ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN SA

FINANCIAL STATEMENTS
FOR THE PERIOD OF 12 MONTHS ENDED 31 DECEMBER 2019
WITH THE AUDIT REPORT

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

TABLE OF CONTENTS

(in thousand PLN)

BALANCE SHEET

Assets

	Note	As of 31 December 2019	As of 31 December 2018
A. Fixed assets		**1 519 635**	**1 745 389**
I. Intangible assets	6	**2 195**	**45 055**
1. Development expenses		-	-
2. Goodwill		-	-
3. Other intangible assets		2 195	45 055
4. Prepayments for intangible assets		-	-
II. Tangible fixed assets	7	**455 901**	**614 649**
1. Tangible assets		436 863	566 398
a) land (including perpetual usufruct)		10 114	1 281
b) buildings, premises and constructions		128 846	171 029
c) plant and machinery		296 537	392 116
d) motor vehicles		492	848
e) other		874	1 124
2. Construction in progress		17 478	48 251
3. Prepayments for construction in progress		1 560	-
III. Long-term receivables		-	-
1. from affiliates		-	-
2. from others, of which entity has capital engagement		-	-
3. from others		-	-
IV. Long-term investment	8.1	**1 054 533**	**1 077 881**
1. Property		-	-
2. Intangible fixed assets		-	-
3. Long-term financial assets		1 054 533	1 077 881
a) in affiliates		1 054 381	1 077 729
– shares		1 049 381	1 049 381
– other securities		-	-
– loans granted		-	23 348
– other long-term financial assets		5 000	5 000
b) in other entities of which entity has capital engagement		-	-
– shares		-	-
– other securities		-	-
– loans granted		-	-
– other long-term financial assets		-	-
c) in other entities		152	152
– shares		152	152
– other securities		-	-
– loans granted		-	-
– other long-term financial assets		-	-
4. Other long-term investments		-	-
V. Long-term prepayments and deferred costs	10	**7 006**	**7 804**
1. Deferred tax assets		-	-
2. Other prepayments and deferred costs		7 006	7 804
B. Current assets		**472 399**	**406 608**
I. Inventories	25	**77 524**	**56 084**
1. Raw materials		52 628	35 094
2. Semi-finished goods and work-in-progress		-	-
3. Finished products		-	-

(in thousand PLN)

4. Goods		24 893	20 989
5. Inventory prepayments		3	1
II. Short-term receivables	*9*	**180 680**	**175 393**
1. Receivables from affiliates	*42.2*	115 897	65 833
a) trade receivables, due in:		112 472	53 986
– up to 12 months		112 472	53 986
– over 12 months		-	-
b) other		3 425	11 847
2. Receivables from other entities of which entity has capital engagement		-	-
a) trade receivables, due in:		-	-
– up to 12 months		-	-
– over 12 months		-	-
b) other		-	-
3. Receivables from other entities		64 783	109 560
a) trade receivables, due in:		36 541	44 210
– up to 12 months		36 541	44 210
– over 12 months		-	-
b) taxation, subsidy, customs duty, social security, health insurance and other debtors		7 529	6 189
c) other		20 713	59 161
d) submitted to court		-	-
III. Short-term investments	*8.2*	**213 818**	**174 807**
1. Short-term financial assets		213 818	174 807
a) in affiliates		2 000	25 438
– shares		-	-
– other securities		-	-
– loans granted		-	23 438
– other short-term financial assets		2 000	2 000
b) in other entities		-	19
– shares		-	-
– other securities		-	-
– loans granted		-	-
– other short-term financial assets		-	19
c) cash and other monetary assets	*35*	211 818	149 350
– cash on hand and cash at bank		211 818	149 350
– other cash and cash equivalents		-	-
– other monetary assets		-	-
2. Other short-term investments		-	-
IV. Short-term prepayments and deferred costs	*10*	**377**	**324**
C. Unpaid share capital (basic)		**-**	**-**
D. Own shares		**-**	**-**
Total assets		**1 992 034**	**2 151 997**

Konin, 3 April 2020

(in thousand PLN)

Liabilities and equity

		Note	*As of 31 December 2019*	*As of 31 December 2018*
A. Equity			**1 292 048**	**1 338 387**
I.	**Equity capital**	11	**101 647**	**101 647**
II.	**Reserve capital, including:**		**1 124 377**	**1 124 377**
	– surplus of sales value (issue value) over nominal value of shares		380 030	380 030
III.	**Revaluation reserve, including:**		**227 466**	**227 466**
	– for fair value revaluation		-	-
IV.	**Other reserves, including:**		**3 472**	**3 472**
	– created in accordance with the company's articles of association		-	-
	– for own shares		-	-
V.	**Profits (losses) from previous years**		**(118 575)**	**(54 059)**
VI.	**Net profit (loss) for the period**		**(46 339)**	**(64 516)**
VII.	**Deductions from net profit during the period (negative value)**		-	-
B. Liabilities and provisions for liabilities			**699 986**	**813 610**
I.	**Provisions for liabilities**	14	**593 521**	**505 037**
	1. Deferred tax liability	27	112 842	37 523
	2. Provision for retirement benefits and similar obligations		25 771	19 855
	– long-term		11 155	7 905
	– short-term		14 616	11 950
	3. Other provisions		454 908	447 659
	– long-term		82 111	111 471
	– short-term		372 797	336 188
II.	**Long-term liabilities**	16	**2 291**	**61 392**
	1. To affiliates		-	-
	2. To other entities of which entity has capital engagement		-	-
	3. To other entities		2 291	61 392
	a) loans and credits	12	-	58 900
	b) debt securities issued		-	-
	c) other financial liabilities	12	291	492
	d) bills of exchange		-	-
	e) other		2 000	2 000
III.	**Short-term liabilities**	*17*	**102 825**	**245 412**
	1. To affiliates	42.2	20 212	11 428
	a) trade liabilities:		14 222	10 743
	– up to 12 months		14 222	10 743
	– over 12 months		-	-
	b) other		5 990	685
	2. To other entities of which entity has capital engagement		-	-
	a) trade liabilities:		-	-
	– up to 12 months		-	-
	– over 12 months		-	-
	b) other		-	-
	3. To other entities		78 092	229 850
	a) loans and credits	12	-	148 773
	b) debt securities issued		-	-
	c) other financial liabilities	12	1 694	364
	d) trade liabilities:		27 203	35 113
	– up to 12 months		27 203	35 113
	– over 12 months		-	-
	e) advance payments received		-	-

	f) bills of exchange		-	-
	g) taxation, customs duty and social security creditors		41 377	38 141
	h) payroll		3 905	3 299
	i) other		3 913	4 160
	4. Special funds		4 521	4 134
IV.	**Accruals and deferred income**	18	**1 349**	**1 769**
	1. Negative goodwill		-	-
	2. Other accruals and deferred income		1 349	1 769
	– long-term		363	410
	– short-term		986	1 359
Total Liabilities and equity			**1 992 034**	**2 151 997**

Konin, 3 April 2020

(in thousand PLN)

PROFIT AND LOSS ACCOUNT (calculation type)

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
A. Net sales of finished goods, goods for resale and raw materials, of which:	22	**1 429 854**	**1 220 800**
– from affiliates	42.2	327 649	380 172
I. Net sales of finished products		1 198 948	988 830
II. Net sales of goods for resale and raw materials		230 906	231 970
B. Cost of finished products, goods for resale and raw materials sold, of which:		**1 292 902**	**1 269 021**
– to affiliates		328 423	515 820
I. Cost of finished products sold	28	1 102 335	1 063 870
II. Cost of goods for resale and raw materials sold		190 567	205 151
C. Gross profit (loss) on sales (A–B)		**136 952**	**(48 221)**
D. Selling expenses	28	1 565	1 846
E. Administrative expenses	28	47 887	50 112
F. Profit (loss) on sales (C–D–E)		**87 500**	**(100 179)**
G. Other operating income	29	3 604	3 102
I. Gains on the sale of non-financial fixed assets		1 088	63
II. Grants		46	46
III. Revaluation of non-financial assets		-	-
IV. Other operating income		2 470	2 993
H. Other operating expenses	30	132 689	47 568
I. Loss on the sale of non-financial fixed assets		-	-
II. Impairment of non-financial assets		128 487	15 296
III. Other		4 202	32 272
I. Operating profit (loss) (F+G–H)		**(41 585)**	**(144 645)**
J. Financial income	31	81 963	132 976
I. Dividends and shares in profits, including:		78 868	127 774
a) from affiliates, including:		78 830	127 692
– of which the entity has capital engagement		78 830	127 692
b) from others, including:		38	82
– of which the entity has capital engagement		-	-
II. Interest, including:		1 402	2 569
– from affiliates		340	428
III. Profit on the disposal of financial assets, including:		-	-
– affiliates		-	-
IV Revaluation of investments		-	2 146
V. Other		1 693	487
K Financial costs	32	13 151	94 523
I. Interest, including:		9 684	11 738
– to affiliates		-	-
II. Loss on the disposal of financial assets, including:		-	-
– in affiliates		-	-
III. Impairment of investments		1 571	79 359
IV. Other		1 896	3 426
L. Gross profit (loss) (I+J–K)		**27 227**	**(106 192)**
M. Corporate profits tax	27	73 566	(41 676)
N. Other tax charges		-	-
O. Net profit (loss) (L–M–N)		**(46 339)**	**(64 516)**

Konin, 3 April 2020

(in thousand PLN)

STATEMENT OF CASH FLOW (indirect method)

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
A. Cash flow from operating activities			
I. Net profit (loss)		(46 339)	(64 516)
II. Adjustments, total		188 927	190 848
1. Depreciation	28	38 593	38 801
2. Foreign exchange gains (losses)		(1 265)	(1 340)
3. Interest and shares in profits (dividends)		(71 297)	(116 495)
4. Profit (loss) on investing activities	36	123 645	(888)
5. Change in provisions	36	423 198	323 062
6. Change in inventories		(5 604)	(14 467)
7. Change in receivables	36	(15 287)	(26 949)
8. Change in short-term liabilities, except for loans and borrowings	36	(832)	(27 298)
9. Change in prepayments, accruals and deferred income		711	1 279
10. Other adjustments	36	(302 935)	15 143
III. Net cash flow from operating activities (I±II)		**142 588**	**126 332**
B. Cash flow from investing activities			
I. Inflows		150 588	118 281
1. Sale of intangible assets and tangible fixed assets		13 324	66
2. Sale of investments in property and intangible assets		-	-
3. From financial assets, including:	36	137 264	118 215
a) in affiliates		137 226	118 133
b) in others		38	82
– disposal of financial assets		-	-
– dividends and share in profits		38	82
– repayment of long-term loans granted		-	-
– interests		-	-
– other inflows from financial assets		-	-
4. Other investing inflows		-	-
II. Outflows		14 964	22 875
1. Purchase of intangible assets and tangible fixed assets		14 964	22 687
2. Investments in property and intangible assets		-	-
3. For financial assets, including:		-	188
a) in affiliates		-	188
b) in others		-	-
– purchase of financial assets		-	-
– long-term loans granted		-	-
4. Other investing outflows		-	-
III. Net cash flow from investing activities (I-II)		**135 624**	**95 406**
C. Cash flow from financing activities			
I. Inflows		-	-
1. Net inflows from issue of shares, issue of other capital instruments and additional payments to capital		-	-
2. Loans and credits		-	-
3. Issue of debt securities		-	-
4. Other financial inflows		-	-
II. Outflows		215 739	244 939
1. Reacquisition of own shares		-	-
2. Dividends and other payments to shareholders		-	85 960
3. Outflows due to appropriation of profit other than payments to shareholders		-	-
4. Repayment of loans and credits		209 717	148 544
5. Redemption of debt securities		-	-
6. Relating to other financial liabilities		-	-
7. Finance lease payments		155	191
8. Interest paid		5 867	10 244
9. Other financial outflows		-	-
III. Net cash flow from financial activities (I-II)		**(215 739)**	**(244 939)**
D. Total net cash flow (A.III±B.III±C.III)		**62 473**	**(23 201)**

(in thousand PLN)

E. Balance sheet change in cash and cash equivalents,, including:		62 468	(23 195)
– change in cash and cash equivalents due to foreign exchange gains/losses		(5)	5
F. Cash and cash equivalents at the beginning of the period	35	**149 345**	**172 546**
G. Cash and cash equivalents at the end of the period (F±D), including	35	**211 818**	**149 345**
– of restricted use		8 137	2 833

Konin, 3 April 2020

(in thousand PLN)

STATEMENT OF CHANGES IN EQUITY

	Note	*Year ended 31 December 2019*	*Year ended 31 December 2018*
I. Equity at the beginning of the period (OB)		**1 338 387**	**1 438 816**
– changes in accounting policy		-	-
– correction of prior period error		-	-
I.a. Equity at the beginning of the period (OB), after adjustments		**1 338 387**	**1 438 816**
1. Share capital at the beginning of the period		101 647	101 647
1.1. Changes in share capital		-	-
a) increases		-	-
b) decreases		-	-
1.2. Share capital at the end of the period	*11*	**101 647**	**101 647**
2. Reserve capital at the beginning of the period		1 124 377	1 094 697
2.1. Changes in reserve capital		-	29 680
a) increases		-	29 680
– issue of shares		-	-
– profit distribution		-	29 649
– disposal of fixed assets		-	31
– acquisition of the company		-	-
b) decreases		-	-
– redemption of shares		-	-
– cover of loss		-	-
2.2. Reserve capital at the end of the period		**1 124 377**	**1 124 377**
3. Capital from revaluation at the beginning of the period – changes of accountancy policies		227 466	227 497
3.1. Changes of capital from revaluation		-	(31)
a) increases		-	-
b) decreases		-	31
– disposal of fixed assets		-	31
3.2. Capital from revaluation at the end of the period		**227 466**	**227 466**
4. Other reserves at the beginning of the period		3 472	3 472
4.1. Changes in other reserves		-	-
a) increases		-	-
b) decreases		-	-
– cover of loss		-	-
4.2. Other reserves at the end of the period		**3 472**	**3 472**
5. Profit (loss) from previous years at the beginning of the period		(118 575)	61 550
5.1. Profit from previous years at the beginning of the period		-	115 609
– changes of accountancy rules		-	-
– error adjustments		-	-
5.2. Profit from previous years at the beginning of the period, after adjustments		-	115 609
a) increases		-	-
– distribution of profits from previous years		-	-
b) decreases		-	115 609
– distribution of profit for reserve capital	*13.1*	-	29 649
– dividend payment	*13.1*	-	85 960
5.3. Profit from previous years at the end of the period		-	-
5.4. Loss from previous years at the beginning of the period		(118 575)	(54 059)
– changes of accountancy rules		-	-
– error adjustments		-	-
5.5. Loss from previous years at the beginning of the period, after adjustments		(118 575)	(54 059)
a) increases		-	-
– transfer of loss from previous years to cover		-	-
b) decreases		-	-
– cover of loss from reserve capital		-	-
5.6. Loss from previous years at the end of the period		(118 575)	(54 059)
5.7. Profit (loss) from previous years at the end of the period		**(118 575)**	**(54 059)**
6. Net result		**(46 339)**	**(64 516)**

(in thousand PLN)

a) net profit	-	-
b) net loss	(46 339)	(64 516)
c) result impairments	-	-
II. Equity at the end of the period (CB)	**1 292 048**	**1 338 387**
III. Equity after proposed result distribution (cover of loss)	**1 292 048**	**1 338 387**

Konin, 3 April 2020

INTRODUCTION TO THE FINANCIAL STATEMENT

1. General information about the Company

Zespół Elektrowni Pątnów-Adamów-Konin Spółka Akcyjna ("ZE PAK SA", "the Company") was established by the Notarial Deed of 29 December 1994. The Company's registered office is in Konin at Kazimierska 45.

