ZESPÓŁ ELEKTROWNI PĄTNÓW–ADAMÓW–KONIN SA CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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

19 APRIL 2021

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(in thousand PLN)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2020

		Year ended 31 December 2020	*Year ended 31 December 2019*
Continuing operations			
Revenues, including:		**2 206 974**	**2 877 920**
Revenues from the contracts with clients	*15.1*	1 971 192	2 660 231
Other revenues	*15.1*	235 782	217 689
Costs of goods sold, including:	*15.6, 15.7*	(2 446 997)	(3 185 762)
Write-off revaluating fixed assets and mining assets	*15.7*	*(281 331)*	*(632 042)*
Gross profit / (loss)		**(240 023)**	**(307 842)**
Other operating revenues	*15.2*	84 917	13 089
Selling and distribution expenses	*15.6, 15.7*	(3 613)	(4 492)
Administrative expenses	*15.6, 15.7*	(114 691)	(116 648)
Other operating expenses	*15.3*	(17 704)	(7 696)
Gross profit / (loss) from operations		**(291 114)**	**(423 589)**
Finance income	*15.4*	5 889	11 341
Finance costs	*15.5*	(17 830)	(27 644)
Profit / (loss) before tax		**(303 055)**	**(439 892)**
Income tax expense (taxation)	*16*	76 590	(6 254)
Net profit / (loss) for the period from continuing operations		**(226 465)**	**(446 146)**
Net profit / (loss) for the period		**(226 465)**	**(446 146)**
Net profit/ (loss) attributable to equity holders of the parent		(222 393)	(445 179)
Net profit/ (loss) attributable to non-controlling interests		(4 072)	(967)

	Note	*Year ended 31 December 2020*	*Year ended 31 December 2019*
Profit / loss per share (in zloty):			
Basic/diluted for profit for the period from continuing operations attributable to equity holders of the parent	*18*	(4,38)	(8,76)

(in thousand PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Net profit / (loss) for the period		**(226 465)**	**(446 146)**
Other comprehensive income			
Items to be reclassified to the profit / (loss) in subsequent reporting periods:			
Cash flow hedges		-	568
Exchange differences from converting a foreign unit		43	-
Income tax on other comprehensive income	*16.1*	-	(108)
Other comprehensive income to be reclassified to the profit / (loss) in subsequent reporting periods		43	460
Items not to be reclassified to the profit / (loss) in subsequent reporting periods:			
Actuarial profits / (losses) on provisions for post-employment		(648)	(3 848)
Income tax on other comprehensive income	*16.1*	64	610
Other comprehensive income not to be reclassified to the profit / (loss) in subsequent reporting periods		**(584)**	**(3 238)**
Net other comprehensive income		**(541)**	**(2 778)**
Comprehensive income for the period		(227 006)	(448 924)
Comprehensive income attributable to equity holders of the parent		(222 934)	(447 957)
Comprehensive income attributable to non-controlling holders		(4 072)	(967)

(in thousand PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	*31 December 2020*	*31 December 2019*
ASSETS			
Fixed assets			
Property, plant and equipment	*20*	1 660 661	1 959 861
Assets due to the right of use	*21*	49 210	56 209
Investment property		2 141	2 172
Intangible assets		2 754	2 748
Assets of removing overburden and other mining assets (long-term)	*23*	52 291	70 620
Other financial assets	*24.1*	5 081	3 220
Other non-financial assets	*24.2*	297	2 608
Deferred tax assets	*16.3*	84 920	84 593
Total fixed assets		**1 857 355**	**2 182 031**
Current assets			
Emission allowances	*22*	3 565	93 218
Inventories	*26*	67 859	104 341
Trade and other receivables	*27*	385 056	228 578
Income tax receivables		19 416	32 782
Derivative short-term financial instruments (assets)	*33.3*	6 550	-
Other financial assets	*24.1*	10	-
Other non-financial assets	*24.2*	39 673	61 615
Amounts due from customers under long-term construction contracts	*15.8*	1 283	1 047
Cash and cash equivalents	*28*	497 861	414 634
Total current assets		**1 021 273**	**936 215**
TOTAL ASSETS		**2 878 628**	**3 118 246**

(in thousand PLN)

	Note	*31 December 2020*	*31 December 2019*
LIABILITIES AND EQUITY			
Equity			
Share capital	*29*	101 647	101 647
Reserve capital	*30*	1 124 376	1 124 376
Other reserve capital	*30.1*	3 472	3 472
Retained earnings / Accumulated losses		(55 931)	389 831
Net profit / (loss)		(222 393)	(445 179)
Exchange differences from converting a foreign unit		43	-
Equity attributable to equity holders of the parent		**951 214**	**1 174 147**
Equity attributable to non-controlling interests	*30.3*	(1 751)	2 321
Total equity		**949 463**	**1 176 468**
Long-term liabilities			
Interest-bearing loans and borrowings	*31*	-	29 773
Employee benefits	*25.1*	40 886	45 505
Trade liabilities and other long-term financial liabilities		5 248	8 796
Lease liabilities	*21*	51 495	55 016
Grants and deferred income	*33.4*	36 027	41 793
Other provisions and accruals	*32*	414 527	425 129
Deferre income tax	*16.3*	312 902	382 282
Total long-term liabilities		**861 085**	**988 294**
Short-term liabilities			
Trade liabilities and other short-term financial liabilities	*33.1*	188 261	108 969
Current portion of interest-bearing loans and borrowings	*31*	55 003	46 767
Short-term financial derivatives (liabilities)	*33.3*	-	1 757
Other non-financial liabilities	*33.2*	78 152	102 932
Current income tax liability		1 279	223
Employee benefits	*25.1*	6 521	6 897
Grants and deferred income	*33.5*	3 646	1 502
Amounts due to customers under long-term construction contracts	*15.8*	6 680	1 730
Other short-term provisions and accruals	*32*	728 538	682 707
Total short-term liabilities		**1 068 080**	**953 484**
Total liabilities		**1 929 165**	**1 941 778**
TOTAL LIABILITIES AND EQUITY		**2 878 628**	**3 118 246**

(in thousand PLN)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Nota	*Year ended 31 December 2020*	*Year ended 31 December 2019*
Cash flow from operating activities			
Profit /(loss) before tax		(303 055)	(439 892)
Adjustments for:			
Depreciation and amortization	*28*	153 253	183 401
Interests and shares in profits		2 329	3 117
(Profit) / loss on foreign exchange differences		(264)	3 083
(Profit) / loss on investing activities		(812)	536
(Increase) / decrease in receivables	*28*	(134 838)	93 370
(Increase) / decrease in inventories		36 482	(8 229)
Increase / (decrease) in payables except for loans and borrowings	*28*	215	(29 754)
Change in provisions, prepayments, accruals and employee benefits	*28*	653 421	560 482
Income tax paid		21 368	(21 933)
Allowances for emission of CO_2	*32.3.1*	(528 438)	(530 408)
Impairment write-down on fixed assets and mining assets		281 879	632 042
Other		(15 479)	2 222
Net cash flow from operating activities		**166 061**	**448 037**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		6 520	18 543
Purchase of property, plant and equipment and intangible assets		(63 482)	(2 181)
Proceeds and expenses relating to other financial assets		(711)	2 793
Dividends received		71	49
Interest received		-	9
Other		(17)	(15)
Net cash flow from investing activities		**(57 619)**	**19 198**
Cash flow from financing activities			
Payment of finance lease liabilities		(1 310)	(1 421)
Proceeds from loans and borrowings and debt securities		9 376	66 688
Repayment of loans and borrowings and debt securities		(30 914)	(410 804)
Dividends paid		-	-
Interest paid		(2 627)	(10 380)
Other		-	-
Net cash flow from financing activities		**(25 475)**	**(355 917)**
Net increase / (decrease) in cash and cash equivalents		**82 967**	**111 318**
Cash and cash equivalents at the beginning of the period		**414 634**	**303 316**
Cash and cash equivalents at the end of the period	*28*	**497 601**	**414 634**

(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Issued capital	*Reserve capital*	*Other reserve capital*	*Retained earnings / accumulated losses*	*Exchange differences from converting a foreign unit*	*Total*	*Non-controlling interest*	*Total equity*
As of 1 January 2020	**101 647**	**1 124 376**	**3 472**	**(55 348)**	**-**	**1 174 147**	**2 321**	**1 176 468**
Net profit for the period	-	-	-	(222 393)	-	(222 393)	(4 072)	(226 465)
Total other comprehensive income	-	-	-	(584)	43	(541)	-	(541)
Total income for the period	**-**	**-**	**-**	**(222 977)**	**43**	**(222 934)**	**(4 072)**	**(227 006)**
Other changes	-	-	-	1	-	1	-	1
As of 31 December 2020	**101 647**	**1 124 376**	**3 472**	**(278 324)**	**43**	**951 214**	**(1 751)**	**949 463**

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

(in thousand PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Issued capital	*Reserve capital*	*Capital from valuation of hedging instruments*	*Other reserve capital*	*Retained earnings / accumulated losses*	*Total*	*Non-controlling interest*	*Total equity*
As of 1 January 2019	**101 647**	**1 124 376**	**(460)**	**3 472**	**454 824**	**1 683 859**	**3 288**	**1 687 147**
Adjustment concerning IRFS 16	-	-	-	-	(61 754)	(61 754)	-	(61 754)
Transformed data as of 1 January 2019	**101 647**	**1 124 376**	**(460)**	**3 472**	**393 070**	**1 622 105**	**3 288**	**1 625 393**
Net (loss)/profit for the period	-	-	-	-	(445 179)	(445 179)	(967)	(446 146)
Total other comprehensive income, including:	-	-	460	-	(3 238)	(2 778)	-	(2 778)
Cash flow hedges	-	-	*460*	-	-	*460*	-	*460*
Actuarial profit / (loss)	-	-	-	-	*(3 238)*	*(3 238)*	-	*(3 238)*
Total income for the period	**-**	**-**	**460**	**-**	**(448 417)**	**(447 957)**	**(967)**	**(448 924)**
Other changes	-	-	-	-	(1)	(1)	-	(1)
As of 31 December 2019	**101 647**	**1 124 376**	**-**	**3 472**	**(55 348)**	**1 174 147**	**2 321**	**1 176 468**

RULES (POLICIES) OF ACCOUNTANCY AND ADDITIONAL EXPLANATORY NOTES

1. General information

The Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin SA ("the Group") consists of Zespół Elektrowni Pątnów – Adamów – Konin SA ("the parent company", "the Company", "ZE PAK SA"), with its head office in Konin at 45 Kazimierska str., and its subsidiaries (see Note 2).

The Group's consolidated financial statement covers the year ended 31 December 2020 and includes comparative data for the year ended 31 December 2019.

The parent company is entered into the Register of Entrepreneurs of the National Court Register kept by the District Court Poznań – Nowe Miasto and Wilda in Poznań, IX Commercial Division of the National Court Register, under the KRS number 0000021374.

The parent company was assigned the statistical number (REGON) 310186795.

The duration of the parent and member companies of the Capital Group is unlimited.

The main activities of the Group are:

1) generation and sale of electricity,

2) generation and sale of heat (steam and hot water),

3) lignite extraction,

Mr. Zygmunt Solorz indirectly holds shares of the Company representing in total 65.95% of the share capital of the Company.

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

The consolidated statements for 2020 of Elektrim SA Capital Group as a higher level unit also contain the consolidated data of the ZE PAK SA Capital Group included in this report.

