

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA

QUARTERLY FINANCIAL INFORMATION FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2020

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

TABLE OF CONTENTS

BALANCE SHEET	3
PROFIT AND LOSS ACCOUNT (CALCULATION TYPE)	7
STATEMENT OF CASH FLOW (INDIRECT METHOD)	8
ZESTAWIENIE ZMIAN W KAPITALE WŁASNYM	10
ADDITIONAL INFORMATION TO THE CONDENSED SUMMARY FINANCIAL STATEMENT FOR 3 MONTHS	12
1. GENERAL INFORMATION ABOUT THE COMPANY	12
2. 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 IFRS	12
3. ASSUMPTION OF CONTINUATION OF ECONOMIC ACTIVITY	14
4. MERGER OF COMMERCIAL COMPANIES	15
5. ACCEPTED PRINCIPLES (POLICY) OF ACCOUNTING	15
6. COMPARABILITY OF FINANCIAL DATA FOR THE PREVIOUS PERIOD WITH THE REPORT FOR THE CURRENT PERIOD	15
7. ERROR ADJUSTMENT	15
8. THE AMOUNT AND NATURE OF ITEMS AFFECTING ASSETS, LIABILITIES, EQUITY, NET INCOME OR CASH FLOWS THAT ARE ABNORMAL DUE TO THEIR NATURE, VALUE OR FREQUENCY	15
9. INFORMATION ON IMPAIRMENT WRITE-DOWNS AGAINST PROVISIONS VALUE, IMPAIRING TO THE NET VALUE POSSIBLE TO ACHIEVE AND ON THE REVERSAL OF SUCH WRITE-DOWNS	15
10. INFORMATION ON THE WRITE-DOWNS AGAINST THE IMPAIRMENT OF FINANCIAL ASSETS, TANGIBLE FIXED ASSETS, NON-MATERIAL AND LEGAL VALUES OR OTHER ASSETS AND THE REVERSAL OF SUCH WRITE-DOWNS	16
11. INFORMATION ON THE CREATION, INCREASE, USE OR LIQUIDATION OF THE PROVISIONS	16
12. INFORMATION ON THE PROVISIONS AND ASSETS RELATED TO DEFERRED INCOME TAX	16
13. INFORMATION ON SIGNIFICANT ACQUISITION AND SALES TRANSACTIONS OF TANGIBLE FIXED ASSETS AND ANY SIGNIFICANT LIABILITY DUE TO PURCHASING TANGIBLE FIXED ASSETS	16
14. INFORMATION ABOUT THE FAILURE TO REPAY A BANK CREDIT OR LOAN, OR THE BREACH OF SIGNIFICANT PROVISIONS OF A BANK CREDIT OR LOAN AGREEMENT, IN RELATION TO WHICH NO REMEDIAL ACTIONS HAVE BEEN UNDERTAKEN UNTIL THE END OF THE REPORTING PERIOD	17
15. INFORMATION ON THE ISSUER OR ITS SUBSIDIARY, CONCLUDING ONE OR MULTIPLE TRANSACTIONS WITH ASSOCIATED ENTITIES, SHOULD THEY HAVE BEEN CONCLUDED UNDER CONDITIONS OTHER THAN MARKET CONDITIONS	17
16. INFORMATION ON THE CHANGE IN THE MANNER (METHOD) OF APPRAISAL OF FINANCIAL INSTRUMENTS, APPRAISED AT FAIR VALUE	17
17. INFORMATION ON THE CHANGES IN THE CLASSIFICATION OF FINANCIAL ASSETS	17
18. INFORMATION ON THE ISSUE, REDEMPTION AND REPAYMENT OF NON-EQUITY AND EQUITY SECURITIES	17
19. EVENTS OF THE ACCOUNTING YEAR NOT SPECIFIED IN THE BALANCE SHEET AND THE INCOME STATEMENT ..	17
20. EVENTS OF PREVIOUS YEARS RECOGNISED IN THE FINANCIAL STATEMENT	17
21. INFORMATION ON THE CHANGES IN THE BUSINESS OR ECONOMIC CIRCUMSTANCES THAT SIGNIFICANTLY AFFECT THE FAIR VALUE OF THE ENTITY'S FINANCIAL ASSETS AND FINANCIAL LIABILITIES, REGARDLESS OF THE FACT, WHETHER THOSE ASSETS AND LIABILITIES ARE RECOGNISED IN THE FAIR VALUE OR THE CORRECTED PURCHASE COST (AMORTISED COST)	17
22. ADDITIONAL INFORMATION	18