The company is entered in the National Court Register maintained by the District Court Poznań - Nowe Miasto and Wilda in Poznań, 9th Commercial Division of the National Court Register, under KRS number 0000021374 issued on June 21, 2001.

The Company has been operating under the NIP number: 665-00-01-645 assigned on 17 September 1993, and the REGON symbol: 310186795.

The Company has been established for an indefinite period.

The Company is the parent company of the Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin.

According to articles of association, the subject of the Company’s activities is:

1) production and distribution of electricity (PKD 35.11.Z),
2) production and distribution of heat (steam and hot water) (PKD 35.30.Z).

2. Composition of the Management Board

Financial year 2019 The Management Board of the Company began 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 at the date of publication of this report, the composition of the Company's Management Board is as follows:

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.

3. Determination and clarification of differences in the disclosed data and significant differences regarding the adopted accounting principles (policy) between the statement and the comparable data as well as the statement and the comparable data developed according to the IAS

The Company is the parent company of the Capital Group, which is obliged to develop a consolidated financial statement in accordance with IFRS standards approved by the EU ("IFRS"). The Company did not prepare and does not prepare an individual financial statement in accordance with IFRS.

The main potential differences between the IFRS and the AoA, according to the state obligatory as at 31 December 2019, developed with the assumption of using the IFRS based on the IFRS 1 guidelines and adoption of the financial data resulting from the consolidated financial statement of the ZE PAK SA Group are presented below. The date of transition of the ZE PAK SA Group to the IFRS is 1 January 2009.

If the financial statement was developed in accordance with the IFRS, the main differences between the accounting principles adopted for the enclosed statement and the IFRS, with the assumption that the date of transition to the IFRS is 1 January 2009:

Tangible fixed assets

a) Valuation of the tangible fixed assets

According to the IFRS 1, as of the date of the first application of the IFRS, the body can make a fair value quotation of the fixed assets and recognise their fair value as the assumed cost at this date. The Company established the assumed cost of the selected tangible fixed assets by assignment of the fair value of these assets as of 1 January 2009, i.e. the assumed date of transition to the application of the IFRS.

b) Allotment of renovation components

The International Financial Reporting Standards project the allotment within the scope of fixed assets of components, provided that their use period differs from the use period of a given fixed asset. The components are depreciated during their usability period. According to the IFRS, the specific component consists of renovations and periodical inspections. In relation to the above, the Company has allotted components of values planned to be transferred to the renovation costs, as well as depreciation of the components in the period until the projected commencement of the next renovation. The recognition of this adjustment also resulted in the need to charge the deferred tax.

c) Valuation of land and perpetual usufruct

According to the AoA, the perpetual usufruct of land is subject to depreciation, and the depreciation write-downs are recognised in the income statement in the prime cost item.

Pursuant to IFRS 16, rights to perpetual usufruct of land are classified by the Company as an asset under the right to use and on the other hand as a lease liability, which reflects its obligation to make lease payments. The asset due to the right to use is subject to depreciation.

d) Capitalisation of external financing costs

According to the AoA, the Company recognised in the capital work in progress all the costs of servicing liabilities incurred in order to finance them along with the exchange rate differences that took place.

For the purpose of the IFRS, the Company would make an adjustment of the capitalised exchange rate differences on the liabilities incurred in foreign currencies, consisting in the adaptation of the value of these exchange rate differences to the value, in which they comprise the adjustment of the interest costs.

Furthermore, the Company would execute the capitalisation of external financing costs on the liabilities of general nature, used for the financing of capital work in progress.

(in thousand PLN)

Due to the above fact, in the financial statement developed according to the IFRS, the Company would capitalise the external financing costs in the value not higher than the financing costs, which would occur if the liabilities were incurred in the functional currency, i.e. PLN.

e) Spare parts

Inventories recognized as parts for strategic repairs and breakdowns of machinery and equipment are recognized in property, plant and equipment. The main criteria for recognition materials in position on tangible fixed assets are:

- a key element to maintain the 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.

The areas of differences between the AoA and the IFRS described below were identified during the process of development of the Group's consolidated financial statement according to the IFRS and do not include the potential adjustments of the IFRS in relation to transactions with affiliated entities, which were eliminated in the scope of the Group's financial statement.

The International Accounting Standards Board (IASB) introduced many changes into the current accounting principles and issued new standards. New standards and changes to the current standards are still in the works. Furthermore, these standards are subject to the approval process by the EU. In relation to the above, it is possible that the standards, according to which the Company will develop its first financial statement compliant with the IFRS, which can include data from the past years, will differ from the standards used for the development of the below explanatory note describing the differences between the IFRS and the Polish accounting standards.

Furthermore, only a complete financial statement embracing the statement on the financial position, total income statement, statement of changes in the equity, as well as the cash flow statement, and the comparative data and explanatory notes can present the full and reliable view of the Company's financial position, the results of its activities and cash flows in accordance with the IFRS.

The presentation of some of the items in the financial statements according to the Polish accounting standards and the IFRS can differ. The differences in the presentation will not affect the equity and the Company's net result.

The components of particular items in the financial statement, as well as the scope of additional information to the financial statement compliant with the Polish accounting standards and the IFRS can differ substantially.

The following table presents the differences as of 31 December 2019:

	Balance sheet value Acc. To AoA	*Balance sheet value Acc. To IFRS*	*Value adjustment*
Tangible fixed assets	455 901	426 483	29 418
Equity	1 292 048	1 171 621	(120 427)
Deferred tax provision	112 842	173 319	60 477

The following table presents the differences as of 31 December 2018:

	Balance sheet value Acc. To AoA	*Balance sheet value Acc. To IFRS*	*Value adjustment*
Tangible fixed assets	614 649	628 156	13 507
Equity	1 338 387	1 280 694	(57 693)
Deferred tax provision	37 523	98 557	61 034

Description of the effects of disclosed differences in net profit and equity:

	31 December 2019	*31 December 2018*
AoA net profit	(46 339)	(64 516)
Adjustment of the tangible fixed assets	(25 589)	767
IAS 19 adjustment – actuarial profit (loss)	2 747	393
IFRS 9 adjustment – Impairment loss of assets	2 120	1 713
IFRS 16 adjustments – Leasing	(1 552)	
Correction of spare parts	(2 727)	

(in thousand PLN)

	31 December 2019	*31 December 2018*
AoA capital	1 292 048	1 338 387
Adjustment of the tangible fixed assets	(81 119)	(55 531)
IAS 9 adjustment – Impairment of assets	(41)	(2 162)
IFRS 16 adjustment – Impairment loss of assets	(36 540)	
Correction of spare parts	(2 727)	

4. Assumption of continuation of economic activity

The financial statements of ZE PAK SA were prepared assuming that the Company would 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 company closed 2019 with a net loss of PLN 46,339 thousand. The amount of net loss was significantly affected by the result of tests for impairment of property, plant and equipment in the amount of PLN 109 00 0 thousand. In addition, in connection with the obsolescence of project documentation and the loss of validity of the environmental decision and a building permit, on the gas project in Konin power plant decision was taken to write down the position of assets under construction in the amount of 16 001 thousand. The EBITDA result at the end of 2019 amounted to PLN 122,009 thousand, which means a significant improvement compared to the EBITDA result for 2018 at the level of minus PLN 105,844 thousand.
2) As at December 31st 2019 current liabilities exceed current assets of the Company by an amount of 18 737 thousand, which represents an improvement compared to the end of 2018 the year when the difference was 146 065 thousand.

The improvement in the scope of the EBITDA result described above, 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 Company's future functioning, including the assessment of the 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 the ever-fiercer generally understood climate policy, decreasing the volume of business relationships and fluctuations in electricity prices to the prices of emission allowances of CO_2. 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 dependence of the Company and other companies in the Group on high-emission technologies. However, increasing operating costs, significant fluctuations in the level of CO_2 emission allowances, 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 Company's operations and the valuation of its assets remains the balance of planned electricity production with the supply of coal 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 operating period of deposit Pątnów IV ends on August 31, 2020 year and deposits in Drzewce ends on 4 December 2020 year. Hopes in this aspect are raised recently by successful efforts to extend the exploitation of Adamów deposit. Another unknown remains the final of 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 resolving 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 preparing 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 impossible to obtain coal from the currently used deposits or the new Ościsłowo open pit, the life span of coal blocks at Pątnów power plant belonging to the Company and Pątnów II power plant will be shortened.

Consequently, the Management Board draws attention to the existence of significant uncertainty that may raise serious doubts as to the Company's ability to continue as a going concern.

It should also be emphasized that the current market situation is also of concern due to uncertainty about the scale of the social and economic consequences of 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 the 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 Board wishes to emphasize that it continues in the Company and other companies of the Group's strategy of simultaneously securing the price of energy sold and purchased rights to emissions of CO_2. Operations at the operational level aimed at improving the operating efficiency of the Company and other Group companies are also continuing.

An important task focusing the Company's attention is to improve liquidity in the short term. The Board made a detailed analysis of forecasts cash flow and confirms that the cash flow analysis indicates the ability to generate sufficient positive cash flow in at least the next 12 months from the date of these financial statements. This analysis assumes renewal of existing credit limits regarding the financing of the Company's current operations 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 termination of calls failure 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.

5. Merger of commercial companies

In the financial year for which the financial statements were prepared, the Company did not merge with any other business entity, nor did it acquire an organized part of the enterprise.

6. Accepted principles (policy) of accounting

The company operates based on the following legal acts:

1. The Accounting Act of September 29, 1994 (unified text Journal of Laws of 2019, item 351, as amended) - hereinafter referred to as "AoA", "Act"),
2. The Act of 15 February 1992 on Corporate Income Tax (Journal of Laws of 2018, item 2343, as amended),
3. Ordinance of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and the conditions for obtaining information required by the law of a non-member state as equivalent (consolidated text Journal of Laws of 2014, item 133, as amended)
4. Act of 29 July 2005 on public offer and conditions for introducing financial instruments to organized trading system and on public companies (consolidated text, Journal of Laws of 2016, item 1639), as amended.

The company introduced the following regulations for use in the field of valuation of assets and liabilities:

1. Regulation No. 35/2003 of the President of the Management Board of ZE PAK SA in Konin of July 1, 2003 regarding the economy tangible fixed assets,
2. Regulation No. 34/2003 of the President of the Management Board of ZE PAK SA in Konin of 1 July 2003 regarding the Company Account Plan for ZE PAK SA.

The financial statements were prepared in accordance with the historical cost convention, which was modified in the case of the following issues:

- Intangible assets,
- Tangible assets,
- investments in subsidiary entities and other long-term investments,
- other short-term investments (excluding cash and financial assets),
- financial instruments

The Company uses the following methods for the valuation of assets and liabilities and the measurement of the financial result:

Tangible fixed assets

The initial value of fixed assets is recognized in the accounting books according to the purchase prices or costs incurred for their creation, expansion, or modernization. After the initial recognition, the value of the fixed assets is reduced by redemption and write-downs resulting from permanent loss in value.

When keeping accounts for auxiliary (analytical) accounts of tangible fixed assets in accordance with Art. 17 sec. 1 point 1 of the Act, the principles resulting from Regulation No. 35/2003 of the President of the Management Board - General Director of ZE PAK SA of July 1, 2003 regarding economy of tangible fixed assets in ZE PAK SA are applied, and so:

- For fixed assets of a value up to 3,500, depreciation writes-downs made once in the month of putting into service was established; in accordance with article 16f p. 3 of the Act on corporate income tax. Fixed assets of a value of over PLN 3,500 purchased before 1 January 1997, are depreciated with the straight line method, while fixed assets purchased after 1 January 1997, in accordance with the decision of the Board of the ZE PAK S.A., are depreciated with the declining balance method. The declining balance method applied until the end of 1999. Since 1 January 2000, all newly purchased fixed assets have been depreciated with the straight line method.
- Re-estimation takes place on the basis of separate provisions. The re-estimation result is transferred onto the capital from revaluation. After the sale or liquidation of the fixed asset, the amount remaining in the capital from the revaluation is transferred onto the supplementary capital. The last re-estimation took place on 1 January 1995.
- Since 1 January 2000, for tax purposes, for all newly purchased fixed assets, depreciation rates set forth in the annex to the act of 15 February 1992 on corporate income tax as amended have been adopted. In relation to the fixed assets purchased and entered in the records before 1 January 2000, the rates arising from the resolution of the Minister of Finance of 17 January 1997 on the depreciation of fixed assets and intangible assets are applied.
- The necessity of calculated depreciation adjustment in case of the items' price is higher than PLN 3,500 and the planned period of use is shorter than one year was taken into account. In practice, they will be used longer than 1 year.
- Computers and computer sets are depreciated with the straight line method with the ability of application of the increasing ratio, in accordance with article 16i point 3 of the act on corporate income tax act.
- Since January 2001, the rules of balance sheet depreciation of the fixed assets that were subject to evaluation during the privatisation of the Company have been changed. Since 1 January 2001, the fixed assets have been depreciated with the straight line method, in accordance with the expected period of economic use.
- Estimates concerning the period of economic use and the depreciation method are subject to a review at the end of each financial year in order to verify, whether the used methods and the depreciation period are consistent with the expected term structure of economic benefits provided by this fixed asset.
- Fixed assets under construction are valued at least at the balance sheet date, in the amount of total costs in a direct relationship of their purchase or production, lessened by write-downs resulting from permanent loss in value. Within the capital work in progress, investment materials are recognised as well. The capital work in progress is not depreciated until they are completed and put into service.
- External financing costs of the construction, adjustment, assembly, or improvements of fixed assets or intangible assets, for a period of construction, adjustment, assembly, or improvement, are recognised in the value of these assets if these liabilities were incurred for this purpose. Other external financing costs are recognised in an income statement.
- The AoA, before amendments, assumed an off balance sheet registers of the perpetual usufruct of land; the amended act includes the perpetual usufruct of land in the fixed assets; pursuant to Art. 2 point 1 of the Act of 29 September 1990 on the amendment of the Act on Land Management and Dispossession (Journal of Laws No. 79, item. 464), the land owned by the State Treasury or a commune that, on 5 December 1990, was managed by state legal persons other than the State Treasury or municipal legal persons became the subject of the perpetual usufruct this day by operation of law.