(in thousand PLN)

2. Composition of the Group

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

Entity	*Registered office*	*Scope of operations*	*Group's share in the capital in %*	
			As at 31 December 2020	*As at 31 December 2019*
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100,00%*	100,00%
„Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric Energy production and distribution from the 464 MW power unit	-	100,00%*
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	-	100,00%
„PAK Górnictwo" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Exploration and recognition of lignite	100,00%	100,00%
„PAK Kopalnia Węgla Brunatnego Konin" SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	97,68%*	97,68%*
„PAK Kopalnia Węgla Brunatnego Adamów" SA in liquidation	62-700 Turek Warenka 23	Lignite extraction	99,35%	99,35%
„Aquakon" sp. z o.o. in liquidation	62-610 Sompolno Police	In liquidation	96,20%*	96,20%*
„PAK-Volt" SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%
„PAK-PCE Polski Autobus Wodorowy" sp. z o.o.**	62-510 Konin ul. Kazimierska 45	Production of buses	100,00%*	100,00%
„PAK-PCE Fotowoltaika sp. z o.o.***	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%	-
„PAK Polska Czysta Energia" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Activities of central companies, excluding financial holding companies	100,00%	-
„PAK-PCE Biogaz" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%*	-
„PAK-PCE Biopaliwa i Wodór" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Generation of electricity	100,00%*	-
„PAK-PCE Wiatr" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%*	-
„PG Hydrogen" sp. z o.o.	02-673 Warszawa ul. Konstruktorska 4	Manufacture of engines and turbines, except aircraft, car and motorcycle engines	52,00%*	-

* *Entities with partial or total indirect share via other companies from ZE PAK Group*
** *Change of the name, previously PAK Adamów sp. z o.o.*
*** *Change of the name, previously PAK-PCE Polski Autobus Wodorowy sp. z o.o.*

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

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

As of 31 December 2020, the share in the general number of votes held by the Group in subsidiaries is equal to the Group's share in capitals of these subsidiaries.

3. Composition of the Management Board of the parent company

As at the date of publication of the report, the Management Board of ZE PAK SA consists of:

Piotr Woźny – President of the Management Board,

Zygmunt Artwik – Vice President of the Management Board,

Maciej Nietopiel – Vice President of the Management Board,

Andrzej Janiszowski – Vice President of the Management Board,

Katarzyna Sobierajska – Vice President of the Management Board.

Changes in the composition of the Management Board of ZE PAK SA

- On May 4, 2020, Mr. Henryk Sobierajski resigned from the membership in the Management Board of the Company and from the position of the President of the Management Board.
- On May 7, 2020, the Supervisory Board of ZE PAK SA entrusted Mr. Maciej Nietopiel - Vice President of the Management Board of the Company, with managing the work of the Management Board of the Company as acting President of the Management Board, until the appointment of a new President of the Management Board of ZE PAK SA.
- On June 22, 2020, the Supervisory Board of the Company appointed Mr. Henryk Sobierajski to the Management Board, entrusting him with the position of the President of the Management Board. The resolution on the appointment came into force upon its adoption.
- As of November 3, 2020, Mr. Henryk Sobierajski resigned from the membership in the Management Board of the Company and from the position of the President of the Management Board.
- On November 5, 2020, the Company received declarations of Mr. Paweł Markowski and Mr. Paweł Lisowski on resignation from the membership in the Management Board of the Company and from the position of Vice President of the Management Board as of November 15, 2020.
- At the meeting held on November 5, 2020, the Supervisory Board of the Company appointed Mr. Piotr Woźny to the Management Board, entrusting him with the function of the President of the Management Board as of November 6, 2020. At the same time, the Supervisory Board of the Company appointed Mr. Andrzej Janiszowski to the Management Board of the Company as Vice President of the Management Board as of November 16, 2020.
- On March 2, 2021, the Supervisory Board of the Company appointed Ms. Katarzyna Sobierajska to the Management Board, entrusting her with the position of the Vice President of the Management Board. The resolution on the appointment came into force upon its adoption.

4. Approval of the financial statement

This consolidated financial statement was approved for issuing by the Management Board on 19 April 2021.

5. Essential values based on professional judgement and estimates

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

In the first months of 2020, the first cases of COVID-19 disease caused by the SAR-CoV-2 virus were reported in many European countries. In Poland, the first case of infection was confirmed on March 4.

In connection with the emergence of subsequent infections, in March in Poland a pandemic was declared and strict sanitary rules and restrictions on certain types of economic activity were introduced. At the same time, the Polish government introduced a package of solutions (anti-crisis shield) to protect citizens and entrepreneurs from the effects of the crisis caused by the pandemic. The period of the greatest restrictions was at the end of March, April and May, and the lifting of the restrictions was carried out in stages from mid-June. With the arrival of the fall months and the increase in susceptibility to viral infections, the epidemic situation has worsened again and restrictions have been introduced that affect a wide scale of economic activity.

Successive readings of economic indicators confirmed that the effects of the pandemic have a significant impact on the economic situation. Among others, the level of industrial production and investment, contributing to lower domestic electricity consumption, thus reducing its production. According to PSE data, the overall production of electricity in Poland within the period of months of 2020 decreased by 4.07%, with drops of over even ten percent in individual months, in the first half of the year. The decrease in electricity production from lignite in this period was even greater and amounted to 8.51%. The increased level of volatility in the financial and commodity markets, including the changing price relationships on individual markets (in particular the prices of electricity and carbon dioxide emission allowances), was also of great importance for the Group, and may have it in the future. Dynamic changes in prices on commodity markets, primarily on the market of major energy resources, have an indirect impact on other goods related to the broadly understood energy sector, e.g. gas and electricity prices, and indirectly also carbon dioxide emission allowances. The Group is not able to precisely estimate the impact of increased volatility on the energy commodity markets, however, the risk related to increased volatility should be considered as key in the process of forecasting the Group's potential future financial results and its financial condition.

Within the period of twelve months, among others, good weather conditions for wind energy (especially in the early months of the year) and the restrictions imposed on the economy resulting from the pandemic, as well as the deterioration of the relationship between the quoted prices of electricity and carbon dioxide emission allowances adversely affected the Group's ability to sell electricity. There was a 28.21% decrease in the total volume of electricity sales (understood as the sum of energy sales from own production and sales of energy from trading). In the case of the sale of electricity from own production, the decrease was 14.31% and the decrease in the sale of purchased energy was as much as 49.46%. The decrease in electricity sales and the realized lower margins had a negative impact on the financial results achieved in the Group.

In connection with COVID-19, the Management Board appointed a team to monitor the situation and prevent the negative effects of the pandemic. The team's tasks include proposing organizational changes to protect employees and at the same time guarantee the continuity of production.

In view of the deterioration of the situation in terms of the possibility of selling and trading in electricity caused by the effects of the pandemic, and thus the deterioration of the economic conditions of operations, the companies of the Group, whenever possible, use support programs in the form of "anti-crisis shields". The total amount of funds obtained in the form of co-financing from the Guaranteed Employee Benefits Fund by companies from the Group in 2020 amounted to PLN 19.8 million (of which ZE PAK SA received PLN 6.9 million).

When analysing the course of the pandemic in the past year and the negative effects it caused in the economy, it should be noted that each subsequent wave of the increase in the incidence, and thus the return of restrictions affecting economic activity, did not cause such severe economic consequences as in the first phase, i.e. at the turn of the 1st and the second quarter of 2020. This is evidenced by the dynamics of change in electricity demand in Poland, which in the second quarter of 2020 was -8.5%, while e.g. in the fourth quarter it was + 2.4% compared to the comparable quarter of the previous year. It seems that the adaptation processes launched in the economy played a key role. As time passes, more and more people who have already experienced the disease and have acquired immunity, as well as the number of vaccinated people, should have a positive effect on the situation. However, the scenario of a sharp increase in the number of infected people or new virus strains and the return of drastic restrictions on economic activity cannot be definitely rejected. The risk of a negative scenario and its impact on the Group's operations is difficult to estimate.

5.2. Professional judgement

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

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

Leasing contracts

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

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

Leasing definition

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

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

Non-leasing components

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

The duration of leasing contracts

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

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

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

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

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

Interest rate

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

- The Group applies the leasing interest rate for contracts for which it can be easily determined (car leasing).
- In the case of other leasing agreements, the Group applies the lessee's marginal interest rate.

- The current sources of financing for the Group have too short a time horizon to use them when estimating the lessee's marginal interest rate. The group determines the rate by estimating:

  - Risk-free rate based on publicly available data,

  - Credit margin

- Discount rates vary depending on the leasing period.

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

5.3. Uncertainty of estimates

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

Loss in fixed assets

As a result of conducted analyses, the Group identified the existence of circumstances, which would indicate possible loss in value of the asset components, in the form of the balance sheet net value of the Group's assets higher than the value of its market capitalisation. In relation to the above fact, the Group conducted value impairment tests of components of fixed assets. On the basis of the conducted tests as of 31 December 2020, it was stated that there is no need to identify the Impairment write-downs against tangible fixed assets. As at December 31, 2020, based on the tests performed, no further impairment of the tested assets was found.

Sources of uncertainty are changes in electricity prices, CO_2 emission allowances, and legal regulations regarding support for biomass units.

Information about the conducted test is presented in note 20.1.

Evaluation of provisions for employee benefits

Provisions for employee benefits were estimated using actuarial methods. The assumptions adopted for that purpose were presented in the note 25.1.

Estimate was developed on the basis of following main assumptions:

- discount rate 1,2%
- estimated inflation rate 2,5%
- estimated salary increase rates 3,0%

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

	(+) increase by 1 p.p.	*(-) decrease by 1 p.p.*
discount rate	(3 473)	4 037
salary increase rates	3 915	(2 088)

The sources of uncertainty are the values of the discount rate and the wage growth rate.

Component of deferred tax assets

The Group recognises the component of deferred tax assets on the basis of assumption that tax profit enabling to its use will be achieved. The deteriorations of the achieved tax results in the future, could lead to a situation, in which this assumption would become unjustified. Details concerning the deferred tax are described in note 16.3.

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

On a periodic basis, the Group verifies the settlement periods of assets related with overburden stripping and other mining assets, on the basis of current forecasts regarding the open pit exploitation. Data on assets related to overburden stripping and other mining assets are described in note 23. The exploitation periods of open pits are the source of uncertainty.

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

Note 34 presents the descriptions of essential contingent liabilities and essential law suits, including these concerning compensations for the termination of long-term contracts for the sale of power and electricity.

The source of uncertainty in the estimates of LTC compensation for individual years is primarily the sales price of electricity on the revenue side, and the purchase price of CO2 emission rights on the cost side. These are variables beyond the control of the Company. However, in general, i.e. in the years 2021-2023 (end of receiving compensation), the Company will receive the due compensation amount resulting from the remaining limit, only their distribution in individual years may change.

Revenue recognition

Long-term contracts for construction services

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

At each balance sheet date, the Group updates the transaction price and the degree of fulfilment of the obligation to perform the service, i.e. the implementation of a long-term construction contract. The expected total loss on the contract is recognized as costs of the period in which it was recognized, in accordance with IAS 37. For data on long-term construction contracts, see Note 15.8. A possible change in the budget may be a source of uncertainty in estimates, but at the end of 2020 the budgets were updated and all circumstances and facts known to the Group related to the execution of contracts were included.

Depreciation rates

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

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

Provision for the liquidation of tangible fixed assets components

The group creates provisions for the liquidation of tangible assets in the event of such an obligation or undertaking such a liability by the Group's management. The provision is created in the amount resulting from the received offers concerning liquidation of components of tangible fixed assets. The Group updates the value of the provision on every balance sheet date. The value of the provision due to liquidation of components of tangible fixed assets is discounted on every balance sheet date. Provisions for the disassembly of Adamów Power Plant assets are not created due to the lack of a legal obligation. The provision described in note 12.24.

