prices ("Regulation") (Journal of Laws of 2019, item 1369), which was in force on August 14, 2019 and the Announcement of the Minister of Energy of August 28, 2019 regarding other unit costs and co-financing rate ("Notice") (MP of 2019 item 775).

The Act introduced, among others:

1) reducing the excise duty rate on electricity from PLN 20 to PLN 5 per megawatt hour (MWh),
2) a 95% reduction in the rate of the transitional fee paid monthly by electricity consumers in distribution bills,
3) for energy enterprises carrying out economic activity in the field of electricity trading, the obligation to specify prices and rates for electricity for final customers for the period from 1 January to 31 December 2019 in an amount not higher than the prices and rates of electricity charges applicable on June 30, 2018,
4) a compensation system to cover the difference:
   - between the weighted average prices of electricity on the wholesale market for the period from January 1, 2019 to June 30, 2019, increased by other unit costs, and the net price of electricity for the final customer referred to in art. 5 of the Act, applicable on June 30, 2018, containing the excise duty rate on electricity settled by the trading company in 2018 (price difference amount) and
   - between the weighted average electricity prices on the wholesale market applicable in the month of supply (for deliveries from July 1, 2019 to December 31, 2019), increased by other unit costs, and the net price of electricity for the final customer referred to in art. 5 paragraph 1a of the Act, applicable on June 30, 2018, containing the excise duty rate on electricity settled by the trading company in 2018 (financial compensation).

The Act requires energy companies conducting business activities in the field of electricity trading to reduce prices in contracts with final customers, but at the same time, by introducing a compensation system, it assumes balancing the interests of energy companies conducting business activities in the field of electricity trading and electricity end users.

Impact of the Act on 2019

The Group has estimated the potential financial effects of the Act on PAK-Volt SA, a company within the Group conducting business activities in the field of electricity trading. When making estimates, the following assumptions were made:

a) legal status as at the date of publication of the report,

b) in relation to determining the costs of providing the service, the amount of costs was adopted in accordance with the Regulation and the Notice of the Minister of Energy,

c) the volume of sales within the period of 12 months of 2019 was adopted in accordance with the agreements concluded by PAK-Volt SA, i.e. in the amount of 662 thousand of MWh.

Based on the adopted assumptions the following were received:

a) revenues in the electricity sales segment decreased by PLN 31 634 thousand (this is the amount that PAK-Volt SA is obliged to return to final customers in accordance with the Act),

b) the amount of the price difference and the financial compensation received by PAK-Volt SA from Zarządca Rozliczeń SA for the first three quarters of 2019 amounted to PLN 18 360 thousand, in addition PAK-Volt SA applied for PLN 1 017 thousand for the fourth quarter of 2019.

PAK-Volt SA is of the opinion that, in accordance with the adopted settlement policy, it should receive compensation in the full amount of revenue reduction, i.e. in the amount of PLN 31 634 thousand.

In addition, the Act's beneficiaries are PAK Kopalnia Węgla Brunatnego Adamów SA and PAK Kopalnia Węgla Brunatnego Konin SA, which purchase electricity for the needs of lignite mining from an entity outside the Group and are included in final recipients other than those specified in art. 5 paragraph 1a of the Act. For these companies, for the supply period from January 1, 2019 to June 30, 2019, the energy prices applicable on June 30, 2018 applied. Therefore, for 2019 a reduction in the cost of electricity consumption in the total amount of PLN 13 841 thousand was included.

33.2. Court proceedings

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

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

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

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

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

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

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

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

The proceeding is in progress.

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

PAK KWB Konin SA is a party in the administrative proceedings related to the environmental decision regarding the lignite deposit in Tomisławice. On 7 August 2007, the Head of Wierzbinek Commune issued an environmental decision regarding the lignite open cast. On 5 December 2008, this decision was contested by nine physical persons supported by the Greenpeace organisation due to alleged major infringement of the regulations of the law. On 25 March 2009, the Self-government Appeal Court dismissed the application to reverse the environmental decision. The plaintiffs applied for the judicial review. On 4 May 2009, after the judicial review, the Self-government Appeal Court sustained its previous decision. The plaintiffs again appealed against the environmental decision. On 5 May 2010, the Provincial Administrative Court in Poznań ruled that the environmental decision, pursuant to which the license for the extraction of lignite at the 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 the 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.