The perpetual usufruct of land acquired in this way was not included in the books, but it is recognised off-balance sheet;

- Pursuant to the Act on accounting, the Company carries out an inventory of the fixed assets every four years. The last inventory of the fixed assets took place in 2018.
- As of the balance sheet date, the Company assesses every time whether the balance sheet value of the recognised assets does not exceed the value of the expected future economic benefits. If there is an indication of such a situation, the balance sheet value of the assets is reduced to net sale price. Write-downs resulting from permanent loss in value are recognised in other operating costs. Write-downs resulting from permanent loss in value concerning the fixed assets, which were re-evaluated on the basis of separate regulations, reduce the differences transferred onto the capital from revaluation, which were caused by revaluation. Possible excess of the write-down over the differences from revaluation is classified as other operating costs.

Permanent impairment of assets

At each balance sheet date, the Company assesses whether there is objective evidence indicating a permanent impairment of an asset or group of assets. If such evidence exists, the Company determines the estimated recoverable amount of the asset and makes an impairment loss, in an amount equal to the difference between the recoverable amount and the carrying amount. The loss resulting from impairment is recognized in the profit and loss account for the current period. In the case when the revaluation of assets was made before, the loss reduces the amount of capitals from revaluation and then is recognized in the profit and loss account for the current period.

Intangible assets

Intangible assets are recognized if it is plausible that, in the future, they will cause inflow of economic benefits to the Company that can be directly associated with these assets. The initial recognition of the intangible assets' value takes place according to purchase prices or production cost. After the initial recognition, the intangible assets are valued according to purchase prices or production cost reduced by redemption and write-downs resulting from permanent loss in value. The intangible assets are depreciated with the straight line method in the period corresponding to the estimated period of their economic use. The expected period of economic use is as follows:

- licenses - 5 years,
- software licenses - 2 years,
- other intangible assets - 5 years.

The intangible assets of an initial value of less than PLN 3,500 are depreciated once in the month of putting into service.

Estimates concerning the period of economic use and the depreciation method are subject to a review at the end of each financial year in order to verify, whether the used methods and the depreciation period are consistent with the expected term structure of economic benefits provided by given intangible assets.

As of the balance sheet date, the Company assesses every time whether the balance sheet value of the recognised assets does not exceed the value of the expected future economic benefits. If there is an indication of such a situation, the balance sheet value of the assets is reduced to net sale price. Write-downs resulting from permanent loss in value are recognised in other operating costs.

Emission allowances and their equivalents purchased by the Company for its own needs are disclosed as intangible assets. These rights are valued at the purchase price.

Long-term receivables

The long-term receivables include, among others:

- receivables due to paid security deposits (e.g. within lease agreements),
- receivables from entities, with whom a bank conciliation or an arrangement was concluded.

The long-term receivables, as well as other receivables, are valued in accordance with Art. 28 of the Act on accounting during the year, which on the day of purchase or creation – according to the face value and as of the balance sheet date – in the amount of required payment, with caution, reduced by the impairment write-downs made in justified cases.

Long-term investments

The long-term investments are property resources controlled by the entity, which will cause inflow of economic benefits to the entity in the future. The investments may be non-financial assets and, then, occur as:

- real estate,
- intangible assets,

or they may be financial assets and, then, occur as:

- shares,
- capital contributions in subsidiaries,
- other securities (long-term bills, government bonds, etc.),
- granted long-term loans,
- other long-term assets (bills of exchange, payable orders, deposits, commercial papers, additional payments to capital).

As of the balance sheet date, the long-term investments are valued according to purchase price reduced by write-downs resulting from permanent loss in value.

The investments in the subsidiaries that are controlled entities, co-subsidiaries, and associated party entities are valued according to the historical expense reduced by possible loss in value.

Commercial papers not quoted on the market are valued as of the balance sheet date with the straight line method, i.e. in the purchase price enlarged by an appropriate part of the discount, falling on the period until the balance sheet date, taking into account the possible loss in value.

Short-term investments (excluding cash and financial instruments)

The short-term investments, excluding cash and financial instruments, are valued according to the market price (value), and the short-term investments, for which there is no active market, in other way of a determined fair value.

The effects of increase or decrease in the value of the short-term investments valued according to the market price (value) are classified respectively as financial expense or income.

Financial assets

Financial assets, at the time of entry into the books of accounting, are valued according to the cost (purchase price), which is the fair value of the payment. Transaction costs are recognised in the initial value of these financial instruments. Financial assets are entered into the books of accounting on the transaction date.

After initial recognition, financial assets are classified into one of four categories and valued in the following way:

	Category	*Valuation method*
1.	Financial assets maintained to the maturity date	According to the adjusted purchase price (depreciated cost) determined with the effective interest method
2.	Granted loans and receivables	According to the adjusted purchase price (depreciated cost) determined with the effective interest method. Receivables of a short maturity date, for which no interest rate was determined, valued according to the required payment
3.	Financial assets destined for trade	According to the fair value, and profits/losses due to revaluation are recognised in the income statement
4.	Available-for-sale financial assets	According to the fair value and profits/losses due to revaluation are recognised in the income statement until the investment sale or reduction of its value. At this moment, the total profit or loss due to revaluation is transferred to the income statement

The fair value of financial instruments traded on the active market is determined in relation to the prices quoted on this market as of the balance sheet date. In case of the lack of a quoted market price, the fair value is estimated on the basis of the quoted market price of a similar instrument, or on the basis of expected cash flows.

Permanent loss in value of financial assets

As of each balance sheet date, the Company assesses whether there is objective evidence of permanent loss in value of a component or a group of financial assets. If such evidence exists, the Company estimates the estimated, possible to recover value of the component of assets and makes an impairment write down resulting from the loss in value, in the amount equal to the difference between the value possible to recover and the balance sheet value. Impairment write-downs against the value of a financial asset component or a portfolio of similar financial assets are determined:

- in case of financial assets valued at the depreciated purchase cost – as the difference between the value of these assets resulting from the books of accounting as of the valuation date and the amount possible to recover. The amount possible to recover is the present value of the future cash flows expected by the entity, discounted with the effective interest rate previously used by the entity, valuing revalued financial assets' component or a portfolio of similar financial assets' components,
- in case of the financial assets valued at the fair value – as the difference between the purchase price of an assets' component and its fair value determined as of the valuation date. However, the fair value of debt financial instruments as of the valuation date is understood as the present value of expected future cash flows expected by the entity, discounted with a current market interest rate used for similar financial instruments. The loss cumulated to this day recognised in the capital (fund) from revaluation is classified as finance costs in the amount not lesser than the one indicated in the write-down reduced by the part directly classified as financial costs,
- in case of other financial assets – as the difference between the value of the assets' component resulting from the books of accounting and the present value of future cash flows expected by the entity, discounted with the current market interest rate used for similar financial instruments.

Lease

The Company is a party of lease agreements, under which it conveys in return for payment to use or taking profits, the foreign fixed assets or intangible assets for an agreed period.

In case of lease agreements, under which there is transfer of, substantially, all the risks and profits resulting from ownership of assets covered by the agreement, the leased assets are recognized as the fixed asset. At the same time, a liability in the amount equal to the current value of minimum lease payments, determined as of the inception the lease date. Lease payments are divided between the financial costs and reduction of balance of the liability in a way allowing obtaining a constant interest rate on the remaining unpaid liability. Financing costs are recognised directly in the income statement.

The fixed assets subject to a financial lease agreement are depreciated in the way specified for own fixed assets. However, if there is uncertainty as transfer of property rights for the subject of the agreement, the fixed assets used under financial lease agreements are then depreciated for the shorter of the two periods: the expected period of use or the lease term. Lease payments under the agreements, which do not meet the conditions of a financial lease agreement, are recognized as costs in the income statement with the straight line methods for the lease term.

If a sale and sale-and-lease-back is a financial lease, then that part of the amount of sales revenue, which exceeds the value recognised in the balance sheet, is deferred in time and depreciated during the period of the lease agreement. If a sale and sale-and-lease-back are operating lease and if the transaction was concluded at prices corresponding to the fair value, any profits and losses arising resulting from that are recognised in the income statement. If the sale price is lower than the fair value, profits and losses resulting from that are recognised in the income statement, except for compensation of the loss with the future lease payments lower than market prices. In such a situation, the loss is deferred in time and settlement in proportion to the lease payments for the period of the expected use of the assets' component. If the sale price exceeds the fair value, the amount exceeding the fair value is deferred in time and settled in revenues for a period of the expected use of the assets' component.

Short- and long-term receivables

Trade receivables are recognised in the required amount reduced by impairment write-downs. The receivables value is adjusted taking into account the probability of their payment with the impairment write down. The impairment write-downs are classified respectively as other operating costs or financial costs – depending on the type of receivable subject to the impairment write-down. The redeemed, expired, or non-collectible receivables reduce previously made impairment write-downs against their value. The redeemed, expired, or non-collectible receivables, for which no impairment write-downs against their value were made, or the write-downs were not made in full, are classified as other operating costs or financial costs.

Inventory

Inventory is valued at the lower of the two values: the purchase price (or production cost) and the net sale price. The particular components of the inventory are valued in the following way:

- production fuel – weighted average method,
- spare parts and other materials – weighted average method.

The net sale price is a sale price possible to achieve as of the balance sheet date without the tax on goods and services and the excise tax, reduced by rebates, discounts, etc. and the costs related to accommodation of the component for sale and making this sale.

The Company makes the impairment write-downs against possessed inventories. For replacement parts with a value of over PLN 100,000, which do not rotate over 3 years, 100% write-offs are created. The impairment write-downs against inventories increase other operating costs.

The In the Company, the constant inventory procedure is applied for material stocks. Because the inventory is located in the guarded area and is in a continuous quantity/quality register, each material item must be counted at least once every two years, last inventory of the production fuel took place according to the status as of 31 December 2019.

Energy certificates obtained free of charge from energy production in renewable sources, gas and cogeneration are presented as goods and carried at fair value as at the end of the month in which they were produced. 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 analysing the value of inventories for impairment. Any impairment loss is presented in the cost of sales.

Assets components internally generated

The cost of internal generation of assets includes costs remaining within the direct relationship with a given product and the justified part of costs related indirectly to their production.

Direct costs include:

- the value of used direct materials,
- direct payments,
- wearing out of specialist tools,
- other costs incurred in relation to bring the product to the form and place, in which it is on the day of valuation. Other costs incurred in bringing the product to the form and location in which it is on the day of the valuation.

A reasonable, appropriate to the period of manufacture of the product part of the indirect costs includes variable indirect production costs corresponding to the level of these costs at the normal use of production capacities. The normal level of production capacities use is the average, in line with expectations in typical conditions production volume for a given number of periods, taking into account the scheduled overhauls.

Production costs, which are the basis of assets valuation, do not include general overheads, sale costs, other operating costs, and financial costs of financial operations. The transfer of generation costs to the assets of ZE PAK S.A. takes place no later than on the balance sheet date.

Cash accumulated on bank accounts

Domestic cash is shown at nominal value. Cash funds accumulated on bank accounts are confirmed on the basis of bank confirmation of balances. The cash position shown in the cash flow statement consists of cash in hand and bank deposits with a maturity of no more than 3 months, which were not treated as investment activities.

Equities

In the Company, there are the following capitals, which, in the balance sheet, are shown according to the face value, namely:
1. Share capital,
2. Supplementary capital,
3. Capital from revaluation,
4. Other reserve capitals.

The share capital is shown in the amount complying with the Company's Articles of Association and the entry into the National Court Register.

The supplementary capital is created from the profit division, an excess from the sale of shares over their nominal value, from the transfer from the Staff Fund, and from the transfer from the reserve capital from revaluation.

Provisions

Provisions are recognized when the Company has an existing obligation (legal or customary) resulting from past events and when it is certain or highly probable that fulfilment of this obligation will result in the necessity of outflow of resources, and when it is possible to reliably estimate the amount of such liability.

Provisions for property decommissioning costs are included in the amount of forecasted liquidation costs in the current value of these costs. These provisions are recognized second-to-side as accrued expenses and settled over time for the remaining period of operation of the equipment designated for liquidation. In the case of devices excluded from traffic, the provisions for the costs of their liquidation are created in the burden of other operating costs. In the reserve position, the Company also recognizes a provision for future costs of land reclamation, on which the Company collects waste.

Provision for leaves, retirement benefits and post-death benefits

The employees of the Company are entitled to holiday leaves defined in the provisions of the Labour Code. The company creates provisions at the expense of unused holidays, which the employees have acquired until the balance sheet date.

According to the company's remuneration system, employees are entitled to retirement bonuses at the time of retirement and post-mortem benefits. The reserve for severance pay that will be paid in the future is created on the basis of independent actuarial calculations.

Provision for the costs of reclamation of ash landfills

The obligation to reclaim the area of ash landfills is created at the start of their operation. The provision is created based on reports of independent experts estimating reclamation costs at the request of the Company's Management Board. Estimates of projected restoration costs are updated periodically, however, for each reporting date the amount of the provision is verified in accordance with the current assumptions regarding the discount rate and inflation. In addition, the Company recognizes assets for the ash landfill, which is accounted for using the straight-line method over its lifetime. In subsequent periods, this asset is amortized using the straight-line method over the estimated period of operation of a given ash storage site. At the same time, in subsequent periods, the Group recognizes the increase in the provision resulting from the effect of unwinding the discount in correspondence with financial costs. The utilization of the provision is settled at the end of each reporting period in correspondence with operating costs. Subsequent possible changes to the estimated costs of reclamation adjust the value of the asset and the provision.

(in thousand PLN)

Provision for CO_2 emission allowances

The reserve for liabilities related to the deficit of CO2 emission rights is created by the Company in the period in which the actual emission exceeds the allocated rights. The cost of the created provision is presented in the income statement in the cost of sales.

The provision is created:

- in the part covered by allowances held as at the balance sheet date - in the value of held allowances, i.e. purchased at the balance sheet value, received at zero value,
- in the part not covered by allowances held as at the balance sheet date - at the lower value of the market value of the rights necessary to meet the obligation as at the balance sheet date and possible penalty.
- in the part not covered by rights held as at the balance sheet date - at values measured as at the balance sheet day at the average exchange rate of the National Bank of Poland for forward CO2 purchase transactions.

Provision for the return of CO2 emission allowances

The provision for the return of CO_2 emission allowances The Company creates at the time of probable commitment. Due to the suspension of investments reported to KPI, we estimated the potential risk of return of the above mentioned allowances. The amount is converted according to the euro exchange rate as at the day of preparing the financial statements. The provision is created to cover other operating expenses.

Assets and liabilities expressed in foreign currencies

As at December 31, 2019, assets and liabilities denominated in currencies other than PLN are converted into PLN using the average NBP exchange rate as at the balance sheet date. Foreign exchange rates resulting from the conversion are recognized respectively in the financial revenues (costs) or, in cases specified by law, capitalized in the value of assets.