Provision for liquidation of ash storage yards

The Group creates the provision for liquidation of ash dumps due to a legal obligation resulting from the integrated approval entries. The basis of estimation are developments, technical and economic analyses developed by the Group, as well as received external offerings for planned directions of reclamation. At the end of each reporting period, the Group updates the value of the provision. As at the balance sheet date, the Management Board of ZE PAK SA Group estimated the value of reclamation costs to be borne in the future based on knowledge about the area of ash landfills used and the currently incurred costs of reclamation for similar areas. When calculating the provision, the Group adopted the following assumptions: average discount rate settled for the period of 3 years at 2.6%, inflation level at 2.5%. The source of uncertainty is the future values of the discount rate and inflation.

The provision is described in note 32.3.2.

Reclamation and other provisions related to mining activity

The Group creates both, the provision for reclamation costs related to current extraction of coal on a given open pit, and the provision for costs of the final excavation. The provision is created on the basis of the estimates of future reclamation costs, as well as assumed start and finish dates of reclamation, on the basis of reports by independent experts estimating reclamation costs on the order of the Management Board, as well as internal estimates of the Group, and is discounted on every balance sheet date. The Group has adopted the following assumptions: average discount rate calculated over a 3-year period at 2.6%, and inflation at 2.5%. The source of uncertainty is the future values of the discount rate and inflation.

The provision is described in note 32.3.3.

Valuation of Energy certificates

The Group recognises the energy certificates of origin (green certificates) due to the energy production from renewable energy, gas, and peak load co-generation sources according to the fair value at the end of the month, in which they were produced. On the balance sheet date, the Group appraises certificates of origin to the net value possible to achieve – for green certificates on 31 December 2020 to the price of 141.63 PLN /MWh. Data on prices come from listings on Towarowa Giełda Energii SA. A write-down against the certificate value is created in case the sale price possible to achieve, diminished by the disposition costs, is lower than the historical production cost. The amount of the impairment loss is PLN 3 632 thousand. The value of the write-down decreases the value of stocks for certificates of origin and increases the cost of sales. The source of uncertainty are legal regulations regarding the RES market.

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

The Group recognises the provision for greenhouse gas emission obligations. A new 2013-2020 settlement period related to emission allowances is effective as of 1 January 2013. The assumption of that period is to grant the Group free EUAs, resulting from the generation of thermal energy, however, the power sector was additionally covered by the possibility of derogation, resulting from Art. 10c of the ETS Directive, involving the granting of extra free allowances, under the condition of transferring declared investment expenses on the investments reported in the National Investment Plan. Significant fluctuations in prices of CO2 emission allowances and legal regulations related to the climate policy of the European Union are the source of uncertainty.

Emission in ZE PAK SA Group in 2019 amounted to 6 609 317 tons of CO_2.

Emission in ZE PAK SA Group in 2020 amounted to 5 510 260 tons of CO_2.

In April 2020 the Group redeemed CO_2 emission for 2019 in the amount of 6 609 317 tons of CO_2.

The source of uncertainty is the variable nature of CO2 prices and the related actual value of redemption costs.

Details regarding the provision for liabilities for greenhouse gas emissions are presented in note 32.3.1.

5.4. Withdrawal from the preparation of consolidated financial statements in accordance with the requirements of the European Single Electronic Format (ESEF)

Pursuant to the Act of February 25, 2021, amending the Banking Law and certain other acts (Journal of Laws of April 13, 2021, item 680), Art. 24, the Group took advantage of the exemption from the obligation to prepare consolidated financial statements for 2020 in accordance with the requirements of the European Single Electronic Format (ESEF).

6. Basis for development of the consolidated financial statement

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

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

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

6.1. Going concern assumptions

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. Taking into account, in particular, the increased reporting standards of public interest entities and the protection of stakeholders, the Management Board of ZE PAK SA ("Management Board") notes that in 2020 the Group incurred a net loss of PLN 226,465 thousand. The amount of loss in the amount of PLN 309,904 thousand was influenced by write-downs on non-current assets, mining assets and inventories. The write-offs were non-cash. On the other hand, the result at the EBITDA level in 2020 amounted to PLN 147,665 thousand.

The amount of one-off events in the form of write-downs on assets and inventories was influenced by decisions taken by the Management Board in 2020 in the context of the planned period of exploitation of mining assets and the activity of coal-based generation assets. Resignation from efforts to launch Ościsłowo field and shortening the expected period of operation of coal-fired power units means that in the scenario under consideration, due to the abundance of deposits, the operation period of coal-fired units 1,2 and 5 at Pątnów power plant would be shortened by 2024, while the most effective block with a capacity of 474 MW (former Pątnów II Power Plant) could operate no longer than until 2030. Shortening the period of operation means, on the one hand, the need to make accounting write-offs, reducing the current financial results due to the lower recoverable value of assets, but on the other hand, in the opinion of the Company, it reduces the exposure to various types of risk, increasingly associated with high-emission activities, especially in the long term. The faster phasing out of coal activities will also allow the Group to focus more on projects in new areas of activity related to the generation of energy in renewable sources as well as the production and use of hydrogen.

In 2020, incl. good weather conditions for wind energy (especially in the early months of the year) and restrictions imposed on the economy resulting from the state of the pandemic, as well as the deterioration of the relationship between the quoted prices of electricity and carbon dioxide emission allowances adversely affected the Group's ability to sell electricity. There was 28.21% of the total decrease in the volume of electricity sales from own production and sales of purchased energy. In the case of the sale of electricity from own production, the decrease was 14.31%, and the decrease in the sale of purchased energy was 49.46%. When analysing the impact of restrictions imposed on the economy during consecutive periods of increasing number of cases, it can be seen that each successive wave of the pandemic caused a smaller impact on energy demand. A negative scenario cannot be clearly ruled out, however, taking into account the adaptation processes that took place in the economy last year and the progressing vaccination campaign, it can be assumed that the economic situation (and thus the situation on the energy market) in the current year should not be so vulnerable to the impact of the pandemic.

As at December 31, 2020, short-term liabilities, including bank loans, exceed the Group's current assets by PLN 46 807 thousand, however, the Management Board has analysed the cash flow forecasts in detail and confirms that the cash flow analysis indicates the possibility of generating sufficient positive cash flows that at least in the period of 12 consecutive months from the date of these financial statements. This analysis assumes the renewal of the existing credit lines relating to the financing of the current operations of the companies in the Group and the gradual acquisition of financing for new investments. In line with the assumptions, in the first quarter of 2021, financing was obtained for two investments currently implemented in the Group, i.e. the biomass project at Konin Power Plant and the construction of a photovoltaic farm (more on this subject in Note 43).

Despite the circumstances described above that may pose a risk to the Group's continuing operations, the Management Board does not identify any material uncertainty as to the Group's continuing operations.

6.2. Statement of compliance

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

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

The Group’s companies keep their accounting books in accordance with the policy (rules) specified in the Act of 29 September 1994 on accounting unified text of 2021 item 217 (“the Act”), as amended, and the regulations issued therein (“Polish accounting standards”). The consolidated financial statement includes adjustments, which are not included in the accounting books of the Group’s units, introduced in order to make their financial statements comply with IFRS.

6.3. Functional currency and financial statements currency

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

7. Changes in applied accounting principles and data changes comparative

The accounting (policy) rules applied for the development of this consolidated financial statement are coherent with the ones used for the development of the Company's consolidated financial statement for the year concluded on 31 December 2019.

In these financial statements, the following new and amended standards and interpretations were applied for the first time, which came into force on January 1, 2020:

- *IFRS 3 Business Combinations* - As a result of the amendment to IFRS 3, the definition of a business was modified. The definition currently introduced has been narrowed down and is likely to result in more acquisitions being classified as acquisitions of assets.

  As at the date of signing these consolidated financial statements, the Group believes that this standard does not affect the financial situation or the results of the Group's operations.

- *Amendments to IFRS 9, IAS 39 and IFRS 7 related to the IBOR reform* - Amendments to IFRS 9, IAS 39 and IFRS 7 published in 2019 modify some specific requirements for hedge accounting, mainly to allow the expected reform of reference rates (reform IBOR) generally did not terminate hedge accounting.

  As at the date of signing these consolidated financial statements, the Group believes that this standard does not affect the financial situation or the results of the Group's operations.

- *IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.* The Council has published a new definition of the term "materiality". Amendments to IAS 1 and IAS 8 clarify the definition of materiality and increase consistency between the standards, but it is not expected that they will have a significant impact on the preparation of financial statements.

- *Amendments to the IFRS Conceptual Framework* - In 2019, changes to the IFRS Conceptual Framework were published, which are applicable as of January 1, 2020. The Verified Concept Notes are used by the Board and the Interpretation Committee when developing new standards. Nevertheless, preparers of financial statements may use the Conceptual Framework to develop accounting policies for transactions that are not regulated under current IFRS.

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

- *IFRS 17 Insurance Contracts* (published on May 18, 2017), effective for annual periods beginning on or after January 1, 2023 - requires insurance liabilities to be measured at present repayment value and introduces a more uniform approach to measurement and presentation for all insurance contracts. IFRS 17 will replace IFRS 4. Not approved by the EU until the date of approval of these financial statements,

- *Amendments to IAS 1 Presentation of Financial Statements* (published on January 23, 2020) - breakdown of liabilities into short-term and long-term, applicable to annual periods beginning on January 1, 2022 or later. The classification of financial liabilities as long-term will depend on the existence of the right to prolong the liability for a period longer than 12 months and on the fulfilment of the conditions for the implementation of such a prolongation as at the balance sheet date. Until the date of approval of these financial statements, not approved by the EU,

- Amendments to IFRS 3 *Amendments to references to the Conceptual Framework* (published on May 14, 2020). Applicable for annual periods beginning on 1 January 2022 or later. Until the date of approval of these financial statements, not approved by the EU,

- Amendments to IAS 16 *Property, Plant and Equipment*: Revenue Earned Before Putting into Use (published on May 14, 2020). Applicable for annual periods beginning on 1 January 2022 or later. Until the date of approval of these financial statements, not approved by the EU,
- Amendments to IAS 37 *Onerous Contracts* - Fulfilment Costs (published on May 14, 2020), applicable to annual periods beginning on or after January 1, 2022. Until the date of approval of these financial statements, not approved by the EU,
- Amendments resulting from the review of IFRS 2018-2020 (published on May 14, 2020), applicable to annual periods beginning on or after January 1, 2022. Until the date of approval of these financial statements, not approved by the EU,
- Amendment to IFRS 16 *Leases*: COVID-19 related rent concessions (published on May 28, 2020), effective for annual periods beginning on or after June 1, 2020. Earlier application is allowed, including for financial statements not approved for publication as of May 28, 2020. Until the date of approval of these financial statements, not approved by the EU,
- Amendments to IFRS 4 *Insurance Contracts* - deferral of IFRS 9 (published on June 25, 2020), applicable to annual periods beginning on or after January 1, 2021. Until the date of approval of these financial statements, not approved by the EU,
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: *Interest Rate Benchmark Reform - Phase 2* (published on August 27, 2020), applicable to annual periods beginning on or after January 1, 2021. Not approved by the EU until the date of approval of these financial statements.