BALANCE SHEET

Assets

	31 March 2020 <i>(unaudited)</i>	31 December 2019	31 March 2019 <i>(unaudited)</i>
A. Fixed assets	1 874 022	1 519 635	1 974 802
I. Intangible assets	363 241	2 195	283 220
1. Development expenses	-	-	-
2. Goodwill	-	-	-
3. Other intangible assets	98 814	2 195	283 220
4. Prepayments for intangible assets	264 427	-	-
II. Tangible fixed assets	449 406	455 901	605 947
1. Tangible assets	429 438	436 863	557 252
a) land (including perpetual usufruct)	10 113	10 114	1 280
b) buildings, premises and constructions	126 571	128 846	168 422
c) plant and machinery	291 473	296 537	385 720
d) motor vehicles	414	492	784
e) other	867	874	1 045
2. Construction in progress	18 431	17 478	48 695
3. Prepayments for construction in progress	1 537	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	1 054 532	1 054 533	1 077 887
1. Property	-	-	-
2. Intangible fixed assets	-	-	-
3. Long-term financial assets	1 054 533	1 054 533	1 077 887
a) in affiliates	1 054 380	1 054 381	1 077 735
– shares	1 049 380	1 049 381	1 049 381
– other securities	-	-	-
– loans granted	-	-	23 354
– other long-term financial assets	5 000	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	152
– shares	152	152	152
– other securities	-	-	-
– loans granted	-	-	-
– other long-term financial assets	-	-	-
4. Other long-term investments	-	-	-
V. Long-term prepayments and deferred costs	6 843	7 006	7 748
1. Deferred tax assets	-	-	-
2. Other prepayments and deferred costs	6 843	7 006	7 748
B. Current assets	288 589	472 399	310 335
I. Inventories	82 319	77 524	58 332
1. Raw materials	57 015	52 628	39 998
2. Semi-finished goods and work-in-progress	-	-	-
3. Finished products	-	-	-
4. Property rights	25 301	24 893	18 334
5. Inventory prepayments	3	3	-
II. Short-term receivables	104 901	180 680	162 842
1. Receivables from affiliates	62 687	115 897	97 180

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA
Quarterly Financial Information for the period of 3 months ended 31 March 2020
(in thousand PLN)

a) trade receivables, due in:	62 687	112 472	97 180
– up to 12 months	62 687	112 472	97 180
– over 12 months	-	-	-
b) other	-	3 425	10 000
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	42 214	64 783	65 662
a) trade receivables, due in:	18 971	36 541	38 774
– up to 12 months	18 971	36 541	38 774
– over 12 months	-	-	-
b) taxation, subsidy, customs duty, social security, health insurance and other debtors	4 182	7 529	4 650
c) other	19 061	20 713	22 238
d) submitted to court	-	-	-
III. Short-term investments	99 231	213 818	87 356
1. Short-term financial assets	99 231	213 818	87 356
a) in affiliates	2 000	2 000	25 550
– shares	-	-	-
– other securities	-	-	-
– loans granted	-	-	23 550
– other short-term financial assets	2 000	2 000	2 000
b) in other entities	1 942	-	-
– shares	-	-	-
– other securities	-	-	-
– loans granted	-	-	-
– other short-term financial assets	1 942	-	-
c) cash and other monetary assets	95 289	211 818	61 805
– cash on hand and cash at bank	95 289	211 818	61 805
– other cash and cash equivalents	-	-	-
– other monetary assets	-	-	-
2. Other short-term investments	-	-	-
IV. Short-term prepayments and deferred costs	1 908	377	1 805
C. Unpaid share capital (basic)	-	-	-
D. Own shares	-	-	-
Total assets	2 162 381	1 992 034	2 285 137