The following rates have been accepted for the purposes of the valuation:

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

Exchange rates

Exchange rates regarding settlements denominated in foreign currencies, created as at the date of their valuation and when paying receivables and liabilities in foreign currencies, are included respectively in financial revenues or costs, and in justified cases - to the cost of products or the purchase price of goods, as well as the purchase price or the cost of producing fixed assets, fixed assets under construction or intangible assets. In the income statement, exchange rates are recognized after offsetting.

Bank credits and loans

At the moment of initial recognition, bank loans and credits are recognized at the cost representing the value of cash received and including the costs of obtaining a loan / credit. Then, all bank loans and borrowings, with the exception of liabilities held for trading, are measured at adjusted purchase price (amortized cost) using the effective interest rate. Liabilities held for trading are measured at fair value. Profit or loss on revaluation to fair value is recognized in the profit and loss account for the current period.

Special funds

The Company has the following special funds:
- Social Benefits Fund (ZFŚS),
- Staff Fund.

The Act of 4 March 1994 on the Company Social Benefits Fund (unified text Journal of Laws of 2017 item 2191, as amended) constitutes that the Company Social Benefits Fund is made up of employers employing at least 50 full-time employees. The company creates such a fund and makes periodic write-offs to the amount agreed with the Trade Unions. In accordance with the agreement signed with the Trade Unions, the Company administers the Inter-Enterprise Social Benefits Fund of the Company and its subsidiaries. The balance of the Fund is the accumulated revenues of the Fund reduced by non-recoverable expenses from the Fund. The Company shows separately the balance of the Fund and the Fund's assets in the balance sheet.

Accruals

Loans received for financing pro-ecological investments, and then cancelled by granting subsidies, are recognized as other accrued income and settled in the income statement in subsequent periods, in proportion to the depreciation of fixed assets purchased or produced as part of financed investments.

The company makes accrued expenses to allocate costs related to the period to a given period. Prepayments include expenses relating to periods later than the period in which they were incurred, including insurance costs, subscriptions, bill of exchange discount.

Pre-paid accruals also include a part of the estimated costs of future reclamation of ash landfills used by the Company. These costs are included in the discounted value and relate to the expenditure that the Company will have to incur to complete the ash storage.

In addition, prepaid expenses consist of the amount of the provision created for the liquidation of the Company's assets to be settled.

Passive prepayments include the value of certificates of origin of energy generated in renewable energy sources, in combination with thermal energy, in cogeneration using natural gas and certificates resulting from energy efficiency, which the entity is obliged to redeem in connection with the delivery of electricity to final customers. The provision for the obligation to submit for certificates of origin of energy produced in renewable energy sources or in highly efficient cogeneration and energy efficiency is included:

- in the part covered with certificates of origin held as at the balance sheet date - in the value of certificates held,
- in the part not covered by the certificates of origin as at the balance sheet date - at the lower value of the market value of the certificates necessary to meet the obligation as at the balance sheet day and possible replacement fee.

Accruals include contractual penalties, compensation from the insurance company, interest increasing the principal amount, negative goodwill and subsidies received for the production of fixed assets.

In the item of accruals, the Company also presents deferred income related to the settlement of results on leaseback.

Revenues from the sale of goods, products and services, interest and dividends

Revenues from sales include amounts due or received from the sale of goods and services (reduced by refunds, rebates and discounts). Sales revenues are shown in net value, i.e. decreased by VAT due. Revenues from the sale of purchased electricity are recognized as revenues from the sale of goods. The value of revenues from sales of purchased electricity is recognized according to the average price of bilateral contracts.

Revenues from the sale of products also include revenues from the sale of green and red certificates. At the time of production, certificates of origin intended for sale are recognized in sales revenues, therefore, in order to prevent inflating revenues at the time of their sale, the cost of selling certificates is recognized as an adjustment to sales revenues.

Interest income is recognized at the time of accrual (using the effective interest rate), if their receipt is unquestionable.

Dividends due are classified as financial revenues as at the date of adoption of a resolution on profit distribution by the competent authority of the relevant company, unless a different date for the right to dividend is specified in the resolution.

Operational costs

The company keeps a cost record in a generic and calculation format and prepares a calculative profit and loss account.

General production costs

The general production costs are settled statistically for sold electricity and heat and other works and services in proportion to direct wages charged to energy sold, other works and services.

Corporate Income Tax

The basis for calculating income tax is gross profit adjusted for permanent and temporary differences between income determined for tax purposes and balance sheet financial result. Transitional income tax differences are recognized in the balance sheet as provisions for deferred income tax (positive difference) or are included in active accruals (negative differences).

Deferred Income Tax

Deferred income tax is determined using the balance sheet liability method in relation to all temporary differences existing as at the balance sheet date between the tax value of assets and liabilities and their balance sheet value shown in the financial statements. Provision for deferred income tax is created in relation to all positive temporary differences, unless the provision for deferred income tax arises as a result of amortization of goodwill or initial recognition of an asset or liability in a transaction that is not a business combination, and at the time it is concluded it has no effect either on the gross financial result or on taxable income or tax loss.

The deferred tax asset is recognized in relation to all negative temporary differences and unused tax losses carried forward to the following years, in the amount in which it is probable that taxable income will be achieved, which will allow to use the above mentioned differences and losses.

In case of negative temporary differences due to shares in subsidiaries or affiliates and shares in jointly controlled entities, the deferred income tax asset is recognized in the balance sheet only in the amount in which it is probable that in the foreseeable future the above-mentioned temporary differences will be reversed and taxable income will be generated that will allow deduction of negative temporary differences.

The carrying value of a deferred tax asset is verified as at each balance sheet date and is subject to a corresponding reduction in so far as it has ceased to be probable that taxable income will be sufficient to partially or fully realize the deferred tax asset.

Deferred income tax assets and reserves for deferred income tax are valued using tax rates, which, according to the regulations enacted by the balance sheet date, will apply in the period when the asset will be realized or the provision will be terminated. Deferred tax assets and provisions for deferred tax are presented in the balance sheet at their value after offsetting.

Konin, 3 April 2020

SIGNATURES:

Henryk Sobierajski
President of the Management Board ....

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

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

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

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

Aneta Desecka
Chief Accountant ....

ADDITIONAL INFORMATION AND CLARIFICATION TO THE FINANCIAL STATEMENT

1. Information on significant events concerning previous years recognized in the financial statements for the financial year

Until the day of preparing the financial statements for the financial year that is until 3 April 2020 there were no events regarding previous years, which should be included in the financial statements for the financial year.

2. Information on significant events that occurred after the balance sheet date and not included in the financial statements

After the balance sheet date until the day of preparing the financial statements for the financial year, i.e. until 3 April 2020, no events occurred that should be recognized in the financial statements for the financial year.

3. Changes in accounting principles (policy) in the financial year

The financial statements for the current and previous financial year were prepared using identical accounting principles (policy) as well as the methods of data presentation in the financial statements.

4. Error adjustment and transformation of comparative data

In the current financial year, no corrections of errors were made that could affect the comparability of financial data for the previous year with the data of the financial statements for the current financial year.

5. Comparability of financial data for the previous period with the report for the current period

In the current period, the Company did not change the accounting principles, therefore it was not obliged to present numerical information that would ensure comparability of data for the financial statements for the preceding year with the statement for the current financial year.

(in thousand PLN)

6. Intangible assets

12 months period ended 31 December 2019

	Costs of finished development work	*Value of Company*	*Concessions, patents, licenses and similar values*	*Other intangible assets*	*Advances for intangible assets*	*Total*
Initial value						
Opening balance	-	-	21 535	42 240	-	63 775
Increases, including:	-	-	264	304 505	-	304 769
– Acquisition	-	-	-	304 505	-	304 505
– Other	-	-	-	-	-	-
– Transfers	-	-	264	-	-	264
Decreases, including:	-	-	-	346 654	-	346 654
– Redemption of CO2 emission rights	-	-	-	334 714	-	334 714
– sale	-	-	-	11 940	-	11 940
Closing balance	**-**	**-**	**21 799**	**91**	**-**	**21 890**
Redemption						
Opening balance	-	-	17 439	3	-	17 442
Increase, including:	-	-	975	-	-	975
– Depreciation of a period	-	-	975	-	-	975
– Other	-	-	-	-	-	-
– Transfers	-	-	-	-	-	-
Decrease, including:	-	-	-	-	-	-
– Sale	-	-	-	-	-	-
– liquidation	-	-	-	-	-	-
Closing balance	**-**	**-**	**18 414**	**3**	**-**	**18 417**
Impairment write-downs						
Opening balance	-	-	1 278	-	-	1 278
Increases	-	-	-	-	-	-
Decreases, including:	-	-	-	-	-	-
– use	-	-	-	-	-	-
– impairment adjustment	-	-	-	-	-	-
Closing balance	**-**	**-**	**1 278**	**-**	**-**	**1 278**
Net value						
Opening balance	-	-	2 818	42 237	-	45 055
Closing balance	**-**	**-**	**2 107**	**88**	**-**	**2 195**

(in thousand PLN)

12 months period ended 31 December 2018

	Research and development costs	*Goodwill*	*Concessions, patents, licenses and similar values*	*Other intangible assets*	*Advances for intangible assets*	*Total*
Initial value						
Opening balance	-	-	21 123	193 507	-	214 630
Increases, including:	-	-	422	70 788	-	71 210
– Acquisition	-	-	-	70 788	-	70 788
– Other	-	-	-	-	-	-
– Transfers	-	-	422	-	-	422
Decreases, including:	-	-	10	222 055	-	222 065
– Redemption of CO2 emission rights	-	-	-	222 055	-	222 055
– Liquidation	-	-	10	-	-	10
Closing balance	**-**	**-**	**21 535**	**42 240**	**-**	**63 775**
Redemption						
Opening balance	-	-	16 472	3	-	16 475
Increase, including:	-	-	977	-	-	977
– Depreciation of a period	-	-	977	-	-	977
– Other	-	-	-	-	-	-
– Transfers	-	-	-	-	-	-
Decrease, including:	-	-	10	-	-	10
– Sale	-	-	-	-	-	-
– liquidation	-	-	10	-	-	10
Closing balance	**-**	**-**	**17 439**	**3**	**-**	**17 442**
Impairment write-downs						
Opening balance	-	-	1 278	-	-	1 278
Increases	-	-	-	-	-	-
Decreases, including:	-	-	-	-	-	-
– use	-	-	-	-	-	-
– impairment adjustment	-	-	-	-	-	-
Closing balance	**-**	**-**	**1 278**	**-**	**-**	**1 278**
Net value						
Opening balance	-	-	3 373	193 504	-	196 877
Closing balance	**-**	**-**	**2 818**	**42 237**	**-**	**45 055**

Ownership structure of intangible assets:

	31 December2019	*31 December 2018*
Own	2 195	45 055
Used on the basis of a rental, lease or other contract, including lease agreements	-	-
Total	**2 195**	**45 055**

The other intangible assets item includes purchased CO_2 emission rights. The change in the carrying amount results primarily from the redemption of these rights.

(in thousand PLN)

7. Tangible fixed assets

12 months period ended 31 December 2019

	Lands (including the right to perpetual usufruct of land)	*Buildings, premises and objects engineering land and water*	*Machines and technical equipment*	*Means of transport*	*Other fixed assets*	*Fixed assets under construction*	*Advances for fixed assets under construction*	*Total*
Initial value								
Opening balance	1 408	1 381 347	4 011 754	3 517	11 176	126 783	-	5 535 985
Increase, including:	8 838	2 106	6 203	206	72	1 017	1 560	20 002
– Acquisition	-	-	44	206	36	18 419	1 560	20 265
– Other	-	-	-	-	-	-	-	-
– Transfers for fixed assets	8 838	2 106	6 159	-	36	(17 402)	-	(263)
Decrease, including:	-	-	196	840	51	80 186	-	81 273
– Liquidation and sale	-	-	196	840	51	-	-	1 087
– Abandoned investments	-	-	-	-	-	80 186	-	80 186
Closing balance	**10 246**	**1 383 453**	**4 017 761**	**2 883**	**11 197**	**47 614**	**1 560**	**5 474 714**
Redemption								
Opening balance	127	776 373	2 565 866	2 342	9 455	-	-	3 354 163
Increase, including:	5	10 924	26 147	265	322	-	-	37 663
– Depreciation of the period	5	10 924	26 147	220	322	-	-	37 618
– Other	-	-	-	45	-	-	-	45
Decrease, including:	-	-	196	543	51	-	-	790
– Liquidation and sale	-	-	196	543	51	-	-	790
– Other	-	-	-	-	-	-	-	-
Closing balance	**132**	**787 297**	**2 591 817**	**2 064**	**9 726**	**-**	**-**	**3 391 036**
Impairment write-downs								
Opening balance	-	433 945	1 053 772	327	597	78 532	-	1 567 173
Increase, including:	-	33 365	75 635	-	-	16 001	-	125 001
– Transfers for fixed assets	-	-	-	-	-	-	-	-
– Impairment write-down	-	33 365	75 635	-	--	16 001	-	125 001
Decrease	-	-	-	-	-	64 397	-	64 397
Closing balance	**-**	**467 310**	**1 129 407**	**327**	**597**	**30 136**	**-**	**1 627 777**
Net value								
Opening balance	1 281	171 029	392 116	848	1 124	48 251	-	614 649
Closing balance	**10 114**	**128 846**	**296 537**	**492**	**874**	**17 478**	**1 560**	**455 901**

(in thousand PLN)

12 months period ended 31 December 2018

	Lands (including the right to perpetual usufruct of land)	*Buildings, premises and objects engineering land and water*	*Machines and technical equipment*	*Means of transport*	*Other fixed assets*	*Fixed assets under construction*	*Advances for fixed assets under construction*	*Total*
Initial value								
Opening balance	1 408	1 377 301	4 004 290	3 649	11 592	136 271	698	5 535 209
Increase, including:	-	4 139	16 803	553	212	(9 488)	-	12 219
– Acquisition	-	-	95	553	27	11 918	-	12 593
– Other	-	48	-	-	-	-	-	48
– Transfers for fixed assets	-	4 091	16 708	-	185	(21 406)	-	(422)
Decrease, including:	-	93	9 339	685	628	-	698	11 443
– Liquidation and sale	-	93	9 339	685	628	-	-	10 745
– Other	-	-	-	-	-	-	698	698
Closing balance	**1 408**	**1 381 347**	**4 011 754**	**3 517**	**11 176**	**126 783**	**-**	**5 535 985**
Redemption								
Opening balance	122	765 574	2 548 854	2 607	9 738	-	-	3 326 895
Increase, including:	5	10 889	26 351	282	345	-	-	37 872
– Depreciation of the period	5	10 841	26 351	282	345	-	-	37 824
– Other	-	48	-	-	-	-	-	48
Decrease, including:	-	90	9 339	547	628	-	-	10 604
– Liquidation and sale	-	90	9 339	547	628	-	-	10 604
– Other	-	-	-	-	-	-	-	-
Closing balance	**127**	**776 373**	**2 565 866**	**2 342**	**9 455**	**-**	**-**	**3 354 163**
Impairment write-downs								
Opening balance	-	433 924	1 053 772	327	597	71 969	-	1 560 589
Increase, including:	-	21	-	-	-	6 563	-	6 584
– Transfers for fixed assets	-	21	-	-	-	(21)	-	-
– Impairment write-down	-	-	-	-	--	6 584	-	6 584
Decrease	-	-	-	-	-	-	-	-
Closing balance	**-**	**433 945**	**1 053 772**	**327**	**597**	**78 532**	**-**	**1 567 173**
Net value								
Opening balance	1 286	177 803	401 664	715	1 257	64 302	698	647 725
Closing balance	**1 281**	**171 029**	**392 116**	**848**	**1 124**	**48 251**	**-**	**614 649**

(in thousand PLN)

Ownership structure of tangible fixed assets:

	31 December2019	*31 December 2018*
Own	455 505	613 979
Used on the basis of a rental, lease or other contract, including lease agreements	396	670
Total	**455 901**	**614 649**

The carrying value of perpetually usufruct land as at December 31, 2019 was PLN 1 767 thousand (as at December 31, 2018, this value was PLN 399 thousand).