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

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

9. Change of estimates

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

- estimates in the assumptions for the valuation of actuarial provisions,
- estimates in the scope of assumptions regarding the valuation of derivative instruments,
- estimates in the assumptions regarding the calculation of the revenue for compensation of LTC,
- estimates in the assumptions regarding the periods of economic usability of the capital work,
- estimates related to realisation of the deferred tax assets,
- estimates in the scope of assumptions regarding the valuation of provisions for ash storage reclamation,
- estimates in the assumptions for the valuation of the provision for the liquidation of components of tangible fixed assets,
- estimates regarding the valuation of long-term contracts,
- estimates in the scope of assumptions regarding the valuation of the reclamation provisions associated with mining activity
- estimates in the scope of fixed asset impairment,
- estimates in the scope of prices of CO_2 emission allowances.

The impact of changes in estimates on the value of the recoverable amount of property, plant and equipment was presented in Note 20.1.

The impact of estimate changes on the value of actuarial provisions was presented in note 5.3.

In case of the valuation of derivatives (IRS, options), the change in estimates is due to the market changes of risk factors on the interbank market, i.e. the exchange rate and market interest rates. The description of the used protections was included in note 40.3.1.

In the calculation of the revenue due to compensation, the change of estimates relates primarily to changes in the sale prices and purchase of energy on the Commodity Power Exchange and balancing market, the volume of energy production and purchase of energy in order to meet sale plans as well as the interest rate of the 5-year government bonds and the NBP deposit rate, affecting the discount rate. The value of the yearly impairment due to compensations for 2020 is (+) zloty 83.91 million. The principles of recognition of revenue for compensations to cover stranded costs are described in note 12.26.1.

The period of economic usability of the fixed assets is subject to verification at the end of each reporting period based on the expected functionality period, verified against the Management Board's plans related to the modernisation, sale, and liquidation of the main components of assets. The effect of the changes is recognised in the year in which the verification was performed. In 2020, the economic useful lives of fixed assets were adjusted to the dates resulting from the new directions of ZE PAK Group's strategy, which is described in more detail in Note 11.

With reference to the deferred tax asset, for each balance sheet day an analysis is carried out and, if necessary, a revaluation write-down is created, which is described in more detail in note 16.3.

The description of the titles of the main recognised provisions and changes of provision items in the current and previous fiscal year was described in note 32.

Note 15.8 shows the values of revenues for construction contracts, taking into account the balance sheet measurement and the expected losses due to these contracts.

10. Seasonality of the activities

Demand for electricity and heat, especially among consumers, is subject to seasonal fluctuations. So far, the practice has shown that electricity consumption increased in the winter (mainly due to low temperatures and a shorter day) and decreased during the summer (due to the holiday period, higher ambient temperatures and longer days). In recent years, the demand for electricity in the summer has been systematically growing, mainly due to the growing number of used refrigeration and air conditioning equipment.

Irrespective of the factors described above, meteorological conditions are becoming more and more important for the Group's production level. In the past, the operations of the Group were not subject to significant seasonality of demand, due to the low costs the work of the blocks was carried out continuously (in the basis) for almost a whole year. Currently, taking into account the growing share of renewable energy in the energy generation segment, including primarily wind sources, weather conditions are becoming more and more important in the estimation of the Group's production volume, with particular regard to wind conditions in the periods of I and IV quarter and solar conditions in the periods of II and III quarter. However, the risk related to the seasonality and weather conditions is not crucial for the Group's operations.

11. New directions of ZE PAK SA Capital Group's strategy

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

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

The basic model for the operation of the coal segment assumes the use of currently exploited open pits and no new investments in this area. The generation of electricity in coal-fired units at Pątnów power plant will be shortened until the support system is operational, in the form of a capacity market or another, which will ensure the economic effectiveness of such activity. A more modern and efficient unit with a capacity of 474 MW (former Pątnów II power plant) could operate longer, but here the condition is also the economic efficiency of its use. The assumed end date of electricity production in coal sources of ZE PAK Group is planned not later than at the end of the current decade.

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

In connection with the new directions of the strategy, impairment losses were made on the assets of coal-fired power plants and mines, and the impairment loss on the biomass-fired unit was reversed. Details on impairment write-offs are provided in Note 20.1. Periods of depreciation of fixed assets were shortened, however, due to revaluation write-offs there was a total loss of value of some fixed assets, which resulted in a decrease in depreciation compared to the previous year (notes 15.6 and 15.7). The period of settlement of the subsidy related to the loan from the National Fund for Environmental Protection and Water Management granted on preferential terms was also shortened. The subsidy is described in note 33.4.

12. Significant accounting rules

12.1. Consolidation rules

This consolidated financial statement includes the financial statement of Zespół Elektrowni Pątnów – Adamów – Konin SA as well as financial statements of its subsidiaries, developed each time for the year concluded on 31 December 2020. The financial statements of the entities controlled by it (subsidiaries), after the taking into account the adjustments to ensure compliance with IFRS, are prepared for the same reporting period as the parent company's statement, using consistent accounting rules, based on uniform accounting policies applied for transactions and economic events of a similar nature. In order to eliminate any differences in the applied accounting methods, adjustments are implemented.

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

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

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

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

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

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

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

12.2. Calculation of items denominated in foreign currency

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

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

(in thousand PLN)

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

	31 December 2020	*31 December 2019*
EUR	4,6148	4,2585
GBP	5,1327	4,9971
USD	3,7584	3,7977

12.3. Tangible fixed assets

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

Fixed assets, at the time of their acquisition, are divided into components with a significant value, to which a separate period of the economic usability can be attributed. The costs of general overhauls are also classified as components. The Group capitalizes only compulsory repairs resulting from legal provisions, guarantees and the like. The period of amortization of renovation components is the time planned for the next major overhaul of a given facility. Lands classified as fossil are subject to depreciation until they are reclassified for another type of use.

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

Type	**Period**
Lands	8 - 10 years
Buildings and structures	2 - 27 years
Machinery and technical devices	2 - 27 years
Means of transport	2 - 10 years
Other fixed assets	2 - 27 years
General renovations	3 - 4 years
Startegic spare parts	2 - 4 years

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

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

Commenced investments relate to fixed assets under construction or assembly and are reported in accordance with the acquisition or production costs reduced by potential impairment write-downs for the loss in value. The fixed assets under construction are not subject to redemption until the completion of their construction and putting the fixed asset into operation. Financing costs subject to capitalisation are also a value element of fixed assets under construction. The question of their capitalisation is described in more detail in note 12.11.

12.3.1. Strategic spare parts

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

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

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

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

12.3.2. Fixed assets intended for sale

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

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

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

12.4. Investment properties

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

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

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

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

12.5. Assets concerning stripping off and other mining assets

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

In the initial value of the assets, the Group recognizes discounted decommissioning costs, i.e. reclamation, in the part in which it relates to the removed overburden as part of works related to the construction of an accessible trench, which, in accordance with applicable law, are subject to liquidation after the end of operations. The principles of recognition and measurement of decommissioning costs are presented in Note 32.3.3.

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

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

Drzewce open pit till 2022, Tomisławice open pit till 2030, Jóźwin open pit till 2021.

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

12.6. Expenses related to exploration and evaluation of mineral resources

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

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

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

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

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

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

12.7. Intangible assets

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

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

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

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

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

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

The company also shows the CO_2 emission allowances received or acquired for own needs, as intangible assets. A detailed description of the accounting policy in respect of CO_2 emission allowances was included in note12.25.

12.8. Lease

The Group as a lessee.

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

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

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

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

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

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

- the amount of the initial measurement of the lease liability,
- payments made to the lessor before or at the start of the lease, less leasing incentives received

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

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

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

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

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

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

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

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

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

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

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

12.9. Fair value measurement

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

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

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

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

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

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

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

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

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

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

Summary of essential procedures for the fair value measurement

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

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

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

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

12.10. Loss in value of non-financial fixed assets

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

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

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

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

12.11. Borrowing costs

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

12.12. Financial assets

Financial assets are initially recognized at fair value.

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

- measured at amortized cost,
- measured at fair value through profit or loss,
- valued at fair value through other comprehensive income.

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

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

- **Classification and valuation**

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

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

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

In a situation, in which the Group:

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

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

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

12.13. Loss in value of financial assets

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

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

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

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

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

12.14. Other non-financial assets

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

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

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

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

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

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

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

12.15. Financial derivative instruments and securities

The derivatives used by the Group in order to secure against the risk related to the changes of interest rates and exchange rates are mainly the forward foreign exchange contracts and contracts for the interest rates change (interest rate swaps).

Such derivatives are measured at the fair value. Derivatives are stated as assets when their fair value is positive, and as liabilities – when their value is negative.

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

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

Within the hedge accounting, securities are classified as:

- cash flow hedges securing against the changes in cash flows, which can be attributed to a specific kind of risk related to a recognised component of assets, liability or forecasted transaction,
- Securing the currency risk of the substantiated future liability is settled as the cash flow hedge.

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

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

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

12.15.1.Cash flow security

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

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

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

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

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

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

12.16. Inventories

The production item includes production fuel, non-strategic spare parts and other materials as well as certificates of energy origin. Spare parts presented in inventories are recognized annually with revaluation allowances that reflect the technological and economic consumption of these parts. A description of the strategic spare parts presented in property, plant and equipment is provided in Note 12.3.1.

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

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

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

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

Certificates of Energy origin

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

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

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

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

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

In the absence of a sufficient number of certificates required to fulfill the obligations imposed by the Energy Law and the Energy Efficiency Act as at the reporting date, the Group creates provisions for redemption of energy origin certificates and energy efficiency certificates or payment of substitution fees. See note 32.

12.17. Trade receivables and other receivables

Trade receivables

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

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

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

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

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

Other financial assets

Liquidation Fund for the Mining Plant

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

Deposits and shares in other entities

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

Other receivables

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

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

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

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

12.18. Cash and cash equivalents

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

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

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

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

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

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

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

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

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

12.20. Trade liabilities and other financial liabilities

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

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

12.21. Other non-financial liabilities

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

12.22. Special funds for employee purposes

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

12.23. Share-based payments

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

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

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

12.24. Provisions

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

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

In particular, the Group creates the following provisions:

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

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

- retirement or disability benefits, payable at the time of retirement,

- death benefits for families of deceased employees,
- coal benefits for employees of PAK KWB Konin SA and PAK KWB Adamów SA

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

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

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

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

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

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

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

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

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

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

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

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

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

When calculating the provision, the Group adopted the following assumptions: discount rate calculated for the last 3 years at 2.6%, inflation level at 2.5%.

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

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

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

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

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

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

The Group, within run activities, is obliged to restore to the original condition, or to rebuild damages caused by the mine operations. Due to this, the Group creates the provision for projected costs, to pay which it is obliged on the basis of concluded agreements. Estimates concerning projected costs related to the mine operations are updated on every reporting date. The creation of the provision is recognised, on the other side, within the framework of mining assets. When calculating provisions, the Group adopted the following assumptions: discount rate calculated for a period of 3 years at 2.6%, and inflation at 2.5%.

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

12.25. CO_2 emission allowances

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

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

12.26. Revenues

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

1: Identification of contracts with the client;

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

3: Determining the transaction price;

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

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

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

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

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

Revenues from the sale of goods:

- Revenues from the sale of electricity (own production and resale)
- Revenues from the sale of heat,

- revenues from the sale of other goods, products and materials are recognized at the time of the sale / transfer transaction.