Konin, 29 June 2020

Liabilities and equity

	31 March 2020 <i>(unaudited)</i>	31 December 2019	31 March 2019 <i>(unaudited)</i>
A. Equity	1 288 384	1 292 048	1 368 762
I. Equity capital	101 647	101 647	101 647
II. Reserve capital, including:	1 124 376	1 124 377	1 124 376
– surplus of sales value (issue value) over nominal value of shares	380 030	380 030	380 030
III. Revaluation reserve, including:	227 466	227 466	227 466
– for fair value revaluation	-	-	-
IV. Other reserves, including:	3 472	3 472	3 472
– created in accordance with the company's articles of association	-	-	-
– for own shares	-	-	-
V. Profits (losses) from previous years	(164 915)	(118 575)	(118 575)
VI. Net profit (loss) for the period	(3 662)	(46 339)	30 376
VII. Deductions from net profit during the period (negative value)	-	-	-
B. Liabilities and provisions for liabilities	873 997	699 986	916 375
I. Provisions for liabilities	698 584	593 521	580 622
1. Deferred tax liability	118 213	112 842	44 722
2. Provision for retirement benefits and similar obligations	26 321	25 771	20 226
– long-term	11 243	11 155	7 927
– short-term	15 078	14 616	12 299
3. Other provisions	554 049	454 908	515 674
– long-term	82 254	82 111	111 671
– short-term	471 796	372 797	404 003
II. Long-term liabilities	2 136	2 291	2 457
1. To affiliates	-	-	-
2. To other entities of which entity has capital engagement	-	-	-
3. To other entities	2 136	2 291	2 457
a) loans and credits	-	-	-
b) debt securities issued	-	-	-
c) other financial liabilities	136	291	457
d) bills of exchange	-	-	-
e) other	2 000	2 000	2 000
III. Short-term liabilities	169 670	102 825	328 874
1. To affiliates	25 284	20 212	12 214
a) trade liabilities:	18 504	14 222	12 121
– up to 12 months	18 504	14 222	12 121
– over 12 months	-	-	-
b) other	6 780	5 990	93
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	137 625	78 092	310 833
a) loans and credits	83 456	-	232 989
b) debt securities issued	-	-	-
c) other financial liabilities	250	1 694	337
d) trade liabilities:	29 174	27 203	32 843
– up to 12 months	29 174	27 203	32 843
– over 12 months	-	-	-
e) advance payments received	-	-	-
f) bills of exchange	-	-	-
g) taxation, customs duty and social security creditors	17 465	41 377	38 405
h) payroll	3 994	3 905	3 332

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA
Quarterly Financial Information for the period of 3 months ended 31 March 2020
(in thousand PLN)

i) other	3 286	3 913	2 927
4. Special funds	6 761	4 521	5 827
IV. Accruals and deferred income	3 607	1 349	4 422
1. Negative goodwill	-	-	-
2. Other accruals and deferred income	3 607	1 349	4 422
– long-term	352	363	398
– short-term	3 255	986	4 024
Total Liabilities and equity	3 162 381	1 992 034	2 285 137

Konin, 29 June 2020

PROFIT AND LOSS ACCOUNT (calculation type)