In 2019, a decision was made to discontinue the investment Modernization of the TG-3 and TG-3 turbogenerator at Pątnów Power Plant in the amount of PLN 80,186 thousand. The revaluation write-off, which related to this investment in the amount of PLN 64,397 thousand was also released. The operation was partially settled as a discontinued investment (value of PLN 33,204 thousand, revaluation write-off of PLN 33,122 thousand), and the parts that were not used were accepted for material inventories.

Capital expenditures made by ZE PAK SA in 2019 amounted to PLN 18 419 thousand (in 2018 year respectively PLN 11,918 thousand), for environmental protection no effort has been made (in 2018 year expenditure on environmental protection amounted to PLN 110 thousand).

Capital expenditures planned for 2020 year, the rate of PLN 130 000 thousand, including environmental protection 105 308 thousand.

Value impairment test of property fixed assets

In accordance with Article 7 paragraph 1 and Article 28 of the Act of 29 September 1994 on accountancy and the National Accounting Standard No. 4 “Value impairment of assets” at the end of every reporting period, the Company’s Management Board evaluates whether there are any prerequisites indicating that there may have occurred a loss in the value of components of fixed assets. In case of statement that there are such prerequisites, the Company estimates a recoverable value of assets’ components. Therefore, the Company always analyses the prerequisites that might affect a loss in the value of any of the assets’ components, and determines the units generating economic benefits within the Company.

According to NAS No. 4, the units generating economic benefits are the smallest identifiable groups of assets which generate cash inflows of the current use that are largely independent of the cash inflows from other assets or groups of assets. If there are any prerequisites that a given 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 unit generating economic benefits, to which the asset belongs.

The premises, which the Management Board took into account when assessing the need for the test, were those resulting from market conditions in the environment, in which the Company runs a business activity, out of which the most important is the increase in risk related to the launch of prospective lignite deposits in connection with the proposal to radically raise the emission reduction target on 2030 in the proposal for climate law presented by the European Commission.

While distinguishing the units generating economic benefits within the Company’s assets, it was primarily important to analyse the autonomy of generated economic benefits in terms of the Company functioning.

ZE PAK S.A., apart from the manufacturing operation, within which it is responsible for ensuring a certain level of efficiency of the generating units and implementations of production schedules, is focused on significant operational and financial functions at the Capital Group level.

In carrying out the test for impairment of fixed assets, the Group based on a financial model reflecting the strategic assumptions of the parent company, ZE PAK SA.

In ZE PAK S.A., one unit generating economic benefits was determined, in which the following generation assets operate: elektrownia Pątnów I, elektrownia Konin-collector, elektrownia Konin biomass unit and elektrownia Adamów – which operated till 1 January 2018.

For each of the above units, it is possible to determine the generated economic benefits - however, these benefits are, to some extent, dependent on each other. Therefore, they had to be considered together as a single unit.

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

- Production of electricity from Pątnów I was established until 2030, production from biomass from Konin was established until 2047.

(in thousand PLN)

- Heat production was established until 2047 in connection with the exploitation of the biomass block until this year, from which heat is generated to the city of Konin.
- Electricity prices were adopted on the basis of forecasts broken down into BASE, PEAK and OFFPEAK prepared for ZE PAK SA by an independent external consultant, 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 carried out deliveries together with the forecasted steady increase in subsequent years.
- Forecasts of prices of CO2 emission allowances, adopted on the basis of assumptions from the document of the Ministry of Energy - "National plan for energy and climate for 2021-2030" (Project - v. 3.1 of 4 January 2019), taking into account own estimates, based on current market situation for the first years of the forecast.
- Production assumptions result from the adopted investment and renovation program.
- The company has assumed the use of free CO2 emission allowances 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 costs of lignite purchased for production were determined on the basis of the delivery schedule and prices agreed with the respective schedules included in the financial projections of affiliate companies.
- Biomass purchase costs were set at the level of contracted prices for 2020 together with the forecasted steady increase in subsequent years.
- Receipts from the capacity market were adopted in the years 2021-2024 based on the results of the auction; a share in the secondary capacity market was also assumed.
- The forecast of the margin on the biomass block was estimated assuming support mechanisms. It is assumed that the margin will fall at constant prices after 2027, with the price of biomass rising. Submitted for public consultation, the "Poland’s Energy Policy until 2040" and "National plan for energy and climate for 2021-2030" outline a clear direction for the further development of renewable energy, which is necessary to meet the indicators adopted by Poland that meet the renewable energy obligation. For this goal to be achieved, and in the following years at least maintained Poland as an EU member state must ensure the maintenance of existing renewable energy sources, including existing biomass units, which in the next few years will end their participation in the support system, and due to their good technical condition will be able to continue working. The factor giving today such powers to adopt the above thinking are the current provisions on statistical transfer, which on the one hand impose penalties on a Member State that fails to fulfil the obligation, and on the other hand the provisions already contained in the RES Act, which signal the organization of auctions by the ERO for units that after the end of the support period, they will be able to continue participating in the newly created mechanisms. They are authorized by the provisions of the applicable RES Act. The provisions of the Act also give the opportunity to extend the support of renewable energy installations for more than 15 years. It is also important that the Ministry of Energy withdrew from the proposal to change the rules for determining the substitution fee. The Ministry took into account the recommendations of 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. According to TGPE, this would hamper the planning of biomass units, which would hit Polish producers. As a consequence, the gap in achieving the renewable energy target would widen.
- Effects of labour cost optimization resulting from the implemented statization policy were taken into account.
- The weighted average cost of capital after tax (WACC) was assumed to be 7.686% over the projection period.
- In terms of BAT conclusions, in case of ZE PAK SA, it was assumed that there would be deviations from the required emission limit values due to the assumed short lifetime of generating assets.

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

The test was performed as at December 31, 2019.

Based on the tests, it was found necessary to make revaluation write-downs for property, plant and equipment. For CGU ZE PAK SA, there was a need to make a write-down of PLN 109,000 thousand. The results are as follows:

	31 December 2019
Value tested	552 703
Value after write-down	443 703
Impairment found	**109 000**

(in thousand PLN)

Sensitivity analysis

The results of the sensitivity analysis are presented below.

Change in weighted average cost of capital	*(+) increase by 1,0 p.p.*	*(-) decrease by 1,0 p.p.*
	(54) m PLN	64 m PLN
Change in sales revenues (change in electricity price)	*(+)increase by 1%*	*(-) decrease by 1%.*
	66 m PLN	(66) m PLN
Change in cost of sales (price change 1 EUA)	*(+)increase by 5%*	*(-) decrease by 5%.*
	(96) m PLN	96 m PLN
Change of biomass price	*(+)increase by 5%*	*(-) decrease by 5%.*
	(115) m PLN	115 m PLN

The results of the sensitivity analysis showed that the issue of including support for the biomass block after 2027 has a significant impact on the value in use of the assets tested for CGU ZE PAK. In the pessimistic scenario, in the absence of a support mechanism after 2027, the biomass price would have to be 18.28% lower in the period considered, with the remaining assumptions unchanged to cover loss of revenue.

8. Investment projects

8.1. Long-term investments

12 months period ended 31 December 2019

	Shares and stock in affiliates	Granted loans to affiliates	Other assets in affiliated companies	Shares and stock in other entities	Other assets in other entities	Total
Opening balance, including:	1 049 381	23 348	5 000	152	-	1 077 881
Gross value	1 170 534	23 348	5 000	201	-	1 199 083
Impairment write-downs	(121 153)	-	-	(49)	-	(121 202)
Increase, including:	-	-	-	-	-	-
– Acquisition	-	-	-	-	-	-
– Values update	-	-	-	-	-	-
– other (change between long- and short-term classification)	-	-	-	-	-	-
Decrease, including:	-	23 348	-	-	-	23 348
– Repayment	-	23 348	-	-	-	23 348
– Sale	-	-	-	-	-	-
– Values update	-	-	-	-	-	-
– other (reclassification into short-term part)	-	-	-	-	-	-
Closing balance, including	**1 049 381**	**-**	**5 000**	**152**	**-**	**1 054 533**
Gross value	1 170 534	-	5 000	201	-	1 175 735
Impairment write-downs	(121 153)	-	-	(49)	-	(121 202)

The item *Other assets in related entities* shows refundable surcharge in the amount of 7 000 thousand for the related entity PAK Górnictwo Sp. z o.o. Pursuant to Resolution No. 104/2017 of EGM of March 13, 2017, the additional payment was made on March 23, 2017 . On 16 July 2019 by Resolution of Extraordinary General Meeting no. 168 /2019 repayment schedule fee was changed. The amount of PLN 2,000 thousand will be repaid by April 30, 2020 the repayment date of the remaining PLN 5,000 thousand will be determined upon repayment of the first part of the surcharge.

12 months period ended 31 December 2018

	Shares and stock in affiliates	Granted loans to affiliates	Other assets in affiliated companies	Shares and stock in other entities	Other assets in other entities	Total
Opening balance, including:	1 128 552	30 250	3 500	151	-	1 162 453
Gross value	1 170 346	30 250	3 500	200	-	1 204 296
Impairment write-downs	(41 794)	-	-	(49)	-	(41 843)
Increase, including:	188	291	1500	1	-	1 980
– Acquisition	188	-	-	-	-	188

(in thousand PLN)

– Values update	-	291	-	1	-	292
– other (change between long- and short-term classification)	-	-	1500	-	-	1 500
Decrease, including:	79 359	7 193	-	-	-	86 552
– Repayment	-	-	-	-	-	-
– Sale	-	-	-	-	-	-
– Values update	79 359	-	-	-	-	79 359
– other (reclassification into short-term part)	-	7 193	-	-	-	7 193
Closing balance, including	**1 049 381**	**23 348**	**5 000**	**152**	**-**	**1 077 881**
Gross value	1 170 534	23 348	5 000	200	-	1 199 082
Impairment write-downs	(121 153)	-	-	(48)	-	(121 201)

8.2. Short-term investments

12 months period ended 31 December 2019

	Shares and stock in affiliates	Granted loans to affiliates	Other assets in affiliated companies	Shares and stock in other entities	Other assets in other entities	Total
Opening balance, including:	-	23 438	2 000	-	19	25 457
Gross value	-	23 438	2 000	-	19	25 457
Impairment write-downs	-	-	-	-	-	-
Increase, including:	-	-	-	-	-	-
– Acquisition	-	-	-	-	-	-
– Values update	-	-	-	-	-	-
– other (reclassification from long-term part)	-	-	-	-	-	-
Decrease, including:	-	23 438	-	-	19	23 457
– Repayment	-	23 438	-	-	-	23 438
– Sale	-	-	-	-	-	-
– Values update	-	-	-	-	19	19
– other (reclassification into short-term part)	-	-	-	-	-	-
Closing balance, including	**-**	**-**	**2 000**	**-**	**-**	**2 000**
Gross value	-	-	2 000	-	-	2 000
Impairment write-downs	-	-	-	-	-	-

12 months period ended 31 December 2018

	Shares and stock in affiliates	Granted loans to affiliates	Other assets in affiliated companies	Shares and stock in other entities	Other assets in other entities	Total
Opening balance, including:	-	15 214	3 500	-	-	18 714
Gross value	-	15 214	3 500	-	-	18 714
Impairment write-downs	-	-	-	-	-	-
Increase, including:	-	8 666	-	-	19	8 685
– Acquisition	-	-	-	-	-	-
– Values update	-	1 473	-	-	19	1 492
– other (reclassification from long-term part)	-	7 193	-	-	-	7 193
Decrease, including:	-	442	1 500	-	-	1 942
– Repayment	-	442	-	-	-	442
– Sale	-	-	-	-	-	-
– Values update	-	-	-	-	-	-
– other (reclassification into short-term part)	-	-	1 500	-	-	1 500
Closing balance, including	**-**	**23 438**	**2 000**	**-**	**19**	**25 457**
Gross value	-	23 438	2 000	-	19	25 457
Impairment write-downs	-	-	-	-	-	-

(in thousand PLN)

9. Short-term receivables

	Year ended 31 December 2019	*Year ended 31 December 2018*
Receivables due to deliveries and services , including:	149 013	98 196
– From related entities	112 472	53 986
– From other entities	36 541	44 210
Receivables from taxes, subsidies, customs, social and health insurance and other public law titles	7 529	6 189
Other, including:	24 138	71 008
– Dividend receivables	-	10 000
– deposits and security deposits	17 551	55 868
– receivables under loans and other benefits of the Company Social Benefits Fund	3 402	3 217
– other	3 185	1 923
Total short-receivables	**180 680**	**175 393**

10. Prepaid expenses

	31 December2019	*31 December 2018*
Long-term prepaid expenses		
Assets due to deferred income tax	-	-
Other, including:	7 006	7 804
– the costs of implementing the license	121	330
– ash storage facility	6 884	7 469
– other	1	5
Total (after deduction)	**7 006**	**7 804**
Short-term prepaid expenses		
Subscription	8	9
PPE participation fee	100	-
The costs of implementing the license	209	209
Other	60	106
Total	**377**	**324**

11. Share capital

3 April 2020

Shareholders	*pcs* Number of shares	*PLN* Value per one share	*%* Share in the share capital	*pcs* Number of votes	*%* Share total number of votes
Zygmunt Solorz (indirectly) through: Elektrim SA, Embud 2 sp. z o.o. S.K.A., Argumenol Investment Company Limited	31 156 914	2,00	61,30	31 156 914	61,30
Nationale-Nederlanden OFE	4 503 242	2,00	8,86	4 503 242	8,86
OFE PZU „Złota Jesień”	4 635 719	2,00	9,12	4 635 719	9,12
Other	10 527 672	2,00	20,72	10 527 672	20,72
Total	**50 823 547**	**-**	**100,00**	**50 823 547**	**100,00**

* *According to information possessed by the Company based on the delivered notices of purchase / sale of shares.*