Revenues from the sale of electricity:

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

Revenues from the sale of other services in energy sector:

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

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

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

Other revenues:

Other revenues include:

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

12.26.1.Revenues from compensation for stranded costs

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

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

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

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

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

12.27. Costs

Costs of goods sold

The cost of goods sold includes:

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

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

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

12.28. Other operating revenues and costs

Other operating income and costs include items mainly related to:

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

12.29. Government subsidies

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

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

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

12.30. Revenues and financial costs

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

- the sale of financial assets,
- revaluation of financial instruments, excluding financial assets valued at fair value, whose revaluation effects are referred to revaluation capital,
- the interest (including the valuation effect with a depreciated cost),
- the changes in the value of the provision resulting from the fact of approaching the date of incurring the cost (the unwinding of the discount effect),

- the foreign exchange differences which are a result of the operations performed during the reporting period and the balance sheet valuation of assets and liabilities at the end of the reporting period, except for the foreign exchange differences recognised in the initial value of the fixed asset, to the extent in which they are considered as an adjustment of the interest costs and foreign exchange differences,
- other items connected with the financial activity of the company.

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

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

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

12.31. Taxes

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

12.31.1.Current tax

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

12.31.2.Deferred tax

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

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

- except for the situation when the provision for the deferred tax arises from the initial recognition of the company's value or of the assets' component or liability on a transaction other than a combination of the entities, and at the time of its conclusion have no influence on the gross financial result, as well as on the taxable income or tax loss, and
- in case of positive temporary differences resulting from the investment in subsidiaries or associates and shares in joint ventures – except for the situations where dates of the reversal of temporary differences are subject to the investor's control and it is probable that in the predictable future, temporary differences shall not be reversed.

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

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

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

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

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

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

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

12.31.3. Value added tax and excise tax

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

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

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

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

12.32. Net profit per one share

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

12.33. Acquisition under joint control

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

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

13. Acquisition of ventures

Within the period from 1 January 2020 to 31 December 2020, there were no acquisitions of ventures.

14. Operating segments

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

Therefore, there are following operating segments:

(in thousand PLN)

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

ZE PAK SA Group also conducts other types of activities that are included in the "Other" column. In 2020, the activities of other companies are included there.

In December 2020, ZE PAK SA (the acquiring company) merged with Pak Infrastruktura sp.z o.o. (acquired company) and Elektrownia Pątnów II sp.z o.o. (acquired company). The activities of these companies are included in the "Generation" segment.

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

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

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

The Group defines EBITDA as a net profit excluding financial revenues and costs, income tax and depreciation and impairment write-downs of the value of fixed assets and mining assets.

EBITDA for the entire Capital Group of ZE PAK SA:

	Year ended 31 December 2020	*Year ended 31 December 2019*
Net profit / (loss)	(226 465)	(446 146)
Financial revenues	-5 889	-11 341
Financial costs	+17 830	+27 644
Income tax	-76 590	+6 254
Depreciation and impairment write-down	+438 779	+816 945
EBITDA	147 665	393 356

Main recipients:

- Towarowa Giełda Energii SA amount of PLN 1,309,189 thousand which is 59.3% of the total value of sale revenues
- Polskie Sieci Elektroenergetyczne SA amount of PLN 205,912 thousand which is 9.3% of the total value of sale revenues

Revenues from sales to the above recipients are included in the "Generation" segment.

The segment results for the years ended December 31, 2020 and December 31, 2019 are shown below.

(in thousand PLN)

Year ended 31 December 2020

	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sales revenue to external customers	1 517 419	7 937	40 592	399 822	5 422	-	1 971 192
Other revenues	235 782	-	-	-	-	-	235 782
Sales revenue between segments	93 373	520 259	97 853	-	180 483	(891 968)	-
Sales revenue	**1 846 574**	**528 196**	**138 445**	**399 822**	**185 905**	**(891 968)**	**2 206 974**
Cost of goods sold	(1 991 825)	(644 997)	(123 593)	(405 266)	(181 399)	900 083	(2 446 997)
Gross profit / (loss)	**(145 251)**	**(116 801)**	**14 852**	**(5 444)**	**4 506**	**8 115**	**(240 023)**
Other operating income	61 390	10 895	285	3 321	18 279	(9 253)	84 917
Selling and distribution expenses	(1 620)	-	-	(1 530)	(463)	-	(3 613)
Administrative expenses	(47 698)	(47 708)	(9 653)	(2 783)	(6 849)	-	(114 691)
Other operating expenses	(7 217)	(9 653)	(1 595)	(4)	(619)	1 384	(17 704)
Finance income	6 031	197	307	147	9	(802)	5 889
Finance costs	(4 985)	(13 260)	(270)	(18)	(3 806)	4 509	(17 830)
Profit before tax	**(139 350)**	**(176 330)**	**3 926**	**(6 311)**	**11 057**	**3 953**	**(303 055)**
Income tax expense	76 721	1 459	336	(1 317)	(578)	(31)	76 590
Net profit/loss for the period from continuing operations	**(62 629)**	**(174 871)**	**4 262**	**(7 628)**	**10 479**	**3 922**	**(226 465)**
Profit / (loss) from operating activities, without financial operations and income tax	**(140 396)**	**(163 267)**	**3 889**	**(6 440)**	**14 854**	**246**	**(291 114)**
Depreciation / Amortization	107 541	41 290	2 922	7	3 871	1 269	156 900
Impairment write down, including:	152 000	129 879	-	-	-	-	281 879
Creation of impairment write down	*448 000*	*130 631*	-	-	-	-	*578 631*
Reversal of impairment write down	*(296 000)*	*(752)*	-	-	-	-	*(296 752)*
EBITDA	119 145	7 902	6 811	(6 433)	18 725	1 515	147 665

(in thousand PLN)

Year ended 31 December 2019

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

(in thousand PLN)

15. Revenues and costs

15.1. Revenues from the contracts with clients

	Year ended 31 December 2020	*Year ended 31 December 2019*
Material structure		
Revenues from the sale of goods, including:		
Revenues from the sale of electricity	1 356 437	1 602 553
Revenues from the sale of electricity from trade	507 157	922 626
Revenues from the sale of heat	48 797	46 205
Other sale revenues	34 843	30 517
Revenues from service contracts	25 254	60 575
Total revenues from the sale of goods	**1 972 488**	**2 662 476**
Excise	(1 296)	(2 245)
Total revenues from the sale of goods, including excise duty	**1 971 192**	**2 660 231**
Property rights from energy certificates	55 709	54 524
Compensation for LTC termination	180 073	143 788
Income from the price difference amount	-	19 377
Total revenues	**2 206 974**	**2 877 920**

	Year ended 31 December 2020	*Year ended 31 December 2019*
Poland	2 195 370	2 866 541
EU countries	11 604	11 379
Total sale revenues	2 206 974	2 877 920

Revenue realized for the moment	2 167 639	2 802 910
Revenues realized in the period	39 335	75 010

15.2. Other operating revenues

	Year ended 31 December 2020	*Year ended 31 December 2019*
Revenues from the sale of CO_2 allowances	2 553	1 384
Revenues from damages	2 496	1 753
Revenues from the anti-crisis shield	19 818	-
Use of a forward contract securing the purchase of CO_2 emission allowances	33 103	-
Reversal of write-downs against receivables	3	172
Grants settlement	3 646	1 502
Revenue from demolition and scrap sales	13 803	-
Profit from disposal of non-financial fixed assets	3 910	919
Release of the provision for costs and losses and cancellation of liabilities	16	5 117
Other	5 569	2 242

(in thousand PLN)

Total of other operating revenues	84 917	13 089

The funds received under the anti-crisis shield are non-returnable aid, intended for the protection of jobs.

The authority granting the aid related to the protection of jobs has concluded that it is possible to control the utilization of the above-mentioned measures within three years from the lapse of 30 days from the date of receiving the funds. Neither the date nor the method of control is specified. Pursuant to the Act, the funds are reimbursed in the event that the employer has used the funds inconsistently with their intended use. Any entity that uses the funds inconsistently with its intended use is obliged to return with interest in the amount specified as for tax arrears, calculated from the date of transfer of funds.

The use of the forward contract securing the purchase of CO2 emission allowances is constituted by the realized (positive and negative) exchange rate differences due to the settlement of forward contracts securing the EUR exchange rate. Forward contracts hedged the EUR exchange rate related to the fulfilment of obligations under EUA purchase contracts.

The largest component of the "Other" item is the release of the provision for benefits of energy origin in the amount of PLN 2 600 thousand in PAK-Volt sp. z o.o.

15.3. Other operating expenses

	Year ended 31 December 2020	*Year ended 31 Decemeber 2019*
Loss on the sale of property, plant and equipment	-	394
Costs of abandoned investments	8 857	-
Creation of provisions	3 778	-
Costs of shortages and damage	1 128	-
Impairment write down on receivables	656	3 536
Costs of court and enforcement proceedings	358	181
Electricity-related damage	410	424
Donations given	173	182
Real estate tax for previous years	-	851
Compensatory pensions	231	204
Other	2 113	1 924
Total other operating expenses	17 704	7 696

15.4. Financial income

	Year ended 31 December 2020	*Year ended 31 December 2019*
Interest income	1 948	3 403
Foreign exchange gains	3 839	259
Valuation of hedging instruments exchange rate (forward)	-	667
Release of write-offs on futures contracts	-	6 765
Other	102	247
Total financial income	5 889	11 341

(in thousand PLN)

15.5. Financial costs

	Year ended 31 December 2020	*Year ended 31 December 2019*
Interest expenses	5 702	9 506
Valuation and realization of derivative financial instruments	-	1 208
Valuation of futures contracts	31	3 235
Foreign exchange losses	757	799
Reserve discount for the liquidation of power units	848	1 191
Actuarial reserves discount	10 029	10 438
Reserve discount for reclamation	463	1 267
Other	17 830	27 644

In the „Other" item in 2020 mainly bank fees in the amount of PLN 306 thousand are presented.

15.6. Costs by type

	Year ended 31 December 2020	*Year ended 31 December 2019*
Depreciation / Amortisation	156 900	184 903
Impairment write-downs on fixed assets	281 879	632 042
Impairment write-downs on inventories	28 025	1 536
Materials	271 628	314 341
External services	106 869	102 558
Taxes and charges, excluding excise duty	163 668	176 742
Costs of allowances for emission of CO_2	671 041	587 450
Employee benefits, including	383 751	406 080
Salaries	*299 741*	*319 146*
Social insurance and other benefits	*84 010*	*86 934*
Other costs by type	13 595	35 111
Cost of goods for resale and raw materials sold and resale of electricity from the market	521 696	879 128
Total costs by type	2 599 052	3 319 891
Items included in cost of goods sold	2 446 997	3 185 762
Items included in selling and distribution expenses	3 613	4 492
Items included in administrative expenses	114 691	116 648
Change in the stocks of finished goods	33 306	10 747
Cost of goods and services for internal needs	445	2 242

The impairment loss on property, plant and equipment (including mining assets) has been presented in the net amount. Details on the write-downs are presented in Notes 14, 15.7 and 23.

(in thousand PLN)

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

	Year ended 31 December 2020	*Year ended 31 December 2019*
Items included in the cost of manufacture of sold products:		
Fixed assets depreciation	135 626	156 392
Depreciation of mining asset	8 979	9 100
Intangible assets depreciation	551	806
Depreciation of assets due to the right of use	6 999	7 265
Impairment of property, plant and equipment, incl:	277 700	632 042
Creation of impairment write down	*574 452*	*632 042*
Reversal of impairment write down	*(296 752)*	-
Impairment of a mining asset (write-down)	3 631	-
	433 486	805 605
Items included in selling and distribution costs:		
Fixed assets depreciation	-	3
	-	3
Items included in administrative costs		
Fixed assets depreciation	4 381	10 844
Intangible assets depreciation	364	493
Impairment of property, plant and equipment (creation of a write-off)	548	-
	5 293	11 337

15.8. Construction agreements

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

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

The revenue of 2020 did not include the part of revenue for which the obligation to meet the service was already included in previous reporting periods

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

	01.01.2020	*Change in the valuation of contracts*	*Revenues recognized in 2020 included in the balance of liabilities as at 31.12.2019*	*Change of the period in which the right to remuneration becomes unconditional*	*31.12.2020*
Valuation of construction contracts	1 563	1 370	-	(1 563)	1 370
Assets due to contracts with clients	1 563	1 370	-	(1 563)	1 370
Valuation of construction contracts	2 079	6 330	(551)	-	7 858
Liabilities due to contracts with clients	2 079	6 330	(551)	-	7 858

(in thousand PLN)

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

The item change in the period in which the right to remuneration becomes unconditional means the realization of revenue on contracts in 2020 (in 2019 the determined amount of revenue was higher than the partial net invoices, and the surplus was statistically calculated).