	<i>3 months period ended 31 March 2020 (unaudited)</i>	<i>3 months period ended 31 March 2019 (unaudited)</i>
A. Net sales of finished goods, goods for resale and raw materials, of which:	267 299	336 104
– from affiliates	42 792	78 710
I. Net sales of finished products	246 655	258 636
II. Net sales of goods for resale and raw materials	20 644	77 468
B. Cost of finished products, goods for resale and raw materials sold, of which:	251 014	284 323
– to affiliates	30 474	21 754
I. Cost of finished products sold	236 288	225 186
II. Cost of goods for resale and raw materials sold	14 726	59 137
C. Gross profit (loss) on sales (A–B)	16 285	51 781
D. Selling expenses	443	504
E. Administrative expenses	13 252	11 539
F. Profit (loss) on sales (C–D–E)	2 590	39 738
G. Other operating income	680	2 718
I. Gains on the sale of non-financial fixed assets	-	1 365
II. Grants	12	11
III. Revaluation of non-financial assets	-	-
IV. Other operating income	668	1 342
H. Other operating expenses	21 018	2 500
I. Loss on the sale of non-financial fixed assets	-	-
II. Impairment of non-financial assets	1 596	1 858
III. Other	19 422	642
I. Operating profit (loss) (F+G–H)	(17 748)	39 956
J. Financial income	19 691	354
I. Dividends and shares in profits, including:	-	-
a) from affiliates, including:	-	-
– of which the entity has capital engagement	-	-
b) from others, including:	-	-
– of which the entity has capital engagement	-	-
II. Interest, including:	902	278
– from affiliates	-	105
III. Profit on the disposal of financial assets, including:	-	-
– affiliates	-	-
IV. Revaluation of investments	3 493	13
V. Other	15 296	63
K. Financial costs	234	2 735
I. Interest, including:	63	2 319
– to affiliates	-	-
II. Loss on the disposal of financial assets, including:	-	-
– in affiliates	-	-
III. Impairment of investments	-	19
IV. Other	171	397
L. Gross profit (loss) (I+J–K)	1 709	37 575
M. Corporate profits tax	5 371	7 199
N. Other tax charges	-	-
O. Net profit (loss) (L–M–N)	(3 662)	30 376

Konin, 29 June 2020

STATEMENT OF CASH FLOW (indirect method)

	<i>3 months period ended 31 March 2020 (unaudited)</i>	<i>3 months period ended 31 March 2019 (unaudited)</i>
A. Cash flow from operating activities		
I. Net profit (loss)	(3 662)	30 376
II. Adjustments, total	(194 474)	(152 383)
1. Depreciation	7 718	9 663
2. Foreign exchange gains (losses)	669	(183)
3. Interest and shares in profits (dividends)	60	2 219
4. Profit (loss) on investing activities	(151)	(1 374)
5. Change in provisions	105 062	75 585
6. Change in inventories	(4 795)	(2 247)
7. Change in receivables	74 291	12 551
8. Change in short-term liabilities, except for loans and borrowings	(19 172)	(1 149)
9. Change in prepayments, accruals and deferred income	6 333	2 920
10. Other adjustments	(364 489)	(250 368)
III. Net cash flow from operating activities (I±II)	(198 136)	(122 007)
B. Cash flow from investing activities		
I. Inflows	-	13 305
1. Sale of intangible assets and tangible fixed assets	-	13 305
2. Sale of investments in property and intangible assets	-	-
3. From financial assets, including:	-	-
a) in affiliates	-	-
b) in others	-	-
– disposal of financial assets	-	-
– dividends and share in profits	-	-
– repayment of long-term loans granted	-	-
– interests	-	-
– other inflows from financial assets	-	-
4. Other investing inflows	-	-
II. Outflows	1 087	1 970
1. Purchase of intangible assets and tangible fixed assets	1 087	1 970
2. Investments in property and intangible assets	-	-
3. For financial assets, including:	-	-
a) in affiliates	-	-
b) in others	-	-
– purchase of financial assets	-	-
– long-term loans granted	-	-
4. Other investing outflows	-	-
III. Net cash flow from investing activities (I-II)	(1 087)	11 335
C. Cash flow from financing activities		
I. Inflows	83 456	62 089
1. Net inflows from issue of shares, issue of other capital instruments and additional payments to capital	-	-
2. Loans and credits	83 456	62 089
3. Issue of debt securities	-	-
4. Other financial inflows	-	-
II. Outflows	92	39 144
1. Reacquisition of own shares	-	-
2. Dividends and other payments to shareholders	-	-
3. Outflows due to appropriation of profit other than payments to shareholders	-	-
4. Repayment of loans and credits	-	37 136
5. Redemption of debt securities	-	-
6. Relating to other financial liabilities	-	-
7. Finance lease payments	32	53
8. Interest paid	60	1 955

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA
Quarterly Financial Information for the period of 3 months ended 31 March 2020
(in thousand PLN)