Proceedings on an environmental decision on lignite deposit in Ościsłowo

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

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

Warsaw for reconsideration. The Provincial Administrative Court by judgment of 18 October 2018 annulled the contested decision of 30 November 2017 issued by GDOŚ in Warsaw. At present, the matter is being reviewed by GDOŚ in Warsaw and the announced date of settling the case was scheduled for 30 June 2020.

The proceedings for issuing the environmental decision were initiated on 16 September 2015.

Significant tax proceedings have been described in note 33.3.

33.3. Tax settlements

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

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

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

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

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

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

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

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

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

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

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

(in thousand PLN)

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

Initiation of tax proceedings against ZE PAK SA regarding the settlement of corporate income tax for 2014, including transfer prices

On April 13, 2016, the Director of the Tax Inspection Office in Poznań instituted tax proceedings against ZE PAK SA ex officio in the area of reliability of declared tax bases and correctness of calculation of corporate income tax for the fiscal year 2014, including the issue of transfer pricing. On June 11, 2019, the tax authority completed the tax audit.

On July 22, 2019, the Company adjusted the corporate income tax for 2014 in accordance with the findings of the report. The correction resulted in a shift in the recognition of the tax cost related to the purchase of CO2 emission rights in individual periods.

In 2014, there was a tax liability to be paid in the amount of PLN 1,954 thousand together with interest due PLN 646 thousand. However, the company additionally corrected CIT8 declarations for 2013, 2015-2018, which resulted in overpayment in corporate income tax in the amount of PLN 3,809 thousand. Finally, the Tax Office has settled the 2014 liability and interest due.

These adjustments have resulted in tax losses, as shown below:

	Tax result as at 31 December 2019 (adjusted)	*Tax result as at 31December 2018*
Tax profit/loss 2013	18 500	(708)
Tax profit/loss 2014	10 297	(48 119)
Tax profit/loss 2015	(24 149)	48 634
Tax profit/loss 2016	(22 990)	(133 400)
Tax profit/loss 2017	(37 586)	105 468
Tax profit/loss 2018	(248 115)	15 811

In connection with the change in the approach to accounting for the recognition of CO2 purchases, the Group released an asset regarding a provision in the amount of PLN 63,609 thousand and a provision for deferred income tax in the amount of PLN 8,025 thousand.

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

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

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

(in thousand PLN)

34. Liability repayment securities

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

As of 31 December 2019 and 31 December 2018, the Group had liabilities protected with its assets and other protections of payment of liabilities:

Liabilities secured with the assets

Agreement	*Kind of security*	*30December 2019* *Security amount*	*currency*	*31 December 2018* *Security amount*	*currency*
Syndicated loan agreement of 13 March 2014 for PLN 667 million for ZE PAK SA [1]	Registered pledge on a collection of items Registered pledge on bank accounts Joint contractual mortgage established on real estate	Up to 2 040 000	PLN	Up to 2 040 000	PLN
Syndicated loan agreement dated 14 January 2011 for EUR 240 million for Pątnów II Power Plant [2]	Joint contractual mortgage established on the property of Pątnów II and PAK Infrastruktura	Up to 400 000 up to 339 750	EUR PLN	Up to 400 000 up to 339 750	EUR PLN
Non-revolving loan agreement of 25 July 2019 for PLN 66.7 million for PAK KWB Konin SA	Registered pledge on machines and devices	Up to 141 400	PLN	-	-

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

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

Other securities of liabilities

Guarantees given

Kind of guarantee	*31 December 2019* *Security amount*	*currency*	*31 December 2018* *Security amount*	*currency*
Guarantees of good performance of the contract	15 175	PLN	19 255	PLN
Guarantees to remove defects and faults	4 827 2 657	PLN EUR	4 317 438	PLN EUR
Payment guarantees (including guarantees securing transactions on TGE / IRGIT)	30 208	PLN	219	PLN
Guarantee of advance payment	-	PLN	148	PLN

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

The table below shows the sum of granted guarantees.

	31 December 2019	*currency*	*31 December 2018*	*currency*
Intra-Group Guarantees	120 700	PLN	126 700	PLN

(in thousand PLN)

The Guarantees granted to the entities outside the Group	16 259	PLN	-	PLN
Total of granted Guarantees	**136 959**	**PLN**	**126 700**	**PLN**

35. Information about related entities

The following table shows the total amounts of transactions concluded with related entities (controlled by the same majority owner) for the current year and previous financial years:

Related entity		*Sales to related entities*	*Purchase from related entities*	*Receivables from related entities*	*Liabilities towards related entities*
Elektrim S.A.	2019	-	120	-	-
	2018	-	120	-	-
Megadex Serwis sp. z o.o.	2019	3	25 508	-	-
	2018	-	25 497	-	-
Polkomtel sp. z o.o.	2019	170 641	12 863	22 375	719
	2018	188 578	2 234	21 994	413
Polkomtel Infrastruktura sp. z o.o.	2019	110	-	136	-
	2018	-	-	-	-
Laris Investments sp. z o.o.	2019	460	389	171	149
	2018	470	831	255	-
CPE sp. z o.o.	2019	-	135	-	60
	2018	-	37	-	38
Plus Flota sp. z o.o.	2019	-	336	-	91
	2018	-	241	-	27
Cyfrowy Polsat	2019	-	3	-	3
	2018	2 261	-	485	-
Total	**2019**	**171 214**	**39 354**	**22 682**	**1 022**
	2018	**191 309**	**28 960**	**22 734**	**478**

Elektrim SA is the parent company in relation to the ZE PAK SA Group. Other companies are subsidiaries or affiliates of Elektrim SA.

Transactions with Polkomtel sp. z o.o. mainly concern the sale of electricity.

Transactions with related entities are made on market terms.

35.1. Loan granted to a member of the Management Board

Both in the financial year ended 31 December 2019 and in the one ended 31 December 2018, the Parent Company did not grant any loans and similar benefits to members of the management and supervisory staff.

35.2. Other transactions involving members of the Management Board

Both in the financial year ended 31 December 2019 and in the one ended 31 December 2018, there were no transactions with members of management and supervisory staff.

(in thousand PLN)

35.3. Remuneration of Chief executive Staff of the Group

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

	Year ended *31 December 2019*	Year ended *31 December 2018*
Management Board of the parent company		
Short-term employee benefits	2 376	2 463
Benefits for termination of the contract of employment	65	-
Supervisory Board of the parent company		
Short-term employee benefits	1 117	1 099
Management Boards of subsidiaries		
Short-term employee benefits	2 550	2 928
Post-employment benefits	25	-
Supervisory Board of subsidiaries		
Short-term employee benefits	14	14
Total	6 147	6 504

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

	Year ended *31 December 2019*	Year ended *31 December 2018*
Short-term employee benefits	11 157	12 514
Jubilee awards	-	19
Post-employment benefits	-	32
Benefits for termination of the contract of employment	216	183
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	11 373	12 748

The main management team includes directors and senior management.

36. Information about the remuneration of the statutory auditor or the entity entitled to audit accounts

The following table presents the remuneration of an entity entitled to audit accounts paid or due to the year ended 31 December 2018, and for the year ended 31 December 2017, divided into types of services:

	Year ended *31 December 2019*	Year ended *31 December 2018*
Compulsory examination and unit review and consolidated financial statements	675	750
Other services	-	65

(in thousand PLN)

Total	675	815

37. Goals and rules of financial risk management

Apart from derivatives, the main financial instruments, used by the Group, consist of bank credits, 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 Group also entered into transactions involving derivatives, primarily contracts for the purchase of EUR (currency forwards). The purpose of these transactions is to manage the currency risk arising in the course of the Group's operations.

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.

37.1. Interest rate risk

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

The Group uses financial liabilities, mostly variable rate credits and loans. As at December 31, 2019, the Group shows long-term financial debt due to a single bank loan. Other financial liabilities due to loans and borrowings are short-term.

In order to minimise interest rate risk, the Group had, as at 31 December 2019 the contracts for interest rates change IRS (Interest Rate Swap), within which it agreed to change, within specified time intervals, the difference between the amount of interests calculated according to the fixed and the variable rate of the agreed main amount. The transactions were to protect incurred financial liabilities.

As at December 31, 2019, the Group did not have an IRS interest rate derivative due to its total settlement together with the early repayment of the syndicated loan by the Pątnów II Power Plant on April 23, 2019.

Interest rate risk – the sensitivity gap

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

(in thousand PLN)

Classes of financial instruments	*31 grudnia 2019 roku*		*Interest rate risk sensitivity study as of 31 December 2019*							
			WIBOR				*EURIBOR*			
			WIBOR + 45pb		*WIBOR - 45pb*		*EURIBOR + 11,03pb*		*EURIBOR - 11,03pn*	
	Carrying amount	*value at risk*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*
Other financial assets	3 220	2 690	12	-	(12)	-	-	-	-	-
Trade and other receivables	228 578	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	414 634	414 634	1 862	-	(1 862)	-	1	-	(1)	-
Interest-bearing loans and borrowings	(76 540)	(76 540)	(344)	-	344	-	-	-	-	-
Trade payables and other financial liabilities	(117 765)	-	-	-	-	-	-	-	-	-
Lease liabilities	(55 016)	(55 016)	(248)	-	248	-	-	-	-	-
Derivative financial instruments	(1 757)	(1 757)	-	-	-	-	-	-	-	-
Total	**395 354**	**284 011**	**1 282**	**-**	**(1 282)**	**-**	**1**	**-**	**(1)**	**-**