Revenues recognized in 2020 are shown in negative figures, because the valuation of contracts on the liabilities side was reduced by 2020 in these amounts (in 2019 the sum of partial invoices was higher than the value of services rendered, and the surplus was transferred to deferred income).

Remaining commitments to perform the obligations

The total amount of the transaction price assigned to the obligation to perform the service, which remained unmet (or partially unfulfilled) at the end of the reporting period to be implemented:	*31 December 2020*	*31 December 2019*
- up to 1 year	43 138	11 346
Total	43 138	11 346

	31 December 2020	*31 December 2019*
The gross amount due from the contracting parties for works under the contract:	1 283	1 047
The gross amount due to the contracting parties for work under the contract:	6 680	1 730

16. Income tax

16.1. Tax load

The main components of tax load for the year ended 31 December 2020 and 31 December 2019 are as follows:

	Year ended 31 December 2020	*Year ended 31 December 2019*
Included in the profit or the loss		
Current income tax		
Current income tax load	(5 546)	15 770
Deferred income tax load		
Related to creation and reversal of temporary differences	(69 613)	(9 552)
Other changes	(1 431)	36
Tax load in the consolidated profit or loss	**(76 590)**	**6 254**
Included in the consolidated statement of the comprehensive income		
Net profit (loss) tax due to revaluation of cash flow securities	-	(108)
Actuarial allowance concerning actuarial profits/losses	64	610
Tax advantage/(tax load) included in comprehensive income	**64**	**502**

(in thousand PLN)

16.2. Fixing of an effective tax rate

The agreement of income tax on the gross financial result before taxation according to the statutory tax rate with the income tax calculated according to the effective tax rate of the Group for the year ended on 31 December 2020 and 31 December 2019 is as follows:

	Year ended 31 December 2020	*Year ended 31 December 2019*
Gross profit before taxation from continuing operations	**(303 055)**	**(439 892)**
Tax at the statutory tax rate applicable in Poland, amounting to 19%	(57 580)	(83 579)
Adjustments to the current tax from previous years	(8 478)	
Not included tax losses	17 801	52 741
Usage of the tax losses not recognised earlier	(533)	-
Fixed costs that are not tax deductible costs	27 191	43 847
Revenues that are not taxable	(24 113)	(5 202)
Change related to a different tax rate in Germany	151	-
Other	(31 029)	(1 553)
Tax at the effective tax rate amounting to 25,27% (in 2019 - 1,42%)	(76 590)	6 254
Income tax in profit and loss account	**(76 590)**	**6 254**

(in thousand PLN)

16.3. Deferred income tax

Deferred income tax results from the following items:

			Consolidated profit and loss account for the year ended	
	31 December 2020	*31 December 2019*	*31 December 2020*	*31 December 2019*
Deferred tax asset				
Balance sheet provisions	60 908	66 869	(5 961)	(60 589)
Overburden and other mining assets	4 811	5 478	(667)	373
Interest and exchange rate differences	2	181	(179)	(4 766)
Hedging instruments	-	-	-	(175)
Valuation of non-terminated agreements for building services	1 510	493	1 017	(119)
Tax loss from previous years	10 192	19 735	(9 543)	351
Impairment write-down on inventories	6 530	7 370	(840)	4 398
Impairment write-down on receivables	932	849	83	111
Impairment write-downs on fixed assets	-	15 087	(15 087)	6 314
Difference between the balance sheet value and the tax value of fixed assets	16 103	15 384	719	15 349
Settlements with employees	5 689	3 580	2 109	411
Other	5 451	3 693	1 758	(30 984)
Total	112 128	138 719	(26 591)	(69 326)
Provision under deferred income tax				
Difference between the balance sheet value and the tax value of fixed assets	316 977	422 069	(105 092)	(49 562)
Receivables under PPAs	15 942	8 939	7 003	(2 022)
Energy certificates	4 311	4 728	(417)	780

(in thousand PLN)

Interest and exchange rate differences	509	62	447	(967)
Valuation of non-terminated construction agreements	501	364	137	(739)
Purchased CO_2 allowances	-	-		(2 203)
Other	1 870	246	1 624	241
Total	340 110	436 408	(96 298)	(54 472)
After offsetting the balances at the level of the Group companies, the deferred tax is presented as:				
Asset:	**84 920**	**84 593**		
Provision:	**312 902**	**382 282**		
Deferred tax liability:				
- in correspondence with total incomes			(64)	(381)
- in correspondence with the financial result			(69 643)	(110 102)

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

(in thousand PLN)

	Tax loss					
	2015	*2016*	*2017*	*2018*	*2019*	*2020*
Aquakon sp. z o.o. in liquidation	-	-	458*	2*	-	-
PAK KWB Adamów SA	-	-	-	72 942*	-	-
PAK KWB Adamów SA in liquidation	-	-	-	-	-	13 018*
PAK KWB Konin SA	-	-	-	46 834*	12 573*	35 748*
ZE PAK SA	12 075*	22 990*	37 586*	244 310*	53 993*	44 179*
ZE PAK SA	-	-	-	-	53 642	-
PAK Serwis sp. z o.o.	-	11	-	2 188	-	-
PAK Górnictwo sp. z o.o.	-	269*	-	-	1 577*	-
Total tax losses	12 075	23 270	38 044	366 276	121 785	92 945
Total tax losses on which the asset is recognized	-	11	-	2 188	53 642	-
Deferred tax asset	-	2	-	416	10 192	-
Settlement year	2020	2021	2022	2023	2024	2025

deferred income tax asset were not recognized

17. Social services fund assets and liabilities of the Company's Social Benefits Fund

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

ZE PAK SA and PAK Serwis Sp. z o.o. together form the Inter-Enterprise Social Benefit Fund, and the other companies of the Group, if they are required to create a fund, create it on their own.

The Group compensated the assets of the Fund with their obligations to the Fund because these assets do not constitute separate assets of the Group. According to the above fact, the net balance as of 31 December 2020 is PLN 10 343 thousand (as of 31 December 2019 – PLN 8 991 thousand respectively).

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

	31 December 2020	*31 December 2019*
Loans granted to the employees	6 671	6 578
Cash	7 098	5 633
Liabilities due to the Fund	(3 426)	(3 220)
Balance after compensation	10 343	8 991

	Year ended 31 December 2020	*Year ended 31 December 2019*
Write-offs for the Fund in the financial period	3 604	3 883

(in thousand PLN)

18. Profit per one share

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

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

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

	31 December 2020	*31 December 2019*
Net profit / (loss) on continued activities of the parent company's shareholders	(222 393)	(445 179)
Profit / (loss) on abandoned activities of the parent company's shareholders	-	-
Net profit / (loss) of ordinary shareholders used for calculation of diluted profit / (loss) per one share	(222 393)	(445 179)
The average weighted number of ordinary shares used for calculation of basic and diluted profit / (loss) per one share	50 823 547	50 823 547

The below table shows the profit per one share in PLN for the year ended 31 December 2020 and 31 December 2019 presented in the profit and loss account.

	Year ended 31 December 2020	*Year ended 31 December 2019*
Basic and diluted from profit for the financial year attributable to the shareholders of the parent company	(4,38)	(8,76)
Basic and diluted from profit from continuing operations attributable to the shareholders of the parent company	(4,38)	(8,76)

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

19. Dividends paid and proposed for payment

ZE PAK SA did not pay or declare to pay dividend in 2020.

(in thousand PLN)

20. Tangible fixed assets

Year ended 31 December 2020

	*Land, incl. perpetual usufruct right to land**	*Buildings and constructions*	*Technical devices*	*Means of transport*	*Other assets*	*Assets under cinstruction*	*Total*
Gross value as at 1 January 2020	223 248	2 054 574	5 008 834	68 269	33 695	110 079	7 498 699
Direct purchase	25	-	1 122	886	498	78 650	81 181
Repairs	-	-	(288)	-	-	-	(288)
Transfer from fixed assets under construction	4 371	11 725	20 817	21	218	(37 152)	-
Sale and liquidation	(506)	(25 287)	(71 793)	(5 473)	(850)	(2 449)	(106 358)
Advances for fixed assets under construction	-	-	-	-	-	37 137	37 137
Other changes	(87)	(4)	(48)	(886)	-	8 500	7 475
Gross value as at 31 December 2020	227 051	2 041 008	4 958 644	62 817	33 561	194 765	7 517 846
Depreciation and impairment write-downs as at 1 January 2020	49 888	1 485 397	3 848 829	49 283	23 113	82 328	5 538 838
Depreciation write-down for the period	3 913	41 901	91 179	1 787	1 227	-	140 007
Impairment write-down (change of the state), incl.	-	133 312	151 494	8 588	41	(15 187)	278 248
Creation of write-off	-	*197 440*	*368 931*	*8 588*	*41*	-	*575 000*
Reversal of write-off	-	*(69 909)*	*(226 091)*	-	-	*(752)*	*(296 752)*
Transfer from assets under construction	-	*5 781*	*8 654*	-	-	*(14 435)*	-
Sale and liquidation	-	(25 287)	(69 570)	(3 891)	(847)	-	(99 595)
Other changes	-	(15)	(187)	(111)	-	-	(313)
Depreciation and impairment write-down as at 31 December 2020	53 801	1 635 308	4 021 745	55 656	23 534	67 141	5 857 185
Net value as at 1 January 2020	173 360	569 177	1 160 005	18 986	10 582	27 751	1 959 861
Net value as at 31 December 2020	173 250	405 700	936 899	7 161	10 027	127 624	1 660 661

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

(in thousand PLN)

Year ended 31 December 2019

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

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

Tangible fixed assets also include strategic spare parts which are depreciated.

The main item of fixed assets under construction is the outlays related to the adaptation of the K-7 coal boiler for the exclusive combustion of biomass at Konin Power Plant.

The value of capitalized borrowing costs in the year ended December 31, 2020 amounted to PLN 186 thousand (in the year ended December 31, 2019 it amounted to PLN 6,035 thousand). The capitalization rate was 80.2% calculated as a percentage of total financial costs related to general loans.

Wartość skapitalizowanych kosztów finansowania zewnętrznego w roku zakończonym dnia 31 grudnia 2020 roku wyniosła 186 tysięcy złotych (w roku zakończonym dnia 31 grudnia 2019 roku wyniosła 6 035 tysięcy złotych). Stopa kapitalizacji wyniosła 80,2% liczona jako procent ogółu kosztów finansowych dotyczących kredytów ogólnych.

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

Identification of cash-generating units (CGU)

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

When separating the CGU within the Group companies, an analysis of the independence of cash flow generation in terms of the functioning of individual companies was performed and additional premises on the basis of which the financial projections were updated were taken into account.