9. Other financial outflows	-	-
III. Net cash flow from financial activities (I-II)	<u>83 364</u>	<u>22 945</u>
D. Total net cash flow (A.III±B.III±C.III)	<u>(115 859)</u>	<u>(87 727)</u>
E. Balance sheet change in cash and cash equivalents, including:	(116 529)	(87 545)
– change in cash and cash equivalents due to foreign exchange gains/losses	669	183
F. Cash and cash equivalents at the beginning of the period	<u>211 818</u>	<u>149 345</u>
G. Cash and cash equivalents at the end of the period (F±D), including	<u>95 959</u>	<u>61 618</u>
– of restricted use	3 371	2 387

Konin, 29 June 2020

ZESTAWIENIE ZMIAN W KAPITALE WŁASNYM

	<i>3 months period ended 31 March 2020 (unaudited)</i>	<i>12 months period ended 31 December 2019</i>	<i>3 months period ended 31 March 2019 (unaudited)</i>
I. Equity at the beginning of the period (OB)	1 292 048	1 338 387	1 338 387
– changes in accounting policy	-	-	-
– correction of prior period error	-	-	-
I.a. Equity at the beginning of the period (OB), after adjustments	1 292 048	1 338 387	1 338 387
1. Share capital at the beginning of the period	101 647	101 647	101 647
1.1. Changes in share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
1.2. Share capital at the end of the period	101 647	101 647	101 647
2. Reserve capital at the beginning of the period	1 124 376	1 124 377	1 124 376
2.1. Changes in reserve capital	-	-	-
a) increases	-	-	-
– issue of shares	-	-	-
– profit distribution	-	-	-
– disposal of fixed assets	-	-	-
b) decreases	-	-	-
– redemption of shares	-	-	-
– cover of loss	-	-	-
2.2. Reserve capital at the end of the period	1 124 376	1 124 377	1 124 376
3. Capital from revaluation at the beginning of the period – changes of accountancy policies	227 466	227 466	227 466
3.1. Changes of capital from revaluation	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
– disposal of fixed assets	-	-	-
3.2. Capital from revaluation at the end of the period	227 466	227 466	227 466
4. Other reserves at the beginning of the period	3 472	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	3 472
5. Profit (loss) from previous years at the beginning of the period	(164 915)	(118 575)	(118 575)
5.1. Profit from previous years at the beginning of the period	-	-	-
– changes of accountancy rules	-	-	-
– error adjustments	-	-	-
5.2. Profit from previous years at the beginning of the period, after adjustments	-	-	-
a) increases	-	-	-
– distribution of profits from previous years	-	-	-
b) decreases	-	-	-
– distribution of profit for reserve capital	-	-	-
– dividend payment	-	-	-
5.3. Profit from previous years at the end of the period	-	-	-
5.4. Loss from previous years at the beginning of the period	(164 915)	(118 575)	(118 575)
– changes of accountancy rules	-	-	-
– error adjustments	-	-	-
5.5. Loss from previous years at the beginning of the period, after adjustments	(164 915)	(118 575)	(118 575)
a) increases	-	-	-
– transfer of loss from previous years to cover	-	-	-
b) decreases	-	-	-
– cover of loss from reserve capital	-	-	-

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA
Quarterly Financial Information for the period of 3 months ended 31 March 2020
(in thousand PLN)

5.6. Loss from previous years at the end of the period	(164 915)	(118 575)	(118 575)
5.7. Profit (loss) from previous years at the end of the period	(164 915)	(118 575)	(118 575)
6. Net result	(3 662)	(46 339)	30 376
a) net profit	-	-	30 376
b) net loss	(3 662)	(46 339)	-
c) result impairments	-	-	-
II. Equity at the end of the period (CB)	1 288 384	1 292 048	1 368 762
III. Equity after proposed result distribution (cover of loss)	1 288 384	1 292 048	1 368 762

Konin, 29 June 2020

ADDITIONAL INFORMATION TO THE CONDENSED SUMMARY FINANCIAL STATEMENT FOR 3 MONTHS

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 into the Register of Entrepreneurs under the KRS number 0000021374 assigned on 21 June 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 ("Group", "Capital Group", "ZE PAK SA Group").