(in thousand PLN)

Classes of financial instruments	*31 December 2018*		*Interest rate risk sensitivity study as of 31 December 2018*							
			WIBOR				*EURIBOR*			
			WIBOR + 48pb		*WIBOR - 48pb*		*EURIBOR + 16,57pb*		*EURIBOR - 16,57pb*	
	Carrying amount	*value at risk*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*
Other financial assets	41 427	22 542	20	-	(20)	-	30	-	(30)	-
Trade and other receivables	354 183	-	-	-	-	-	-	-	-	-
Derivative financial instruments	19	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	304 658	304 658	906	-	(906)	-	192	-	(192)	-
Interest-bearing loans and borrowings	(420 379)	(420 379)	(1 499)	-	1 499	-	(179)	-	179	-
Trade payables and other financial liabilities	(166 358)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(921)	(921)	-	-	-	-	-	46	-	(46)
Total	**112 629**	**(94 100)**	**(573)**	**-**	**573**	**-**	**43**	**46**	**(43)**	**(46)**

37.2. Currency risk

The Group is exposed to currency risk due to concluded transactions. Such a risk relates to liabilities due to loans and advances.

As at December 31, 2019, two Group companies used instruments to mitigate the risk arising from changes in exchange rates. ZE PAK SA and Elektrownia Pątnów II sp.z o.o. they secured the euro exchange rate for some flows related to the purchase of CO2 emission allowances. ZE PAK SA used forward transactions with settlement in March and April 2020 to hedge the exchange rate. Pątnów II Power Plant sp.z o.o. to hedge the exchange rate, it used forward transactions with settlement in March and April 2020. Potential possible changes in exchange rates were calculated on the basis of implied annual volatilities for currency options quoted on the interbank market for a given pair of currencies as at the balance sheet date.

(in thousand PLN)

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

	31 December 2019		***Analysis of sensitivity to interest rate risk as of 31 December 2019***			
			EUR/PLN			
Classes of financial instruments			**EUR/PLN + 4,275%**		**EUR/PLN - 4,275%**	
			4,4406		**4,0764**	
	Carrying amount	***Value at risk***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	3 220	-	-	-	-	-
Trade and other receivables	228 578	216	9	-	(9)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	414 634	885	38	-	(38)	-
Interest-bearing loans and borrowings	(76 540)	-	-	-	-	-
Trade payables and other financial liabilities	(117 765)	(625)	(27)	-	27	-
Lease liabilities	(55 016)	-	-	-	-	-
Derivative financial instruments	(1 757)	-	-	-	-	-
Total	**395 354**	**476**	**20**	**-**	**(20)**	**-**

(in thousand PLN)

Classes of financial instruments	***31 December 2018***		***Analysis of sensitivity to interest rate risk as of 31 December 2018***			
			EUR/PLN			
			EUR/PLN + 5,887%		**EUR/PLN - 5,887%**	
			4,5531		**4,0469**	
	Carrying amount	***Value at risk***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	41 427	18 340	1 080	-	(1 080)	-
Trade and other receivables	354 183	305	18	-	(18)	-
Derivative financial instruments	19	-	-	-	-	-
Cash and cash equivalents	304 658	115 970	6 827	-	(6 827)	-
Interest-bearing loans and borrowings	(420 379)	(108 200)	(6 370)	-	6 370	-
Trade payables and other financial liabilities	(166 358)	(1 794)	(106)	-	106	-
Derivative financial instruments	(921)	-	-	-	-	-
Total	**112 629**	**24 621**	**1 449**	**-**	**(1 449)**	**-**

37.3. Commodity prices risk

The company is exposed to influence and the adverse impact of risk factors associated with the volatility of cash flows and financial results due to the changes in the prices of commodity prices. Exposure to the commodity prices risk is reflected by the volume of purchases of basic raw materials, which are mostly lignite and biomass of wood and agricultural origin.