On December 1, 2020, Zespół Elektrowni Pątnów-Adamów-Konin SA was merged with PAK Infrastruktura sp.z o.o. in the manner specified in art. 492 §1 point 1 of the Commercial Companies Code, i.e. by transferring all assets of PAK Infrastruktura sp.z o.o. (acquired company) to ZE PAK SA. Its assets were assigned to CGU Elektrownia Pątnów I.

On December 30, 2020, Zespół Elektrowni Pątnów-Adamów-Konin SA was merged with Elektrownia Pątnów II sp.z o.o. in the manner specified in art. 492 §1 point 1 of the Commercial Companies Code, i.e. by transferring all assets of Elektrownia Pątnów II sp.z o.o. (acquired company) to ZE PAK SA. Within ZE PAK SA, a CGU was established:

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

As at December 31, 2020, the lignite mine PAK KWB Konin SA conducts business activities in Jóźwin, Tomisławice and Drzewce open pits.

Regarding PAK KWB Adamów SA - on September 14, 2020, the General Meeting of the company adopted a resolution on the dissolution and liquidation of PAK KWB Adamów SA. Therefore, no tests were carried out for this company. A significant part of the value of the company's fixed assets has been written off so far, and the fixed assets disclosed in the consolidated financial statements are mainly land, which is measured at fair value.

In these companies, as profit generating units, smaller groups of assets that generate independent cash inflows were not, however, distinguished because of the many reasons, inflows generated by particular groups of assets are very closely connected with each other. As a result, the mine is expected to provide the power plant with a certain amount of coal; it is irrelevant, from which open pit it will come from. As a result, coal is supplied to the power plant from several open pits interchangeably. The organisational structure and registration systems are subordinated to such an established production target. An additional factor determining the separation of the CGU was the update of the strategy of the ZE PAK SA Group, which, on the one hand, assumed the acceleration of the decommissioning of coal-based activities, and on the other hand, the development of renewable energy activities.

The above arguments resulted in the separation of the following cash-generating units within ZE PAK SA Capital Group:

- Fixed assets (generating) of ZE PAK SA Elektrownia Pątnów I („CGU ZE PAK Elektrownia Pątnów I - black energy”)
- Fixed assets (generating) of ZE PAK SA Elektrownia Pątnów II („CGU ZE PAK Elektrownia Pątnów II - black energy”)

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

Moreover, the remaining CGUs were separated into the following segments: Repairs, Sales and Other.

Analysis of the premises to conduct impairment tests as at December 31, 2020

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

Due to the periodic stock market capitalization of the Parent Company in 2020 below the carrying amount of net assets (which, in accordance with IAS 36, is a premise for impairment tests), in accordance with IAS 36, the Management Board of ZE PAK S.A. analysed which area of the Company's operations may be affected by impairment. An analysis of individual CGUs was carried out:

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

In addition, the Group took into account the fact that the share price of ZE PAK SA from the last quarter of 2020 to April 2021 increased by nearly 30% and, compared to April 2020, even by over 45%. Additionally, the Group analysed the market situation and the external environment. It should be noted that on February 2, 2021, the Council of Ministers approved the "Poland's energy policy until 2040" (PEP2040), which is to constitute a clear vision of Poland's energy transformation strategy, and on March 10, 2021, it was published in Monitor Polski. The theses and directions of development contained in it confirm the correctness of the directions of development adopted by the Group in the new strategy.

As a result of the above analysis, it was concluded that there were no circumstances to change the strategic assumptions and thus no impairment tests were carried out on property, plant and equipment as at December 31, 2020, assuming that the assumptions and results adopted for the test as at June 30, 2020 remain valid.

A description of the assumptions made and the results of the test as at June 30, 2020 in relation to the Group's non-current assets is presented below.

Change in the group's strategy and impairment tests carried out on June 30, 2020

In 2020, ZE PAK SA Group announced a new strategy assuming, inter alia, decommissioning of coal production - the fastest and the shortest time in Poland, i.e. 20 years earlier than the assumed climate neutrality of the European Union, and at the same time it assumes the development of new areas in which ZE PAK SA Group intends to exist. The financial projections were updated with the assumption that the basic model of the coal segment operation assumes the use of currently exploited open pits and no new investments in this area. Energy production in coal-fired units at Pątnów I power plant by 2024 and the operation of unit 9 (Pątnów II power plant) by 2030 were assumed. The new strategy was one of the main reasons for conducting the tests. More information on the strategy is included in items 3.1 and 3.3 of the Management Board's Report on the Capital Group's Activities in 2020.

(in thousand PLN)

Based on the tests carried out on June 30, 2020, taking into account the above factors, it was found that the following companies were required to make a write-off: Elektrownia Pątnów II sp.z o.o., PAK KWB Konin SA. For ZE PAK SA, it was necessary to make a write-off for CGU - Elektrownia Pątnów and a reversal of the write-down for CGU - Konin Power Plant.

For ZE PAK SA, it was necessary to make a write-off for CGU - Pątnów I in the amount of PLN 121,000 thousand, and for CGU - Konin, a reversal of the write-off in the amount of PLN 296,000 thousand. The results of the impairment tests conducted as at June 30, 2020 are as follows:

As at 30 June 2020

For CGU Elektrownia Pątnów I

Tested value PLN 262 367 thousand	Value after write-off PLN 141 367 thousand
Identified loss PLN 121 000 thousand	

For CGU Elektrownia Konin

Tested value PLN 176 399 thousand	Value after write-off is reversed PLN 472 399 thousand
Reversal of write-off PLN 296 000 thousand	

For CGU Elektrownia Pątnów II, it was necessary to make a write-off in the amount of PLN 327,000 thousand.

The results are as follows:

As at 30 June 2020

Tested value PLN 971 933 thousand	Value after write-off PLN 644 933 thousand
Identified loss PLN 327 000 thousand	

For CGU PAK KWB Konin, it was necessary to make a write-off in the amount of PLN 130 631 thousand.

The results are as follows:

As at 30 June 2020

Tested value PLN 483 402 thousand	Value after write-off PLN 352 771 thousand
Identified loss PLN 130 631 thousand	

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

The assumptions adopted as at June 30, 2020 to estimate the value in use of property, plant and equipment in the Generation segment are described below:

- Production of electricity from Pątnów I was founded by 2024, production from Pątnów II was established until 2030, production from biomass from Konin was established until 2047.
- Heat production was set up until 2047 in connection with the operation of the biomass block that was created up to this year, from which heat is generated to the city of Konin.
- Production assumptions result from the adopted investment and renovation program for the Generation segment.
- Receipts from the capacity market in 2021-2024 based on the results of the auction were adopted; participation in the secondary power market was also assumed.

- Electricity sales prices were adopted on the basis of developments prepared for ZE PAK SA by an independent external advisor, taking into account own estimates, based on the current market situation for the first years of the forecast.
- Heat sales prices were adopted on the basis of currently realized deliveries along with forecasted steady growth in subsequent years.
- Price forecasts for CO2 emission allowances, based on assumptions from the Ministry of Energy document - "National Plan for Energy and Climate for 2021-2030" (Project - item 3.1 of 4 January 2019), including own estimates, based on current market situation for the first years of the forecast.
- The purchase costs of lignite purchased for production were determined on the basis of the delivery schedule and prices agreed with the relevant schedules included in the financial projections of mining companies.
- The costs of biomass purchase were set at the level of contracted prices for 2020 together with forecasted steady growth in subsequent years.
- The forecast of the margin on the biomass block was estimated with the assumption of support mechanisms.

  It is assumed that the margin in constant prices will decrease after 2027, with the growing price of biomass. The "Poland's Energy Policy until 2040" and the "National Energy and Climate Plan for 2021-2030" submitted for public consultations outline a clear direction for the further development of RES, which is necessary to meet the indicators adopted by Poland that meet the RES obligation. For this purpose to be achieved, and in the following years at least maintained Poland as an EU member must ensure maintenance of existing RES sources, including existing biomass units, which in the next few years will end their participation in the support system, and because of their good technical condition will be able to work further. The factor that gives such powers today to adopt the above thinking is the current provisions on statistical transfer, which on the one hand impose penalties on a member state that fails to fulfill the obligation and on the other hand already included in the act on RES providing a signal about the organization of the NERO auction for units that after the end of the support period they will be able to continue to participate in the newly created mechanisms. The provisions of the applicable RES Act authorize this for this purpose. At the same time, the provisions of the Act provide for the possibility of extending support for RES installations over 15 years. It is also important that the Ministry of Energy withdrew from the proposals for changes in the rules for determining the substitution fee. The Ministry took into account the recommendations of both the renewable energy industry and international chambers of commerce, banks and representatives of conventional energy, which alarmed about the harmful effects of these provisions for existing RES installations. In the opinion of TGPE, it would hinder the planning of the work of units for biomass, which would hit Polish producers. As a consequence, the implementation of the RES objective would widen.
- The Company assumed the use of free allowances for CO2 emissions in the amount resulting from Art. 10a of Directive 2003/87 / EC of the European Parliament and of the Council of October 13, 2003.
- The effects of labor cost optimization resulting from the implemented etatization policy have been taken into account,
- The weighted average cost of capital after tax (WACC) in the projection period was assumed for CGU Elektrownia Pątnów I and CGU Pątnów II at the level of 6.98% and for CGU ZE PAK El. Konin 5.61%
- In terms of BAT conclusions, it was assumed to obtain deviations from the required emission limit values for ZE PAK and EP II. Pątnów II Power Plant sp.z o.o. received the decision of the Marshal of the Wielkopolska Province of April 29, 2020 on adjusting the integrated permit of Elektrownia Pątnów II Sp. z o.o., operating an installation for combustion of fuels - Block 9, to the requirements of BAT conclusions and to grant a derogation from the emission limit values specified in BAT conclusions pursuant to Art. 204 paragraph 2 of the Environmental Protection Law in the field of NO2, Hg, SO2 and dust emissions - until August 17, 2024. The decision was made immediately enforceable due to the important social interest and the exceptionally important interest of the Applicant. Regarding ZE PAK SA - on October 2, 2020, the Company received a decision of the Marshal of the Wielkopolska Province on adjusting the integrated permit of Pątnów-Konin Power Plant to the requirements of BAT conclusions and granting a derogation from the emission limit values specified in BAT conclusions pursuant to Art. 204 paragraph 2 of the Environmental Protection Law. Derogations from the emission limit values resulting from BAT conclusions regarding Hg and SO2 emissions for units 1, 2, 5 at Pątnów Power Plant until their decommissioning, i.e. by 31 December 2030, and in the scope of Hg emissions for EKM boilers No. 85 and 86 of Konin Power Plant until their decommissioning, i.e. by 31 December 2022.
- In the case of Elektrownia Pątnów II sp. z o.o. the participation of this unit in the stranded costs scheme (LTC) was accepted.

(in thousand PLN)

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

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

- The volume of production (coal extraction) and revenues was determined based on the forecasts of the main coal recipients, i.e. ZE PAK SA and Elektrownia Pątnów II sp. z o.o. and anticipated price pathways for coal based on the opencast finance agreement. The planned mining of lignite on individual outcrops is as follows:
  - Tomisławice open pit – 25.33 m tons till 2030,
  - Jóźwin open pit – 3,83 m tons till 2021,
  - Drzewce pit – 3,13 m tons till 2023,
  - it is assumed that coal from the Adamów open pit will end in 2020,
- The effects of employment restructuring processes were taken into account.
- There were taken into account the costs of such events as:
  - costs of pitting reclamation,
  - pension reserves,
- the weighted average cost of capital after tax (WACC) was assumed in the projection period for PAK KWB Konin SA at 6.83%, the higher discount rate reflects the higher risk related to the functioning of PAK KWB Konin SA in the longer term (longer horizon of the forecast), in particular with regard to investment activities related to the development of new lignite deposits.