31 December 2019

Shareholders	*pcs* Number of shares	*PLN* Value per one share	*%* Share in the share capital	*pcs* Number of votes	*%* Share total number of votes
Zygmunt Solorz (indirectly) through: Elektrim SA, Embud 2 sp. z o.o. S.K.A., Argumenol Investment Company Limited	29 592 734	2,00	58,23	29 592 734	58,23

(in thousand PLN)

Nationale-Nederlanden OFE	4 503 242	2,00	8,86	4 503 242	8,86
OFE PZU „Złota Jesień”	4 635 719	2,00	9,12	4 635 719	9,12
Others	12 091 852	2,00	23,79	12 091 852	23,79
Total	**50 823 547**	**-**	**100,00**	**50 823 547**	**100,00**

* *According to information possessed by the Company based on the delivered notices of purchase / sale of shares.*

31 December 2018

	pcs	*PLN*	*%*	*pcs*	*%*
Shareholders	*Number of shares*	*Value per one share*	*Share in the share capital*	*Number of votes*	*Share total number of votes*
Zygmunt Solorz (indirectly) through: Elektrim SA, Embud 2 sp. z o.o. S.K.A., Trigon XIX FIZ, Argumenol Investment Company Limited	26 200 867	2,00	51,55	26 200 867	51,55
Nationale-Nederlanden OFE	5 068 410	2,00	9,97	5 068 410	9,97
OFE PZU „Złota Jesień”	2 664 378	2,00	5,24	2 664 378	5,24
Others	16 889 892	2,00	33,24	16 889 892	33,24
Total	**50 823 547**	**-**	**100,00**	**50 823 547**	**100,00**

* *According to information possessed by the Company based on the delivered notices of purchase / sale of shares.*

12. Interest-bearing bank credits and loans and other financial liabilities

	31 December 2019	*31 December 2018*
Long-term		
Liabilities due to financial leasing and lease agreements with a purchase option	291	492
Obligation	-	-
Loans in total, including:	-	58 900
− Revolving loans	-	-
− Investment loans	-	58 900
Other liabilities	2 000	2 000
Total	**2 291**	**61 392**
Short-term		
Liabilities due to financial leasing and lease agreements with a purchase option	143	364
Obligation	-	-
Loans in total, including:	-	148 773
Current account loans	-	-
Other loans:	-	148 773
− Revolving loans	-	-
− Investment loans	-	148 773
Other liabilities	1 551	-
Total	**1 694**	**149 137**

13. Profit sharing/cover loss

13.1 Cover loss for the previous year

The Ordinary General Meeting, which was held on June 26, 2019 adopted a resolution of covering the net loss in the amount of PLN 64 516 thousand from profits of future periods.

13.2 Cover loss for the current year

The net loss for the financial year 2019 was PLN 46,339 thousand. The Management Board of ZE PAK SA as at the date of the financial statements did not make a decision on the proposal to cover the loss.

(in thousand PLN)

14. Reserves

In the reporting periods covered by the financial statements, the following changes occurred in the state of reserves:

12 months period ended 31 December 2019

	Deferred income tax	*Provision for retirement benefits and similar*	*Provision for CO_2 emission allowances*	*Reserve for the return of CO_2 emission allowances*	*Reclamation provision*	*Liquidation provision*	*Other reserves*	*Total*
As of 1 January 2019	37 523	19 855	334 782	30 640	63 656	17 391	1 190	505 037
Increase	75 319	14 939	365 177	-	481	799	-	456 715
Use	-	(9 023)	(334 714)	(24 278)	(216)	-	-	(368 231)
Termination	-	-	-	-	-	-	-	-
As of 31 December 2019, including:	**112 842**	**25 771**	**365 245**	**6 362**	**63 921**	**18 190**	**1 190**	**593 521**
Long-term	112 842	11 155	-	-	63 921	18 190	-	206 108
Short-term	-	14 616	365 245	6 362		-	1 190	387 413

12 months period ended 31 December 2018

	Deferred income tax	*Provision for retirement benefits and similar*	*Provision for CO_2 emission allowances*	*Reserve for the return of CO_2 emission allowances*	*Reclamation provision*	*Liquidation provision*	*Other reserves*	*Total*
As of 1 January 2018	79 215	23 207	221 792	-	62 033	16 593	1 190	404 030
Increase	-	7 593	334 782	30 640	1 838	798	-	375 651
Use	(41 692)	(10 945)	(221 792)	-	(215)	-	-	(274 644)
Termination	-	-	-	-	-	-	-	-
As of 31 December 2018, including:	**37 523**	**19 855**	**334 782**	**30 640**	**63 656**	**17 391**	**1 190**	**505 037**
Long-term	37 523	7 905	-	30 640	63 440	17 391	-	156 899
Short-term	-	11 950	334 782	-	216	-	1 190	348 138

(in thousand PLN)

In connection with the suspension of investments in blocks 3 and 4 and the gas-steam block, the Company's Management Board estimated the potential risk of returning free CO2 emission allowances in the amount of approx. EUR 6.5 million together with interest, which is PLN 30 640 thousand.

On December 28, 2019, the Company returned the free CO2 emission allowances received for investments related to units 3 and 4 in the amount of PLN 24 342 thousand. The remaining repayment of received free CO2 should be settled by 30 June 2020.

15. Impairment write-downs on receivables

	Year ended 31 December 2019	*Year ended 31 December 2018*
As of 1 January	35 120	35 223
Increase	522	9
Use	1	56
Termination	-	56
As of 31 December	**35 641**	**35 120**

The revaluation write-off of receivables mainly concerns Huta Łaziska SA. Bailiff proceedings are currently under way. As at the date of preparation of the financial statements, the company has declared bankruptcy in arrangement.

16. Long-term liabilities

The structure of the maturity of long-term liabilities:

31 December 2019

	1-3 years	*3-5 years*	*Over 5 years*	*Total*
Long-term liabilities to affiliates	-	-	-	-
Long-term liabilities to other entities, including:	2 291	-	-	2 291
− Bank credits and loans	-	-	-	-
− Other credits and loans	-	-	-	-
− due to issue of debt securities	-	-	-	-
− due to finance lease	291	-	-	291
− other	2 000	-	-	2 000
Long-term liabilities in total as of 31 December 2019	**2 291**	**-**	**-**	**2 291**

31 December 2018

	1-3 years	*3-5 years*	*Over 5 years*	*Total*
Long-term liabilities to affiliates	-	-	-	-
Long-term liabilities to other entities, including:	61 392	-	-	61 392
− Bank credits and loans	58 900	-	-	58 900
− Other credits and loans	-	-	-	-
− due to issue of debt securities	-	-	-	-
− due to finance lease	492	-	-	492
− other	2 000	-	-	2 000
Long-term liabilities in total as of 31 December 2018	**61 392**	**-**	**-**	**61 392**

(in thousand PLN)

17. Short-term liabilities

	Year ended 31 December 2019	*Year ended 31 December 2018*
Trade liabilities, including:	41 425	45 856
– From related entities	14 222	10 743
– From other entities	27 203	35 113
Loans and advances from other entities	-	148 773
Other financial liabilities	1 694	364
Liabilities due to taxes, customs, social and health insurance and other public law titles	41 377	38 141
Payroll liabilities	3 905	3 299
Other, including:	9 903	4 845
– liability under the Company Social Benefits Fund	1 672	1 971
– payroll deduction	979	555
– investment commitments	7 007	1 022
– other	245	1 297
Special funds	4 521	4 134
Total	**102 825**	**245 412**

18. Passive accruals

	31 December 2019	*31 December 2018*
1. Negative goodwill	-	-
2a. Other long-term passive accruals in total	363	410
Accruals of revenues, including:	363	410
– Grant settled in time	363	410
Other, including :	-	-
2b. Other short-term accruals in total	986	1 359
Accruals of revenues, including	367	93
– grant settled in time	46	46
– financial compensation	313	39
– other	8	8
Other, including:	619	1 266
– Other reserves	167	450
– Remission of property rights „green certificates"	251	485
– Remission of property rights „white energy"	187	36
– Remission of property rights „red certificates"	-	44
– Remission of property rights „blue certificates"	14	31
– Remission of property rights gas payment „yellow"	-	193
– Remission of property rights gas payment „purple"	-	27
Accruals – total	**1 349**	**1 769**

19. Liabilities secured on the assets of the unit

The company had the following types of liabilities secured on its assets:

Agreement	*Kind of security*	*31 December 2019* *Amount of security*	*Currency*	*31 December 2018* *Amount of security*	*currency*
Syndicated loan agreement of 13 March 2014 for PLN 667 million for ZE PAK SA	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

Registered pledges regarding the syndicated loan agreement were released by the District Court Poznań Nowe Miasto and Wilda VII Economic Department - Register of Pledges on February 19, 2020.

(in thousand PLN)

20. Contingent liabilities

	31 December2019	*31 December 2018*
Due to guarantees and sureties granted to:	136 959	126 700
– Affiliated companies, including:	120 700	126 700
– For subsidiaries	120 700	126 700
– For the parent company	-	-
– other units in which the issuer has equity exposure	-	-
– other entities	16 259	-
From other titles for:	2 041 508	4 100 808
– Affiliated companies, including:	-	-
– For subsidiaries	-	-
– For the parent company	-	-
– other units in which the issuer has equity exposure	-	-
– other entities, including:	2 041 508	4 100 808
– for a partner of a subsidiary	-	-
– for a significant investor	-	-
– for other entities	2 040 000	4 099 750
– for employees	1 508	1 058
Total contingent liabilities	**2 178 467**	**4 227 508**

The amount of PLN 2 040 000 thousand relates to collateral of the syndicated loan of March 13, 2014 for the amount of PLN 667 million. The main security items include: registered and financial pledge on shares of ZE PAK SA in PAK Infrastructure, assignment from electricity sales contracts and assignment from the insurance policy of Pątnów Power Plant. On February 19, 2020, all registered pledges were deleted.

Contingent liability for decommissioning of power plants in the light of the integrated permits held

The obligation to carry out liquidation and land reclamation results from integrated permits for operating fuel combustion installations at Pątnów and Konin and Adamów power plants belonging to ZE PAK SA. In the event of termination of activities, the abovementioned entities are obliged to carry out the liquidation of all facilities and equipment of the installation in accordance with the requirements arising from the provisions of the construction law. The area of installations after their liquidation should be managed according to the arrangements made with the local government body. In particular, a project for decommissioning facilities and equipment should be prepared taking into account environmental protection requirements, mainly in relation to waste management.

Therefore, in order to reliably estimate the costs of decommissioning facilities and equipment, it is necessary to draw up a project that takes into account a number of requirements (e.g. construction, health and safety, environmental). These requirements will be fully dependent on the arrangements made with the local government body, because it is with him that the method of land development should be determined. At present, we do not know the date of termination of activity, we do not know the arrangements that will have to be worked out with the local government regarding the way of land development, and thus it is not possible to reliably estimate the costs of decommissioning.

21. Other contracts not included in the balance sheet

As at December 31, 2019 and as at December 31, 2018, the Company did not have any significant contracts not included in the balance sheet.

(in thousand PLN)

22. Material and territorial structure of sales

The material structure of sales revenues in 2019 and 2018 was as follows:

	Year ended 31 December2019	*Year ended 31 December2018*
Revenues from electricity sale, including:	990 570	816 727
– Affiliated companies	170 900	291 878
– Other entities	819 670	524 849
Revenues from certificates of origins, including:	54 681	45 983
– Affiliated companies	-	-
– Other entities	54 681	45 983
Revenues from sale of heat, including:	46 242	36 774
– Affiliated companies	36	29
– Other entities	46 206	36 745
Revenues from sale of services, including:	107 455	89 346
– Affiliated companies	105 517	86 698
– Other entities	1 938	2 648
Revenues from electricity from resale, including:	228 489	229 434
– Affiliated companies	49 485	-
– Other entities	179 004	229 434
Revenues from other sales, including:	2 417	2 536
– Affiliated companies	1 711	1 617
– Other entities	706	919
Total net revenues	**1 429 854**	**1 220 800**

Structure of revenues from the sale:

	31 December 2019	*31 December2018*
Revenues achieved in domestic turnover	1 429 727	1 220 713
Revenue generated in foreign trade	127	87
Total	**1 429 854**	**1 220 800**

23. Impairment write-downs of fixed assets

In the current reporting period, the Company made revaluation write-offs for fixed assets in the amount of PLN 125,001 thousand. The write-offs were included in other operating costs.

24. Interest and exchange differences, which increased the purchase price of goods or the cost of manufacturing products in the financial year

Both in the financial year ended on December 31, 2019 and in the previous year, the Company did not increase the purchase price of goods or the cost of producing products with interest or exchange rate differences.

25. Inventories

	31 December 2019	*31 December 2018*
Materials	52 628	35 094
Semi-finished products and products in progress	-	-
Products	-	-
Goods, including:	24 892	20 989
– Green certificates	24 886	20 291
– Red certificates	-	489
– Yellow certificates	-	135
– White certificates	-	34
– Purple certificates	-	20
– Blue certificates	6	20
Advances for deliveries	3	1
Total inventories	**77 523**	**56 084**
Total impairment write-downs for inventories, including:	42 116	11 233
– Materials	42 016	9 518
– goods	100	1 715

(in thousand PLN)

26. Information on revenues, costs and results of discontinued operations in the financial year or to be discontinued in the following year

In the financial year, the Company did not discontinue and in the next year it does not plan to discontinue any type of activity.