The volume and costs of consumption of the main raw materials are presented in the table below:

	2019		*2018*	
	Volume (tons)	*Consumption cost (in PLN thousand)*	*Volume (tons)*	*Consumption cost (in PLN thousand)*
Fuel:				
Lignite	7 020 653	625 033	7 660 483	565 207
Forestry biomass	407 919	82 725	320 476	60 527
Agricultural biomass	48 020	10 676	56 116	12 864
Fuel oil	8 526	15 366	7 745	13 847
Sorbent	115 166	9 956	173 406	13 752

Significant risk factors are also the costs of purchasing CO2 emission allowances and the costs of electricity purchase.

	2019		*2018*	
	CO_2 emission (tons)	*Emission costs (thousands PLN)*	*CO_2 emission (tons)*	*Emission costs (thousands PLN)*
CO_2 emission costs	6 609 742	587 489	7 234 878	489 950

	2019		*2018*	
	Quantity (MWh)	*Purchase cost (thousands PLN)*	*Quantity (MWh)*	*Purchase cost (thousands PLN)*
Purchase of electricity	3 695 944	813 980	3 279 319	605 948

37.4. 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 concentration of receivables in relation to key electricity consumers of the Group is subject to monitoring. The main recipients of electricity include the companies with a significant position in the electricity trade sector, such as Energa Obrót, ENEA Trading, Tauron Polska Energia and PSE Operator. The transactions concluded on the exchange market are settled on a day-to-day basis by the Towarowa Giełda Energii SA Company, which minimises the credit risk. The large share of sales on the power exchange and the selection of reputable companies with good credit ratings to the Group's sales portfolio means that despite the presence of a portfolio of entities with a relatively large share of over 5% in the portfolio, the level of concentration is not identified as significant. In the light of the above, the Group does not apply additional collateral resulting from the mere phenomenon of concentration, the application of collateral depends on the financial condition of the counterparty.

(in thousand PLN)

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

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

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

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

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

In addition to the banks presented in the table above, the Group also had cash at Plus Bank SA as at 31 December 2019. The bank has not been evaluated by any of the three main rating agencies, i.e. Fitch, Standard & Poor's and Moody's. Due to the fact that Plus Bank is controlled by the same owner, the Group assesses the credit risk of this bank as insignificant.

PAK Capital Group cash as at December 31, 2019, broken down into individual credit ratings of banks:

Rating level of individual rating agencies			*The amount of cash as at December 31, 2019 (without cash in hand)*
Moody's	*S&P*	*Fitch*	
Aaa	AAA	AAA	-
Aa1	AA+	AA+	-
Aa2	AA	AA	-
Aa3	AA-	AA-	80 009
A1	A+	A+	-
A2	A	A	10 300
A3	A-	A-	206 456
Baa1	BBB+	BBB+	57 693
Baa2	BBB	BBB	-

(in thousand PLN)

Baa3	BBB-	BBB-	45 616
Ba1	BB+	BB+	-
Ba2	BB	BB	14 522
Ba3	BB-	BB-	-
B1	B+	B+	-
B2	B	B	-
B3	B-	B-	-
Caa1	CCC+		-
Caa2	CCC		-
Caa3	CCC-	CCC	-
Ca	CC		-
	C		-
C		DDD	-
–	D	DD	-
–		D	-
SUMA			414 596

37.5. Liquidity risk

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

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

The tables below present financial liabilities of the Group as of 31 December 2019 and 31 December 2018 according to the maturity date based on contractual non-discounted payments.

(in thousand PLN)

31 Decemeber 2019	*Less than 3 months*	*3 - 12 months*	*1 - 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	8 005	38 762	29 773	-	76 540
Trade payables and other financial liabilities	101 545	7 424	8 796	-	117 765
Lease liabilities	1 655	4 967	26 488	21 906	55 016
Derivative financial instruments	110 409	205 435	-	-	315 844
	219 959	**251 621**	**93 585**	**-**	**565 165**

31 December 2018	*Less than 3 months*	*3 - 12 months*	*1 - 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	75 524	285 051	61 738	-	422 313
Trade payables and other financial liabilities	137 478	17 412	11 468	-	166 358
Derivative financial instruments	69 450	421	-	-	69 871
	282 452	**302 884**	**73 206**	**-**	**658 542**

(in thousand PLN)

Derivative instruments indicated in above tables were presented in gross values of non-discounted payments. However, these contracts can be settled either in gross values, or net amounts.