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

- 1) production and distribution of electricity,
- 2) production and distribution of heat (steam and hot water).

The summary quarterly financial statement of ZE PAK SA as developed based on the provisions of the regulation of the Minister of Finances of 29 March 2018 on current and periodic information published by issuers of securities and the conditions for regarding information required by the law of a non-member state as equivalent (Journal of Laws 2018 item 757). The format, basis and scope of the developed statement are in accordance with the requirements of that regulation.

2. 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 IFRS

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 (DZ.U. 2019 item 351 consolidated text) 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:

1. 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.

Due to differences in the valuation of property, plant and equipment under the Accounting Act and IFRS, the amount of impairment losses on property, plant and equipment also varies.

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. Therefore, the Company allotted the components of the planned values to bear the costs of overhauls and made depreciation of components in the period remaining until the planned 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 their 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, the perpetual usufruct right to land is classified by the Company as an asset due to the right to use, and on the other side as a lease liability, which reflects its obligation to make lease payments. The right-of-use asset is amortized. Capitalization of borrowing costs.

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.

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.

Described areas of differences between the AoA and the IFRS 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 of the financial statements according to the AoA 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 AoA and the IFRS can differ substantially.

The following table presents the differences as of 31 March 2020 (unaudited data):

	<i>Balance sheet value</i>	<i>Balance sheet value</i>	<i>Value adjustment</i>
	<i>Acc. to AoA</i>	<i>Acc. to IFRS</i>	
Tangible fixed assets	449 406	456 232	6 826
Equity	1 288 385	1 204 854	(83 531)
Deferred tax provision	118 213	178 774	60 561

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

	<u>31 March 2020</u> (unaudited)
AoA net profit / loss	(3 662)
Adjustments of the tangible fixed assets	(356)
IAS 19 adjustment – Actuarial profits / losses	(88)

	<u>31 March 2020</u> (unaudited)
AoA capital	1 288 385
Adjustments of the tangible fixed assets	(83 489)
IFRS 9 adjustment	(42)

3. 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 the Company draws attention to the following issues:

- 1) In the first quarter of 2020, the company recorded a net loss of PLN (3,662) thousand.
- 2) As at March 31, 2020, short-term liabilities, including bank loans, exceed the Group's current assets by PLN 10 356 thousand, which means an improvement compared to the end of 2019, when the difference amounted to PLN 18 737 thousand.

In the first quarter of the year, incl. good weather conditions for wind energy and the restrictions imposed on the economy resulting from the pandemic, as well as the deterioration of the relationship between the quoted prices of electricity and carbon dioxide emission allowances adversely affected the Group's ability to sell electricity. There was a 31.00% decrease in the total volume of electricity sales from own production and sales of purchased electricity. In the case of the sale of electricity from own production, the decrease was only 12.68% and the decrease in the sale of purchased energy was as much as 75%. The decrease in electricity sales and the realized lower margins contributed to the deterioration of the Company's financial results compared to the results recorded in 2019. The Management Board analysed the phenomena that occurred in the first quarter in terms of verification of the adopted estimates and assumptions for the impairment test, and decided not to change the existing assumptions.

In addition, the increased volatility of prices of carbon dioxide emission allowances resulted in the need for companies in the Group producing electricity to provide additional security for the concluded futures purchase of emission allowances, which may affect the liquidity situation. In order to minimize the impact of establishing collaterals on liquidity, efforts are made to replace the deposits securing the current positions with non-cash instruments as far as possible.

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 Pańków IV and Drzewce fields. Without their extension, the operating period of deposit Pańków IV ends on August 31, 2020 year and deposits in Drzewce ends on 4 December 2020 year. Hopes in this aspect are raised 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 Pańków and Pańków II power plants will be shortened.

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 CO₂. 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 CO₂ 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.

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.

The Board made detailed analyses of forecasts cash flow and confirms that the cash flow analysis of the Company 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 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.

4. Merger of commercial companies

Within the period 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.