27. Income tax

Reconciliation of the gross profit to the tax base is as follows:

	Year ended 31 December2019	*Year ended 31 December2018*
Gross profit (loss)	**27 227**	**(106 192)**
Revenues of the current year not included in the taxable income	(163 476)	(170 040)
– Valuation of the loan granted to EPII (capital)	-	(3 534)
– Revenue from certificates' production	(50 704)	(37 031)
– Depreciation write-down	(46)	(46)
– Accrued interest on loans granted	-	(90)
– reimbursement of the penalty paid to the Energy Regulatory Office for not maintaining fuel reserves	-	(1 500)
– Account and settlement valuation	-	(5)
– Accrued interest on bank accounts	(296)	(29)
– Valuation of forward contracts	-	(19)
– Termination of impairment write-downs on receivables	(1)	-
– Termination of impairment write-downs on fixed assets under construction	(33 122)	-
– Revenues from leasing contracts	(439)	(12)
– received dividends	(78 868)	(127 774)
Revenues of the current year not included in the net result of the fiscal year	119	510
– start-up costs	-	201
– Interest paid on loans granted	90	90
– Received interest on bank accounts	29	219
The costs of the current year permanently not recognized as tax deductible costs	3 802	2 751
– Trade union costs	62	119
– Car depreciation of value above EUR 20 000	-	232
– Depreciation of granted fixed assets	71	71
– depreciation of assets for the ash landfill	584	584
– Payment on PFRON	860	915
– Budget interest	1 750	18
– Restructuring costs	-	81
– Costs of representation	147	573
– Costs of Supervisory Board	1	4
– Donation	102	150
– other	225	4
The costs of the current year transitionally not recognized as tax deductible costs	195 922	492 034
– social security contributions	2 623	1 984
– unpaid salaries (civil contracts)	89	86
– creating a reserve for an annual bonus	10 494	7 910
– creating a reserve for audit costs	85	105
– creation of a provision for employee benefits costs	4 445	-
– creation of a provision for CO_2 refund	-	30 640
– creating revaluation of write-offs of receivables	522	-
– creating revaluation write-offs for materials	1 224	6 997
– creation of revaluation write-offs for fixed assets	125 001	6 584
– creation of write-offs revaluating financial assets	-	79 359
– revaluation of green certificates	1 740	1 702
– revaluation of red certificates	-	13
– creation of a reserve for CO2 emission allowances	-	335 045
– creation of a provision for liquidation of property assets	799	799
– discount on the reserve for the ash landfill	481	1 838
– valuation of forward contract	1 571	-
– accrued interest on loans and borrowings	2 046	1 499

(in thousand PLN)

– costs of sale of green and red certificates	44 329	16 087
– RMB green certificates	251	485
– RMB red certificates	-	43
– RMB yellow certificates	-	193
– RMB purple certificates	-	27
– RMB white Energy	187	36
– RMB blue certificates	14	31
– RMB environmental fees	-	345
– valuation of cash at hand and on accounts in foreign currencies	5	4
– other	16	222
The costs of the previous year recognized as tax-deductible expenses in the current year	(11 092)	(11 907)
– social security contribution and remuneration	(2 069)	(2 589)
– an annual bonus paid out	(9 023)	(9 318)
The costs of the current year recognized as tax deductible expenses not recognized in profit / loss account	(113 773)	(118 952)
– tax depreciation	(113 773)	(118 952)
Other differences	(22 841)	(72 393)
– purchase of CO2 emission allowances	-	(70 788)
– termination of provision for free CO2	(24 277)	-
– termination of reclamation reserve	(216)	(216)
– termination of provision for employee benefits	-	(1 703)
– termination of provisions for holidays	-	(240)
– termination of provision for audit	(105)	(185)
– termination of provision for certificates payment	(64)	(39)
– termination of the reserve for payments	(81)	-
– certificates purchased to cover the obligation for the previous year	(224)	(464)
– operational lease (fee)	-	(193)
– interest on loans and advances paid	(1 499)	-
– reversal of the valuation of the loan granted (interest + capital)	3 534	2 213
– liquidation of fixed assets (tax difference and balance sheet difference)	110	141
– reversal of the forward contract valuation	(19)	(805)
– other	-	(114)
Tax income (loss)	**(84 112)**	**15 811**
– Use of income loss	-	(15 801)
– Donations to deduct	-	(10)
Tax basis income	**-**	**-**
Tax rate	**19%**	**19%**
Income tax (current)	**-**	**-**
Income tax refund from previous years	(1 760)	-
Income tax on dividends	7	16
Change in the provision / asset of differed income tax	75 319	(41 692)
Total income tax	**(73 566)**	**(41 676)**

Regulations regarding value added tax, corporate income tax and social security burdens are subject to frequent changes. These frequent changes result in the lack of appropriate benchmarks, inconsistent interpretations and few established precedents that could be applicable. The binding provisions also contain ambiguities that cause differences in opinions as to the legal interpretation of tax regulations, both between state authorities as well as state authorities and enterprises.

Tax settlements and other areas of activity (for example, customs or currency issues) may be subject to control by authorities that are entitled to impose high penalties and fines, and any additional tax liabilities resulting from control must be paid together with high interest. These conditions mean that the tax risk in Poland is higher than in countries with a more mature tax system.

As a consequence, the amounts presented and disclosed in the financial statements may change in the future as a result of the final decision of the tax control authority.

As of 15 July 2016, amendments to the Tax Code were introduced to take into account the provisions of the General Anti-Abuse Regulation (GAAR). GAAR is to prevent the creation and use of artificial legal structures created to avoid payment of tax in Poland. GAAR defines tax avoidance as an act performed primarily to obtain a tax advantage that is contrary to the circumstances under consideration with the subject and purpose of the tax act. According to GAAR, such an activity does not result in a tax advantage if the method of operation was artificial. Any occurrence of (i) unjustified dividing of operations, (ii) involving intermediary entities in the absence of economic or financial justification, (iii) mutually eliminating or compensating elements, and (iv) other activities with a similar effect to those previously mentioned may be treated as a prerequisite for the existence of artificial activities subject to the GAAR provisions. The new regulations will require much greater judgment in assessing the tax consequences of individual transactions.

(in thousand PLN)

The GAAR clause should be applied to transactions made after its entry into force and to transactions that were carried out prior to the entry into force of the GAAR clause, but for which, after the date of entry into force, the benefits were or are still being achieved. The implementation of the aforementioned provisions will enable the Polish tax inspection authorities to question the legal arrangements and arrangements made by legal taxpayers, such as the restructuring and reorganizing of the group.

The Company recognizes and measures assets and liabilities due to current and deferred income tax when applying AoA requirements. Income tax based on profit (tax loss), tax base, unsettled tax losses, unused tax credits and tax rates, including uncertainty assessments related to tax settlements.

When there is uncertainty as to whether and to what extent the tax authority will accept individual tax settlements of the transaction, the Company recognizes these settlements taking into account the uncertainty assessment.

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

On April 13, 2016, the Director of the Tax Control Office in Poznań initiated ex officio tax proceedings against ZE PAK SA regarding the reliability of declared tax bases and the correctness of calculating corporate income tax for the 2014 tax year, taking into account the issue of transfer prices. 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 caused 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 pay 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 settled the 2014 liability and interest owed.

These adjustments resulted in new tax losses, as described below:

	Tax result as at 31 December 2019 (corrected)	*Tax result as at 31 December 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 thousand PLN)

Deferred income tax provisions / assets consist of differences from the following titles:

	Balance sheet		*Profit and loss account for the period ended*	
	31 December 2019	*31 December 2018*	*31 December 2019*	*31 December 2018*
Deferred income tax reserve				
Accelerated tax depreciation	152 583	130 967	21 616	22 537
Purchased EUA	-	8 025	(8 025)	(28 741)
Loan valuation	-	671	(671)	250
Certificates on stock	4 728	3 948	780	3 596
Other	56	27	29	(32)
Deferred income tax reserve	**157 367**	**143 638**	**13 729**	**(2 390)**
Deferred income tax assets				
Provisions for employee benefits	4 896	3 772	(1 124)	638
Other reserves	32	86	54	(52)
Reserves for property liquidation	3 456	3 304	(152)	(151)
Reserves for reclamation	62	103	41	41
Reserve for the return of CO_2 allowances	1 209	5 822	4 613	(5 822)
Provision for CO2 allowances	-	63 609	63 609	(21 469)
Unpaid social security contributions XI-XII	515	377	(138)	99
Impairment loss on fixed assets under construction	-	1 251	1 251	(1 251)
Impairment write-down on inventory	7 983	1 808	(6 175)	(1 329)
Impairment write-down on certificates	86	155	69	(2)
Impairment write-down on receivables	467	367	(100)	-
Impairment write-down on financial property	15 087	15 690	603	(13 470)
Leaseback	77	84	7	8
Valuation of the forward contract	291	-	(291)	-
Tax loss asset	10 192	9 671	(521)	3 002
Other	172	16	(156)	456
Deferred income tax assets	**44 525**	**106 115**	**61 590**	**(39 302)**
Net provision of deferred income tax	**112 842**	**37 523**	**75 319**	**(41 692)**

Due to the change in the approach to accounting for the purchase of CO2, we have released the asset regarding the provision in the amount of PLN 63,609 thousand and the provision for deferred income tax in the amount of PLN 8,025 thousand.

(in thousand PLN)

28. Costs by type

	Year ended 31 December 2019	*Year ended 31 December 2018*
Depreciation	38 593	38 801
Usage of materials and energy	454 359	462 304
External service	139 907	133 780
Tax and fees	411 447	381 916
Remuneration	79 679	76 313
Social security contribution and other benefits, including retirement	19 143	18 337
Other costs by type	6 125	7 208
Total costs by type	**1 149 253**	**1 118 659**
Change in products	2 590	(2 775)
The cost of manufacturing products for the entity's own needs (negative value)	(56)	(56)
Costs of sale (negative value)	(1 565)	(1 846)
Administrative costs (negative value)	(47 887)	(50 112)
Costs of manufacturing products sold	(1 102 335)	(1 063 870)

29. Other operating revenues

	Year ended 31 December 2019	*Year ended 31 December 2018*
Profit from disposal of non-financial fixed assets, including:	1 088	63
– Profit from disposal of tangible and intangible fixed assets	1 384	63
– Net value of fixed assets and liquidation costs	(296)	-
Grants	46	46
Other operating revenues, including:	2 470	2 993
– Inventory differences	-	-
– Reduction of impairment write-downs on receivables	-	1
– Received compensations and contractual penalties	1 056	2 246
– remuneration for surety from related entities	755	573
– other	659	173
Total other operating revenues	**3 604**	**3 102**

30. Other operating costs

	Year ended 31 December 2019	*Year ended 31 December 2018*
Revaluation of non-financial assets, including:	128 487	15 296
– Impairment write-downs on receivables	522	-
– Impairment write-downs on inventories	1 224	6 997
– Impairment write-downs on fixed assets	109 000	-
– Impairment write-downs on fixed assets under construction	16 001	6 584
– Impairment write-down on certificates	1 740	1 715
Other operating costs, including:	4 202	32 272
– costs of contentious and enforcement proceedings	26	200
– provision for the return of CO_2 allowances	-	30 640
– result on abandoned investments	82	-
– material and financial donations transferred	102	150
– Damage costs due to equipment failures	424	597
– Costs of inventory liquidation	16	16
– Paid compensations and penalties	33	33
– Actuarial losses	3 392	486
– Other operating costs	127	150
Total other operating costs	**132 689**	**47 568**

(in thousand PLN)

31. Financial revenues

	Year ended 31 December 2019	*Year ended 31 December 2018*
Profits from dividends and share in profits, including:	78 868	127 774
– profits from participation in affiliates, including:	78 830	127 692
• Elektrownia Pątnów II sp. z o.o.	77 000	90 000
• PAK – HOLDCO sp. z o.o.	-	24 972
• PAK Serwis sp. z o.o.	-	5 215
• PAK – VOLT SA	-	4 000
• PAK Infrastruktura sp. z o.o.	1 830	3 505
– profits from participation in other entities	38	82
Interest, including:	1 402	2 569
– interest on loans granted to affiliates	340	428
• Elektrownia Pątnów II sp. z o.o.	340	428
– remaining interest from affiliates	-	-
– interest on other contractors	-	-
– bank interest	1 062	1 737
– interest on the refunded URE penalty	-	387
– other interests	-	17
Revaluation of investment, including:	-	2 146
– impairment write-down on financial assets	-	2 146
Other, including:	1 693	487
– realized positive exchange rates	1 495	174
– profit from realized forward contract	-	-
– other	198	313
Total financial revenues	**81 963**	**132 976**

32. Financial costs

	Year ended 31 December 2019	*Year ended 31 December 2018*
Loss on disposal of investment	-	-
Interest, including:	9 684	11 738
– Interest for affiliates	-	-
– Interest for other entities	21	13
– Budget interest	1 750	18
– Bank interest	7 892	11 624
– Other interest (including those from lease liabilities)	21	83
Revaluation of financial assets, including:	1 571	79 359
– write-down of shares in PAK KWB Adamów SA	-	79 359
– revaluation of financial assets held for resale	1 571	-
Other, including:	1 896	3 426
– loss on the realized forward contract	356	-
– other financial costs	261	789
– discount of the reserves	1 279	2 637
Total financial costs	**13 151**	**94 523**

33. The cost of producing fixed assets under construction

	Year ended 31 December 2019	*Year ended 31 December 2018*
The cost of producing fixed assets under construction, including:	18 419	11 918
– interest on liabilities (taken out to finance the production of fixed assets)	-	-
– exchange rates on liabilities (taken out to finance the production of fixed assets)	-	-

(in thousand PLN)

34. Income and costs of extraordinary value or which occurred incidentally

Until the date of preparation of the financial statements for the period ended December 31, 2019, i.e. until March 19, 2020, there were no other significant events concerning prior years that have not been and should have been included in the financial statements for the financial year.

35. The structure of cash received in the cash flow statement

	Year ended 31 December 2019	*Year ended 31 December 2018*
Cash at bank accounts, including:	211 816	149 331
− Cash on VAT accounts	5 435	147
Cash on hand	2	19
Other cash	-	-
Total cash	**211 818**	**149 350**
Cash in PLN currency	211 818	73 669
Cash in foreign currency (after conversion)	-	75 681
Cash in EUR currency	-	17 600
Exchange differences	-	5
Cash in the Cash Flow Statement	**211 818**	**149 345**

36. The reasons for differences between changes in the balance of certain items in the balance sheet and changes in the same items reported in the cash flow statement

	Year ended 31 December 2019	*Year ended 31 December 2018*
Receivables		
Balance sheet change in long-term and short-term net receivables	(5 287)	(36 949)
− Receivables due to dividends	(10 000)	10 000
− change in the balance of investment receivables	-	-
Change in the balance of investment in cash flow statement	**(15 287)**	**(26 949)**

	Year ended 31 December 2019	*Year ended 31 December 2018*
Inventories		
Balance change in inventories	(21 440)	(14 467)
− value of materials transferred from fixed assets under construction	15 836	-
Change in receivables in the cash flow statement	**(5 604)**	**(14 467)**

	Year ended 31 December 2019	*Year ended 31 December 2018*
Liabilities		
Balance sheet change in short-term and long-term liabilities and loans	(201 688)	(186 317)
− change in liabilities due to loans	207 827	147 046
− change in liabilities due to purchase of CO2 emission allowances	-	-
− change in leasing liabilities	(154)	(211)
− change in investment liabilities	(5 301)	11 379
− other	(1 516)	805
Change in liabilities in the cash flow statement	**(832)**	**(27 298)**

	Year ended 31 December 2019	*Year ended 31 December 2018*
Reserves		
Balance sheet change in provisions	88 484	101 007
− change in the EUA redemption reserve	334 714	222 055
Change in provisions in the cash flow statement	**423 198**	**323 062**

(in thousand PLN)

	Year ended 31 December 2019	*Year ended 31 December 2018*
Investment activity		
– profit (loss) on disposal of investments	(1 088)	(63)
– valuation of forward contract	(423)	(825)
– Impairment write-downs on fixed assets	125 001	-
– other	155	-
Profit (loss) on investing activities in the cash flow statement	**123 645**	**(888)**

	Year ended 31 December 2019	*Year ended 31 December 2018*
Other adjustments		
Balance change in the status of other adjustments	-	-
– purchase of CO_2 emission allowances	(304 506)	(70 788)
– derivative liability	1 571	-
– assignment of a car leasing contract	-	(12)
– impairment loss on financial assets	-	79 359
– impairment loss on fixed assets under construction	-	6 584
Change in other adjustments in the cash flow statement	**(302 935)**	**15 143**

	Year ended 31 December 2019	*Year ended 31 December 2018*
Purchase of intangible assets and property, plant and equipment		
– capital expenditure on property, plant and equipment	18 442	11 918
– change in investment liabilities	(5 301)	11 467
– change in advance payments for fixed assets under construction	1 560	(698)
– expenditure on intangible assets	263	-
Expenses for investment activities in the cash flow statement	**14 964**	**22 687**

	Year ended 31 December 2019	*Year ended 31 December 2018*
Proceeds from investment activities		
– dividends received from related parties	88 830	117 692
– repayment of loans from related parties	47 956	-
– interest received from related entities	440	441
– dividends received from other entities	38	82
Inflows from financial assets in the cash flow statement	**137 264**	**118 215**

(in thousand PLN)

37. Information on average employment divided into professional groups

	Year ended 31 December 2019	*Year ended 31 December 2018*
Group of employed		
Management	4	4
Administration	103	36
Sales department	29	18
Production department	524	671
Others	298	211
Total employment	**958**	**940**

38. Information on the remuneration of an audit firm

The table below presents the remuneration of the entity authorized to audit financial statements paid or due for the year ended 31 December 2019 and 31 December 2018, divided into types of services:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Audit of an annual financial statements	220	295
Other certified services	-	-
Tax advisory services	-	-
Other services		65
Total, including:	**220**	360
– Due at the balance sheet day	**85**	245
– Paid out at the balance sheet day	135	105

39. Information on remuneration, including remuneration from profits and pensions paid or due to persons who are members of management and supervisory bodies

The remuneration of persons who are members of the managing and supervising or administering bodies of the Company amounted to:

	Year ended 31 December 2019	*Year ended 31 December 2018*
Remuneration		
Management Board	2 441	2 314
Supervisory Board	1 117	1 020
Total remuneration	**3 558**	**3 334**

40. Information on loans and benefits of a similar nature granted to persons who are members of the managing and supervising bodies

In both the financial year ended December 31, 2019 and the previous year, the Company did not grant any loans and benefits of a similar nature to persons who are members of the management and supervisory bodies.