The tables shown below present agreements of these values to balance sheet values of derivative instruments:

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

31 December 2018	On demand	Less than 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Inflows	-	(43)	(40)	-	-	(83)
Outflows	-	416	421	-	-	837
Net amounts	-	(459)	(461)	-	-	(920)
Discounted using appropriate interbank rates	**-**	**(459)**	**(462)**	**-**	**-**	**(921)**

(in thousand PLN)

38. Financial instruments

38.1. 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	*31 December 2019*	*31 December 2018*
Other financial assets	AFwgZK	3 220	41 427
Trade receivables and other receivables	AFwgZK	228 578	354 183
Derivative financial instruments	WwWGpWF	-	19
Cash and cash equivalents	AFwgZK	414 634	304 658
Financial liabilities			
Interest-bearing bank credits and loans, including:		76 540	420 379
long term	PZFwgZK	29 773	59 424
short term	PZFwgZK	46 767	360 955
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	117 765	166 358
Lease liabilities	PZFwgZK	55 016	-
Derivative financial instruments	WwWGpWF	1 757	921

Used abbreviations:

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

(in thousand PLN)

As of 31 December 2019 and 31 December 2018, the Group had following financial instruments evaluated in the fair value:

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

	31 December 2018	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	19	-
Derivatives hedging liabilities	-	-	921	-

The fair value of financial instruments other than derivatives as at December 31, 2019 and December 31, 2018 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 December 31, 2019, 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.

In the period ended 31 December 2019 and the one ended 31 December 2018, 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.

(in thousand PLN)

38.2. Items of revenue, costs, profits and losses included in the income statement divided into categories of financial instruments

12 months period ended 31 December 2019

	Revenues /(costs) due to interests (including effect of valuation with depreciated cost)	*Profits / (losses) due to exchange rate differences*	*Redemption / (creation) of impairment write-downs*	*Profits/(losses) due to derivative instruments*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	3 123	(1 597)	-	-	38	1 564
Other short-term financial assets	-	(1 270)	-	-	-	(1 270)
Deliveries and services receivables	11	1 575	1	-	197	1 784
Other receivables	269	-	-	-	-	269
Derivative instrument	-	(873)	-	667	-	(206)
Financial liabilities						
Credit and loan liabilities (long- and short-term ones)	(2 260)	850	-	-	(958)	(2 368)
Deliveries and services liabilities	(62)	(79)	-	-	-	(141)
Other financial liabilities (without instruments)	(152)	(2)	-	-	(4)	(158)
Derivative instruments	-	-	-	(1 208)	-	(1 208)
Other liabilities	(2 101)	(1 571)	(10 933)	-	(8 620)	(23 225)
Total	(1 172)	(2 967)	(10 932)	(541)	(9 347)	(24 959)

(in thousand PLN)

12 months period ended 31 December 2018

	Revenues /(costs) due to interests (including effect of valuation with depreciated cost)	*Profits / (losses) due to exchange rate differences*	*Redemption / (creation) of impairment write-downs*	*Profits/(losses) due to derivative instruments*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	3 446	1 812	-	-	-	5 258
Other short-term financial assets	-	-	-	-	-	-
Deliveries and services receivables	21	(5)	-	-	313	329
Other receivables	407	-	-	-	-	407
Derivative instrument	-	(1 830)	-	2 300	-	470
Financial liabilities						
Credit and loan liabilities (long- and short-term ones)	(13 021)	(5 297)	-	-	(577)	(18 895)
Deliveries and services liabilities	(112)	(36)	-	-	-	(148)
Other financial liabilities (without instruments)	(138)	-	-	-	-	(138)
Derivative instruments	-	-	-	(2 854)	-	(2 854)
Other liabilities	(97)	(6)	-	-	(14 005)	(14 108)
Total	(9 494)	(5 362)	-	(554)	(14 269)	(29 679)

(in thousand PLN)

38.3. Interest rate risk of financial instruments

The below table presents the the Group's exposure to interest rate risk and concentration of this risk divided into currencies and kind of interest rate.

	Type of interest	*Carrying amount as of 31 December 2019*	*Carrying amount as of 31 December 2018*
Financial assets at interest rate risk – PLN	Fixed	-	-
	Variable	416 440	192 891
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	885	134 310
Financial liabilities at interest rate risk - PLN	Fixed	-	-
	Variable	76 541	312 179
Financial liabilities at interest rate risk – Other currencies	Fixed	-	53 756
	Variable	-	54 444
Net exposure -PLN	Fixed	-	-
	Variable	339 899	(119 288)
Net exposure - other currencies	Fixed	-	(53 756)
	Variable	885	79 866

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.