5. Accepted principles (policy) of accounting

The accounting principles adopted by the Company, including the methods of valuation of assets and liabilities and the measurement of the financial result are compliant with the provisions of the Act of Accounting of 29 September 1994 (JoL 2019 pos. 351) and are described in the financial statements of Zespół Elektrowni Państw - Adamów - Konin SA for the financial year ended December 31, 2019, published on April 3rd, 2020.

6. 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, and therefore it was not required to present numerical information that would ensure comparability of the financial statements for the preceding year with the financial statements for the current financial year.

7. Error adjustment

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

8. The amount and nature of items affecting assets, liabilities, equity, net income or cash flows that are abnormal due to their nature, value or frequency

During the current reporting period, there were no events affecting assets, liabilities, equities, net result or cash flow, that were unusual at their type, value or frequency.

9. Information on impairment write-downs against provisions value, impairing to the net value possible to achieve and on the reversal of such write-downs

The gross financial result for the current period includes the effects of creating and reversing the provision impairment write-down:

<i>Impairment write-downs</i>	<i>31 December 2019</i>	<i>changes</i>			<i>31 March 2020 (unaudited)</i>
		<i>creation</i>	<i>use</i>	<i>liquidation</i>	
Inventories	42 117	1 697	-	101	43 713

Certificates of origin of energy arising from the energy production from renewable energy sources and peak load co-generation are presented according to fair value at the end of the month, in which the energy based on renewable sources was produced.

As at March 31, 2020, the Company had a total of 20,450.858 MWh property rights resulting from green certificates. On the same date, the company was waiting for the release of 95,083.178MW for 2018 and 2019.

10. Information on the write-downs against the impairment of financial assets, tangible fixed assets, non-material and legal values or other assets and the reversal of such write-downs

The gross financial result for the current year includes the effects of creating and reversing impairment write-downs, in particular::

Impairment write-downs	31 December 2019	changes			31 March 2020 (unaudited)
		creation	use	liquidation	
Intangible assets	1 279	-	-	-	1 279
Tangible fixed assets	1 627 615	-	-	-	1 627 615
Financial assets	107 608	-	-	-	107 608
Receivables	35 641	-	-	-	35 641

11. Information on the creation, increase, use or liquidation of the provisions

The gross financial result for the current year includes the effects of creating the estimates of future obligations, in particular:

Provisions and accruals	31 December 2019	changes			31 March 2020 (unaudited)
		creation	use	liquidation	
Provisions for pension and similar benefits, including:	25 771	1 189	-	639	26 321
– provision for retirement and death benefits	12 475	528	-	639	12 364
– provision for an annual bonus	10 498	-	-	-	10 498
– provision for unused holidays	2 798	661	-	-	3 459
Provisions for CO2 emission allowances	365 245	98 516	-	-	463 761
Provision for the return of CO2 emission allowances	6 362	483	-	-	6 845
Provisions for reclamation	63 921	77	-	-	63 998
Provision for liquidation	18 190	65	-	-	18 255
Provision for fees	1 190	-	-	-	1 190
Accruals of costs due to titles:	619	2 453	179	-	2 888
– fees for commercial utilization of the environment	-	2 376	-	-	2 376
– duty to redeem property rights	453	77	179	5	346
– provision for costs of current year	166	-	-	-	166
Prepayment income settlement	14 325	-	12	-	14 313
Total	495 623	102 783	191	644	597 571

12. Information on the provisions and assets related to deferred income tax

In the 3-month period ended 31 March 2020, there had been a change in the state of the provisions and assets related to deferred income tax, i.e.:

- a change in the state of assets, decreasing tax burden in the amount of PLN 484 thousand,
- a change in the state of the provisions, increasing tax burden in the amount of PLN 5 855 thousand.

13. Information on significant acquisition and sales transactions of tangible fixed assets and any significant liability due to purchasing tangible fixed assets

During the 3-month period ended March 31, 2020, the Company acquired or accepted from investments property, plant and equipment worth PLN 128 thousand. As at March 31, 2020, the Company's liabilities for the purchase of property, plant and equipment amount to PLN 9,195 thousand.