41. Information on joint ventures that are not consolidated

The company did not undertake joint ventures that are not consolidated.

42. Information on joint ventures that are not consolidated

42.1. Capital Group

a) The company operates within the Elektrim SA Capital Group.

(in thousand PLN)

The consolidated financial statements at the highest level of the capital group, which includes the Company as a subsidiary, is prepared by Elektrim SA with its registered office in Warsaw. The duration of the parent company and entities belonging to the Capital Group is indefinite. This report is available at the Company's headquarters in Warsaw at 77/79 Pańska Street.

a) The company is a parent company and prepares consolidated financial statements. The Capital Group of Zespół Elektrowni Pątnów - Adamów - Konin SA ("Group", "Capital Group", "ZE PAK SA Group") consists of Pątnów - Adamów - Konin SA Power Plant (" parent Company"," Company "," ZE PAK SA ") and its subsidiaries. The consolidated financial statements of the Group cover the year ended on December 31, 2019 and contain comparative data for the year ended December 31, 2018. The consolidated financial statements are available at the Company's headquarters in Konin at 45 Kazimierska str.

The duration of the parent company and entities comprising the Capital Group is indefinite.

The basic subject of the Group's operations is:
1) Generation and sale of electricity,
2) Production and sale of heat (water steam and hot water),
3) Lignite mining.

The consolidated financial statements include the Reports of the following Companies:

Entity	*Registered office*	*Scope of operations*	*Group's share in the capital in %*	
			As at 31 December 2019	*As at 31 December 2018*
„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 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%
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100,00%	100,00%
„PAK GÓRNICTWO" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Mechanical, renovation, assembly services, land reclamation, production and trade of mineral waters	100,00%	100,00%
PAK – VOLT SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activity	100,00%	100,00%
PAK Adamów sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	100,00%	100,00%
„Aquakon" sp. z o.o. in liquidation	62-610 Sompolno Police	Buying and selling real estate	98,92%*	96,2%*

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

As at 31 December 2019, the share in the total number of votes held by the Group in subsidiaries is equal to the Group's share in the capital of these entities.

42.2. Transactions with affiliated entities

Transactions with related entities were made on market terms. The volume of transactions with entities under the control of the parent company amounted to:

Elektrownia Pątnów II sp. z o.o.

	Year ended 31 December 2019	*Year ended 31 December 2018*
Purchase	131	140
Sale	72 634	63 633
Other operating revenues	1 743	-
Exchange rates – financial costs	1 270	1 335
Interest – financial revenues	340	428
Received dividends and share in profit	77 000	90 000

(in thousand PLN)

	31 December 2019	*31 December 2018*
Receivables due to deliveries, works and services	7 426	3 010
Liabilities for deliveries, works and services	12	19
Loans granted	-	46 786
Loans received	-	-
Other receivables	3 377	11 847
Other liabilities	-	-

PAK Infrastruktura sp. z o.o.

	Year ended 31 December 2019	*Year ended 31 December 2018*
Purchase	10 655	9 921
Sale	12 772	11 100
Other operating revenues	21	-
Interests – financial costs	-	-
Interests – financial revenues	-	-
Received dividends and share in profit	1 830	3 505

	31 December 2019	*31 December 2018*
Receivables due to deliveries, works and services	1 308	1 139
Liabilities for deliveries, works and services	1 092	1 017
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

PAK - HOLDCO sp. z o.o.

	Year ended 31 December 2019	*Year ended 31 December 2018*
Purchase	-	-
Sale	-	-
Interests – financial costs	-	-
Interests – financial revenues	-	-
Received dividends and share in profit	-	24 972

	31 December 2019	*31 December 2018*
Receivables due to deliveries, works and services	-	-
Liabilities for deliveries, works and services	-	-
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

PAK Kopalnia Węgla Brunatnego Konin SA

	Year ended 31 December 2019	*Year ended 31 December 2018*
Purchase	319 372	345 983
Sale	10 344	4 000
Other operating revenues	1 476	554
Interests – financial costs	-	-
Interests – financial revenues	-	-
Received dividends and share in profit	-	-

	31 December 2019	*31 December 2018*
Receivables due to deliveries, works and services	34 277	12 062
Liabilities for deliveries, works and services	-	-
Loans granted	-	-
Loans received	-	-
Other receivables	-	-

Other liabilities	-	-

PAK Kopalnia Węgla Brunatnego Adamów SA

	Year ended 31 December 2019	*Year ended 31 December 2018*
Purchase	148	148
Sale	2 678	1 588
Investment purchase	14 162	-
Other operating revenues	277	-
Interests – financial costs	-	-
Interests – financial revenues	-	-
Received dividends and share in profit	-	-

	31 December 2019	*31 December 2018*
Receivables due to deliveries, works and services	757	267
Liabilities for deliveries, works and services	19	16
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	5 965	-

Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o.

	Year ended 31 December 2019	*Year ended 31 December 2018*
Purchase	74 440	76 184
Sale	6 558	5 682
Other operating revenues	203	20
Interests – financial costs	-	-
Interests – financial revenues	-	-
Received dividends and share in profit	-	5 215

	31 December 2019	*31 December 2018*
Receivables due to deliveries, works and services	1 397	1 036
Liabilities for deliveries, works and services	5 635	7 858
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	6 005	685

PAK Górnictwo sp. z o.o.

	Year ended 31 December 2019	*Year ended 31 December 2018*
Purchase	6 773	7 185
Sale	3 394	2 604
Other operating revenues	146	-

	31 December 2019	*31 December 2018*
Receivables due to deliveries, works and services	1 698	333
Liabilities for deliveries, works and services	1 290	1 633
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

PAK – VOLT SA

	Year ended 31 December 2019	*Year ended 31 December 2018*
Purchase	6	4
Sale	220 015	291 549

(in thousand PLN)

Interests – financial costs	-	-
Interests – financial revenues	-	-
Received dividends and share in profit	-	4 000

	31 December 2019	*31 December 2018*
Receivables due to deliveries, works and services	65 671	36 138
Liabilities for deliveries, works and services	200	200
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

PAK Adamów sp. z o.o.

	Year ended 31 December 2019	*Year ended 31 December 2018*
Purchase	-	-
Sale	5	6
Interests – financial costs	-	-
Interests – financial revenues	-	-
Received dividends and share in profit	-	-

	31 December 2019	*31 December 2018*
Receivables due to deliveries, works and services	1	-
Liabilities for deliveries, works and services	-	-
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

Aquakon sp. z o.o. in liquidation

	Year ended 31 December 2019	*Year ended 31 December 2018*
Purchase	7	-
Sale	9	10
Interests – financial costs	-	-
Interests – financial revenues	-	-
Received dividends and share in profit	-	

	31 December 2019	*31 December 2018*
Receivables due to deliveries, works and services	1	1
Liabilities for deliveries, works and services	-	-
Loans granted	-	-
Loans received	-	-
Other receivables	-	-
Other liabilities	-	-

43. List of companies in which the Company has a capital interest or 20% in the total number of votes in the company's governing body

As at 31 December 2019

	Name of entity	*Seat*	*Number of shares*	*Balance value of shares***	*Share in equity (%)*	*Net profit (loss) for the year ended on December 31 2019**	*Equity capitals as at December 31 2019 **
1.	Elektrownia Pątnów II sp. z o.o.	Konin	200	750 500	100,00	(259 233)	916 752
2.	PAK KWB Konin SA	Kleczew	23 906 202	125 244	97,68	(58 788)	99 535

(in thousand PLN)

3.	PAK KWB Adamów SA	Turek	11 921 833	-	99,35	14 112	(50 340)
4.	Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o.	Konin	189 419	9 755	100,00	3 137	27 518
5.	PAK Górnictwo sp. z o.o.	Konin	141 000	-	100,00	(3 125)	13 625
6.	PAK – VOLT SA	Warszawa	2 950 000	118 500	100,00	3 001	28 174
7.	PAK Infrastruktura sp. z o.o.	Konin	200	48 885	100,00	1 282	61 674
8.	PAK Adamów sp. z o.o.	Konin	1 000	50	100,00	(5)	36
9.	Aquakon sp. z o.o. in liquidation	Police	5 070	1 536	98,92	7	3484

* *Companies' data is not final.*

** *The balance sheet value of shares results from direct and indirect involvement in capital.*

As at31 December 2018

	Name of entity	*Seat*	*Number of shares*	*Balance value of shares**	*Share in equity (%)*	*Net profit (loss) for the year ended on December 31 2018*	*Equity capitals as at December 31 2018*
1.	Elektrownia Pątnów II sp. z o.o.	Konin	200	750 500	100,00	(108 530)	1 252 525
2.	PAK KWB Konin SA	Kleczew	23 906 202	125 244	97,68	(134 564)	158 403
3.	PAK KWB Adamów SA	Turek	11 921 833	-	99,35	(120 865)	(64 444)
4.	Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o.	Konin	189 419	9 755	100,00	(802)	24 380
5.	PAK Górnictwo sp. z o.o.	Konin	141 000	-	100,00	5 369	16 750
6.	PAK – VOLT SA	Warszawa	2 950 000	118 500	100,00	(14 241)	25 173
7.	PAK Infrastruktura sp. z o.o.	Konin	200	48 885	100,00	1 830	62 222
8.	PAK Adamów sp. z o.o.	Konin	1 000	50	100,00	(9)	41
9.	Aquakon sp. z o.o. in liquidation	Police	5 070	1 536	96,20	10	3479

* *The balance sheet value of shares results from direct and indirect involvement in capital*

All shares in subsidiaries as at December 31, 2019 and as at December 31, 2018 were not preferential.

At the end of each period, the Company's Management Board assesses whether there are any indications that the value of shares / stocks in subsidiaries may have been impaired. In the opinion of the Management Board, as at December 31, 2019 there were premises indicating possible impairment of shares, such as:

- the value of the equity of the subsidiaries PAK - VOLT SA and PAK KWB Konin SA is lower than the value of shares,
- in the companies, Elektrownia Pątnów II sp. z o.o. and PAK KWB Konin SA, it was found necessary to make impairment losses on generating assets.

Accordingly, as at December 31, 2019, impairment tests of shares / stocks were carried out in PAK - VOLT SA, Elektrownia Pątnów II sp. z o.o. and PAK KWB Konin SA. As a result of the tests, no impairment of shares was recorded.

44. Information on meeting the requirements of art. 44 of the Energy Law

Article 44 paragraph 1 of the Energy Law Act, in order to ensure equal treatment of recipients and eliminate cross-subsidies, obliges energy companies to keep accounting records in a way that allows separate calculation of costs and revenues, profits and losses for business operations in the supply of gaseous fuels or energy, including costs fixed, variable costs and revenues, separately for the production, transmission, distribution and trade in gaseous fuels or energy, storage of gaseous fuels and liquefied natural gas or regasification of liquefied natural gas, as well as for groups of customers defined in the tariff and not related to mentioned above.

In order to meet the aforementioned requirement, the Company keeps an accounting register enabling the separate calculation of costs and revenues, profits and losses for particular types of activities listed in art. 44 item 1 of the Energy Law. In terms of revenues, revenues related to the sale of electricity, heat energy, property rights and system services were separated. In terms of costs, the Company keeps records ensuring the division of costs into variable and permanent. Variable costs depend on the volume of electricity and heat production; these are costs of coal, biomass, auxiliary liquid fuels like mazout or heating oil and limestone flour, costs of chemicals consumption for technological purposes, fees for economic use of the environment in the field of water, post-production waste and emissions of volatile pollutants into the air, costs of purchasing allowances for CO_2 emissions. Costs dependent on the production volume also include costs related to the sale of energy: excise duty, statutory fees related to certification and participation in open energy markets. Other costs are fixed costs. The basis for the settlement of costs for individual activities are distribution keys based on which the type costs are accounted for at the own cost of generating electricity and heat and other activities.

Article 44 paragraph 2 of the Energy Law Act, in order to meet the requirements to ensure equal treatment of recipients and eliminating cross-subsidies between activities, obliges energy enterprises as part of disclosures in the additional information of the annual financial statements to present relevant balance sheet items and profit and loss account separately for individual types of business activity in the scope of transmission or distribution of electricity, transmission, distribution or storage of gaseous fuels, trade in gaseous fuels, liquefaction of natural gas or regasification of liquefied natural gas, as well as indication of the principles of allocation of assets and liabilities and costs and revenues for each of these activities.

As part of its operations, the company has not identified the activities listed in art. 44 item 2 of the Energy Law.

45. Events after the balance sheet date

Impact of a COVID-19 disease pandemic on the Company'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 Company include the increased number of employees on holidays, sick leaves and those working remotely. Employee protection is a priority for the Company. Activities undertaken in the Company 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 Company'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 13% compared to the same period of the previous year, hence the key months for the Company will be. 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 CO_2 emission allowances). The company applies 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, CO_2 emission allowances. The Company 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 Company 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 Company. 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
Vice President of the Management Board ....

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

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

Aneta Desecka
Chief Accountant ....