38.3.1. Hedging

As at 31 December 2019 the Group secured interest rate risk related to the incurred corporate credit denominated in EUR of variable interest rate based on the EURIBOR 3M benchmark interest rate using derivative transactions. The instrument securing exposure to interest risk rate was the Interest Rate Swap transaction, within which the Group exchanged stream of cash interest payments based on the variable EURIBOR 3M rate for payments of fixed interest rate at 3.1050%. The Groups indicated designated derivative instruments as protecting instruments in the model of cash flow security, and included them in accordance with protections accounting rules.

As at December 31, 2019, there was no interest rate swap derivative in the Group due to its complete settlement together with the early repayment of the syndicated loan of Pątnów II Power Plant on April 23, 2019.

Due to the lack of an IRS derivative as at December 31, 2019, the table below presents the basic parameters of derivative transactions designated as hedging instruments, including the periods in which cash flows from cash flow hedges will occur and in which they will affect the result financial value, as well as their fair value in Polish zlotys for comparative data as at December 31, 2018.

Instrument type	*Nominal value in the transaction currency [euro]* 31 December 2018*	*Fair value in zloty 31 December 2018*	*Expected duration of hedged item's realisation 31 December 2018*
IRS transaction	12 501	(921)	in quarterly periods, in January, April, July, and October each year, until the date of maturity of IRS, i.e. July 2019

** the nominal values depreciated in accordance with the credit repayment schedule*

The change in the fair value of cash flow securities transferred onto the equity is presented below:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Opening balance	(569)	(3 307)
Effective part of profits / losses on a security instrument	951	4 413
Amounts charged to the income statement, including:	382	1 675
adjustment of costs of interest	382	1 675
adjustment under ineffective hedging	-	-
Closing balance	-	(569)
Deferred tax assets – recognized in the revaluation reserve	-	108
Closing balance including deferred tax	-	(461)

As at December 31, 2019, two Group companies used instruments to mitigate the risk arising from changes in exchange rates. ZE PAK SA and Elektrownia Pątnów II sp.z o.o. they secured the euro exchange rate for some flows related to the purchase of CO2 emission allowances. ZE PAK SA used forward transactions with settlement in March and April 2020 to hedge the exchange rate. Pątnów II Power Plant sp.z o.o. to hedge the exchange rate, it used forward transactions with settlement in March and April 2020.

Type of concluded transactions	*Currency cross*	*Transaction amount (nominal value in euro thousand) 31 December 2019 (unaudited)*	*Net market value (fair value in zloty thousand) 31 December 2019 (unaudited)*	*Maturity*
Purchase of EUR transaction (forward)	(EUR/PLN)	25 597	110 409	March 2020
Purchase of EUR transaction (forward)	(EUR/PLN)	47 777	205 435	April 2020

The Group also 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 December 31, 2019 and December 31, 2018.

31 December 2019

Type of concluded transactions	*Number of purchased allowances (unaudited)*	*Total value of transactions in EUR thousand (unaudited)*	*Currency of transactions*	*Maturity*
Forward transaction	5 849 000	123 036	EUR	Up to 1 year
Forward transaction	4 441 000	114 750	EUR	Over 1 year

31 December 2018

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions in EUR thousand*	*Currency of transactions*	*Maturity*
Forward transaction	6 433 000	16 923	EUR	Up to 1 year
Forward transaction	4 647 000	96 382	EUR	Over 1 year

(in thousand PLN)

39. 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. In year, ended 31 December 2019 and 31 December 2018, there were no introduced amendments to goals, rules and processes applying in this area.

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

	31 December 2019	*31 December 2018*
Interest-bearing credits and loans	76 540	420 379
Derivative financial instruments (liabilities)	1 757	921
Trade liabilities and other financial liabilities	117 765	166 358
Minus cash and its equivalents	414 634	304 658
Net debt	**(218 572)**	**283 000**
Equity	1 176 468	1 687 147
Capitals from revaluation of security instruments	-	(460)
Total capital	1 176 468	1 686 687
Net capital and debt	**957 896**	**1 969 687**
Leverage ratio	(22,82%)	14,37%

40. Employment structure

The average employment in the Group for the years ended 31 December 2019 and 31 December 2018 was developing as follows:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Management Board of the parent company	4	5
Management Boards of the Group's entities	7	9
Administration	243	269
Sales department	114	136
Production division	4 082	4 460
Other	394	330
Total	4 844	5 209