14. Information about the failure to repay a bank credit or loan, or the breach of significant provisions of a bank credit or loan agreement, in relation to which no remedial actions have been undertaken until the end of the reporting period

In the current reporting period, the Company regularly paid all its financial liabilities due to credits or loans. There were no violations of material provisions of credit or loan agreements, with respect to which no remedial actions were taken.

15. Information on the issuer or its subsidiary, concluding one or multiple transactions with associated entities, should they have been concluded under conditions other than market conditions

Zespół Elektrowni Pątnów-Adamów-Konin SA and subsidiaries, consolidated under the Group, did not conclude any transactions with the affiliates pursuant to conditions other than market conditions in the period of 3 months of 2020.

16. Information on the change in the manner (method) of appraisal of financial instruments, appraised at fair value

There have been no changes to the manner (method) of appraising financial instruments according to fair value in the Company's financial statement presented for the current reporting period.

17. Information on the changes in the classification of financial assets

In the current reporting period, there have been no changes to the classification of financial assets.

18. Information on the issue, redemption and repayment of non-equity and equity securities

In the current reporting period, the Company did not issue, redeem or repay any non-equity and equity securities.

19. Events of the accounting year not specified in the balance sheet and the income statement

In the reporting period until the date of preparation of these financial statements, that is, until May 19, 2020, there were no events that were not, and should have been, included in the accounting books and financial statements for the period ended March 31, 2020.

20. Events of previous years recognised in the financial statement

Until the date of preparation of the financial statements for the period ended March 31, 2020, i.e. June 29, 2020, there were no other significant events relating to previous years that were not, and should have been, included in the financial statements of the financial year.

21. Information on the changes in the business or economic circumstances that significantly affect the fair value of the entity's financial assets and financial liabilities, regardless of the fact, whether those assets and liabilities are recognised in the fair value or the corrected purchase cost (amortised cost)

Proceedings on an environmental decision on lignite deposit in Ościsłowo

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

dated March 10, 2017, refusing to specify environmental conditions for the project entitled: "Extraction of lignite and associated minerals from Ościsłowo Open Pit" and forward the case for reconsideration by RDOŚ in Poznań.

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

On November 21, 2018, RDOŚ in Poznań issued a notice in which it informed the parties to the proceedings that due to the final verdict of the Provincial Administrative Court in Warsaw of October 18, 2018, no proceedings were pending before RDOŚ in Poznań, and the evidence was collected GDOŚ in Warsaw. On November 22, 2018, GDOŚ in Warsaw issued a notice in which it announced that in connection with the repeal of the GDOŚ decision of November 30, 2017 by the Provincial Administrative Court in Warsaw repealing the decision of RDOŚ in Poznań of March 10, 2017 refusing to specify the environmental conditions for the implementation of the project consisting in: Lignite mining and accompanying minerals from Ościsłowo open pit and referring the case for reconsideration to the authority of first instance - the General Director for Environmental Protection again conducts an appeal against the above decision. On January 3, 2020, GDOŚ in Warsaw set the deadline for settling the matter for June 30, 2020. On June 26, 2020, PAK KWB Konin SA applied for an extension of the deadline for the preparation of answers to questions submitted by GDOŚ in Warsaw until December 31, 2020. PAK KWB Konin SA justified its request with the consequences of the regulations announced in March following the pandemic, introducing a number of bans and restrictions, including restrictions on transport, which made it difficult to prepare supplements and clarifications to the questions of GDOŚ in Warsaw.

22. Additional information

Additional information and disclosures required by the provisions of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and the conditions for regarding information required by the law of a non-member state as equivalent (JoL 2018 pos. 757), which could significantly impact the assessment of the economic, financial situation and, which have been, as a result of the issuer's financial result, included in the explanatory notes to the interim condensed consolidated financial report (iccfr), including:

- explanations regarding the seasonality or cyclicity of the issuer's activities in the presented period (item 9 of iccfr),
- information on significant settlements due to lawsuits (26.1 iccfr),
- information on changes of contingent liabilities or contingent assets, which had occurred from the end of the last financial year (items 26.3 and 27 of iccfr),
- information regarding the paid (or declared) dividends (item 22 of iccfr).

Konin, 29 June 2020

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