41. Significant events after the balance sheet date

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

In the first quarter of 2020, cases of COVID-19 disease caused by the active virus previously in Asia intensified in Poland and other European countries. This resulted in a whole range of social and economic consequences. The most important factors that directly affected the companies of the Group include the increased number of employees on holidays, sick leaves and those working remotely. Employee protection is a priority for the Group' companies. Activities undertaken in the Group include, among others, temporary reduction of trips and business meetings, increasing the availability and scope of use of cleaning agents, disinfectants and protective agents, introduction of appropriate work procedures (e.g. shift work), as well as careful monitoring of employees' travel directions (including their families / other household members) for countries at higher risk. The key activities also include adapting the applicable procedures to the requirements of the Act of March 2, 2020 on specific solutions related to the prevention, prevention and eradication of COVID-19, other infectious diseases and the crisis situations caused by them. However, a much greater impact on the Group's operations may have indirect consequences, which are likely to affect the economic situation in Poland and the world. The scale of the reduction in the dynamics of economic growth will certainly affect the demand for electricity in a period when many companies have reduced their scale of activity or completely ceased it. In the period from the beginning of the year to the date of publication of this report, production in the Company's power plants fell by approximately 4% compared to the same period of the previous year, which is not a significant reduction yet, however the next months will be significant. The current situation on financial and commodity markets is also of considerable importance. The increased level of volatility recorded on them means that price relations on individual markets are changing very dynamically (including the electricity market and CO2 emission allowances). The companies apply a strategy of simultaneously hedging electricity prices and purchase prices of emission allowances for future periods, however, dynamic changes in prices of both instruments may affect liquidity and future financial results. Efforts are being made to replace, as far as possible, collateral securing current positions on the energy market and emission allowances with bank guarantees in order to minimize their impact on liquidity. An additional factor that accelerated the increase in volatility in the first quarter of 2020 was the situation on the main commodity market, i.e. the crude oil market. Changes in prices on the main commodity market have an indirect impact on other goods related to the broadly understood energy sector, e.g. gas, electricity prices and, indirectly, CO2 emission allowances. The Group is not able to accurately estimate the impact of increased volatility on the energy commodity markets, however, the risk associated with increased volatility should be taken into account in the process of predicting the future potential financial results of the Group and its financial condition.

The Management Board considers the situation described above to be an event without adjustments to the financial statements for 2019, but to be an event after the balance sheet date requiring additional disclosures. Until now, the Management Board has not recorded a noticeably significant impact of the situation on sales or the supply chain. However, the situation in Poland and in the world is constantly changing, so it is impossible to predict the potential effects if the economic situation worsened. The Management Board will continue to monitor the potential impact and will take all possible steps to mitigate any negative effects on the Group. Any impact, if necessary, will be included in the 2020 results.

Conclusion of a contract for the reconstruction of the boiler at Konin power plant

On March 27, 2020, an agreement was concluded with Valmet Technologies, regarding the "turnkey" implementation of a contract for the design and conversion of a K-7 boiler into a fluidized bed boiler operating in BFB technology. The subject of the Agreement is the adaptation of the existing K-7 coal boiler, located at Konin power plant, to a BFB type fluidized bed boiler with stationary, bubble fluid bed, using biomass. The modernized 50 MWe installation will produce electricity and act as a backup for the currently operating biomass block supplying the city of Konin with heat. After the modernization of K-7 boiler, a power generation of approx. 100MWe (2x50MWe) using biomass as the basic fuel will be available at Konin power plant.

Pursuant to the concluded Agreement, the General Contractor's remuneration for performing the subject of the Agreement was set at the net amount of PLN 89.8 million, and the implementation period was set at 18 months from the date of conclusion of the Agreement.

Reconstruction of K-7 boiler is the main element of the entire project consisting in the adaptation of the installation previously used for the production of electricity from lignite for biomass combustion. The total estimated cost of the project is approximately PLN 180 million.

Conclusion of an agreement for opening a guarantee line with Bank Pekao SA

On March 31, 2020, ZE PAK SA signed an agreement to open a guarantee line at Bank Pekao SA for the amount of PLN 50 million. The line allows for issuing bank guarantees in domestic and foreign trade securing proper performance of the contract / payment of the price, including securing transactions concluded on the Polish Power Exchange. The accepted collateral does not differ from the standard for this type of contract.

Konin, 3 April 2020

SIGNATURES:

Henryk Sobierajski
President of the Management Board ....

Zygmunt Artwik
Vice President of the Management Board ....

Paweł Markowski
Wiceprezes Zarządu ....

Paweł Lisowski
Vice President of the Management Board ....

Maciej Nietopiel
Vice President of the Management Board ....

Aneta Desecka
Chief Accountant ....