Sensitivity analysis

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

ZE PAK CGU Elektrownia Pątnów I

	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
Weighted average cost of capital	(PLN 3 m)	PLN 3 m
	(+) increase by 1%	(-) decrease by 1%.
Change in sales revenues (electricity price)	PLN 23 m	(PLN 23 m)
	(+) increase by 5%	(-) decrease by 5%.
Change in cost of sales (price of 1 EUA)	(PLN 42 m)	PLN 42 m
	(+) increase by 5%	(-) decrease by 5%
Change of biomass price (PLN/GJ)	(PLN 0 m)	PLN 0 m

ZE PAK CGU Elektrownia Konin

	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
Weighted average cost of capital	(PLN 122 m)	PLN 145 m
	(+) increase by 1%	(-) decrease by 1%.
Change in sales revenues (electricity price)	PLN 25 m	(PLN 25 m)
	(+) increase by 5%	(-) decrease by 5%.

(in thousand PLN)

Change in cost of sales (price of 1 EUA)	(PLN 0 m)	PLN 0 m
	(+) increase by 5%	(-) decrease by 5%
Change of biomass price (PLN/GJ)	(PLN 113 m)	PLN 113 m

In the absence of support, in the form of green certificates, after 2027, the price of biomass should be lower by 2.60% to maintain the value after the write-off is reversed.

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

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

PAK KWB Konin SA	(+) increase by 1,0 p.p.	(-) decrease by 1,0 p.p.
Weighted average cost of capital	(PLN -4 m)	PLN 3 m
	(+) increase by 1%	(-) decrease by 1%
Change in sales revenues	PLN 29 m	(PLN 29 m)

21. Assets under the right to use and liabilities under the lease

As of January 1, 2019, the Group applied IFRS 16 Leasing for the first time. In accordance with this standard, the Group recognizes an asset for the right of use and a liability for leasing in the balance sheet.

The Group as a lessee

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

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

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

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

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

All leasing contracts were concluded in PLN.

Maturity analysis of leasing liabilities:

	31 December 2020	*31 December 2019*
Up to 1 year	6 330	6 620
1 to 3 years	14 558	11 199

(in thousand PLN)

3 to 5 years	8 337	9 189
Over 5 years	128 765	143 645
Total according to undiscounted payments	157 990	170 653
Book value	51 495	55 016

Amounts recognized in the cash flow statement

	Year ended 31 December 2020	*Year ended 31 December 2019*
Total cash outflow	8 990	9 360

The right to use

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

	Year ended 31 December 2020	*Year ended 31 December 2019*
Gross value as at 1 January	67 296	67 296
Remission as at 1 January	(11 087)	(3 822)
Net value as at 1 January	56 209	63 474
Depreciation for the period	(6 999)	(7 265)
As at the end of the period	49 210	56 209

Additional qualitative and quantitative information on leasing activities

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

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

Variable leasing fees

Current lease contracts do not contain variable lease payments

Extension option

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

(in thousand PLN)

22. Intangible assets

Emission allowances

	31 December 2020	*31 December 2019*
	Certified emission reduction units (EUA)	*Certified emission reduction units (EUA)*
Gross value as at 1 January	93 218	66 817
Sale	(43 500)	(11 940)
Purchase	571 937	530 408
Redemption of EUA	(618 090)	(492 067)
Net value as at 31 December	3 565	93 218

23. Assets for overburden removal and other mining assets

As of 31 December 2020, the item of assets concerning overburden stripping and other mining assets includes the assets related to overburden stripping and other mining assets in PAK KWB Konin in the amount of PLN 52 291 thousand.

	31 December 2020	*31 December 2019*
As of 1 January	70 620	80 326
Increase	7 599	1
Decrease	(13 318)	(607)
Impairment write-down	(3 631)	-
Depreciation for the period	(8 979)	(9 100)
As of 31 December	52 291	70 620
Long-term	52 291	70 620
Short-term	-	-

24. Other assets

24.1. Other financial assets

	31 December 2020	*31 December 2019*
Investments and deposits	1	-
Investments and MLF* deposits	3 470	2 690
Shares	345	352
Other	1 275	178
Total other financial assets	5 091	3 220
Short-term	10	-
Long-term	5 081	3 220

** MLF – Mining Liquidation Fund*

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

(in thousand PLN)

24.2. Other non-financial assets

	31 December2020	*31 December 2019*
VAT receivables	34 536	58 315
Insurance	371	337
Other receivables from the state budget	-	916
Other prepayments	1 779	1 924
Research and development works	1 572	-
Delivery prepayments	508	7
Prepayments for assets under construction	-	2 311
Other	1 204	413
Total other non-financial assets:	39 970	64 223
Short-term	39 673	61 615
Long-term	297	2 608

The largest components of the item "other accruals" in 2020 are the settlements regarding the valuation of properties for sale owned by PAK KWB Konin SA, in the amount of PLN 585 thousand. The costs are charged at the time of sale of the real estate that the valuation concerned. A significant component of other accruals is also the settlement of royalties in the amount of PLN 209 thousand. The largest component of Other item is the valuation of work in progress.

25. Employee benefits

In the “employee benefits” item, the Group presents a provision for retirement and disability benefits, jubilee bonuses and other benefits broken down into long-term and short-term parts.

25.1. Pension benefits and other post-employment benefits

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

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

	Provision for pension, retirement, and post-mortem benefits	*Anniversary premiums*	*Subsidies to electricity/coal benefits*	*Total*
As of 1 January 2020	**29 906**	**1 604**	**20 892**	**52 402**
Current service cost	1 604	140	1 027	2 771
Interest costs	628	34	439	1 101
Actuarial profits and losses	794	93	(146)	741
Paid benefits	(3 170)	(373)	(2 382)	(5 925)
Past service costs*	(2 813)	(870)	-	(3 683)
As of 31 December 2020	**26 949**	**628**	**19 830**	**47 407**
Long-term provisions	22 903	391	17 592	40 886
Short-term provisions	4 046	237	2 238	6 521

(in thousand PLN)

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

** Past employment costs result from significant changes in the employment of employees in some companies or other significant changes.*

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

	Year ended 31 December 2020	*Year ended 31 December 2019*
discount rate	1,2%	2,1%
expected inflation rate	2,5%	2,5%
expected remuneration growth rate	3,0%	1,25% for 2020, 3% for next years

26. Inventories

	31 December 2020	*31 December 2019*
Production fuel	6 599	9 828
Other materials and non-strategic spare parts	33 265	58 447
Certificates of origin of energy	27 995	36 065
Goods	-	1
Inventory total according to the lower of two values: acquisition price (costs of production) and the net value possible to acquire	67 859	104 341

As at December 31, 2020, the Group had in total 48,558.296 MWh of property rights green certificates of green energy produced and verified by the ERO. From January 1, 2020 to December 31, 2020, the Group received 369,278.845 MWh of certificates for production in October, November, December 2019 and in January, February, March, April, May, June, July, August, September 2020. During this period, an application was submitted for the release of 36,506,890 MWh for the production in October 2020. During this period, the Group was waiting for certificates for October 2020. Obtaining certificates of origin was performed on an ongoing basis. The Group obtained a decision from the President of the Energy Regulatory Office stating that 26,630.737 MWh for production in December 2018 will not be granted. The certificates were not granted as a result of late application. The delay resulted from the introduction of security procedures resulting from the Bravo RCP emergency state announced at PSE's premises. This resulted in the inability to deliver the shipment with the request by the courier in accordance with the current standard rules. ZE PAK SA filed a complaint against the decision of the President of the ERO to the Court of Competition and Consumer Protection in Warsaw. Until December 31, 2020, 364,997.057 MWh was sold on TGE SA, the revenue from this in the amount of PLN 49,877 thousand was recognized under Other revenues. Revenue from submitted applications for October 2020 (price as of October 139.62 / MWh) is PLN 5,097 thousand, November 4,927 thousand (PLN 142.54 / MWh), December 4,842 thousand (PLN 141, PLN 63 / MWh).

(in thousand PLN)

Spare parts are the stock for ongoing renovations and service. The impairment loss on other materials and non-strategic spare parts as at December 31, 2020 is PLN 22,761 thousand.

27. Trade and other receivables

	31 December 2020	*31 December 2019*
Trade receivables	155 289	100 807
Receivables due to compensation related to the termination of the PPAs	83 908	47 045
Receivables due to security of purchase of electricity in the balancing market	2 293	16 111
Other receivables	143 566	64 615
Net receivables	385 056	228 578
Impairment write-down on receivables	46 105	45 469
Gross receivables	431 161	274 047

In the line of other receivables, as at December 31, 2020, the Group presents mainly receivables under the deposit of PLN 47,890 thousand and from margins on the Polish Power Exchange in the amount of PLN 94,569 thousand.

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

Failure rates:

	31 December 2020	*31 December 2019*
On time	0,00%	0,11%
< 30 days	0,00%	0,25%
30 – 60 days	2,29%	28,82%
60 – 90 days	9,28%	54,90%
Over 90 days	100%	100%

The significant change in the default rate in the 60-90 day range is due to the decline in overdue receivables in this range.

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

The Group has appropriate policy concerning the sale to the verified clients only. Thanks to that, according to the management, there is no additional credit risk exceeding the level specified by non-collectible receivables impairment write-downs, specific to the Group's trade receivables.

As at December 31, 2020, trade and other receivables in the amount of PLN 46,105 thousand (as at December 31, 2019: PLN 45,469 thousand) were written off. Changes in the write-down of receivables were as follows:

	31 December 2020	*31 December 2019*
Impairment write-down as at	45 469	42 110
Increase	656	3 552
Use	(10)	(1)
Redemption	(10)	(192)
Impairment write-down as at 31 December	46 105	45 469

Below is an analysis of trade receivables and other receivables which as at 31 December 2020 and as at 31 December 2019 were past due, but were not considered as irrecoverable and were not written off. The write-off balance mainly consists of a receivable from several counterparties that has been written off historically in 100% (grade 3 in accordance with IFRS 9). The Group has identified a high probability of non-recoverability of written off receivables.

(in thousand PLN)

	Total without write-down	unexpired	Expired but recoverable				
			<30 days	30-60 days	60-90 days	90-120 days	>120 days
31 December 2020	385 056	379 935	890	2 137	905	46	1 143
31 December 2019	228 578	225 553	1 561	454	125	0	885

28. Cash and cash equivalents

Cash at bank are subject to interest at volatile interest rates, whose amount depends on the interest rate on one-day bank deposits. Short-term deposits are established for various periods; from one day to three months, depending on current Group's demand for cash and are subject to interest at fixed interest rates. The fair value of cash and cash equivalents as of 31 December 2020 amounts to PLN 497 861 thousand (as of 31 December 2019: PLN 414 634 thousand).

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

Cash structure

	31 December 2020	*31 December 2019*
Cash in hand and at bank:	345 861	220 853
Short-term deposits	152 000	193 781
Total cash and cash equivalents in the balance sheet:	497 861	414 634
Foreign exchange differences	(260)	-
Total cash and cash equivalents in cash flow statement	497 601	414 634

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

	31 December 2020	*31 December 2019*
Depreciation:		
Depreciation shown in the income statement	156 900	184 903
Settlement of subsidies	(3 647)	(1 502)
Depreciation shown in the cash flow statement	153 253	183 401

	31 December 2020	*31 December 2019*
Receivables:		
Balance sheet change in trade receivables and other receivables	(155 284)	125 605
Balance sheet change in other long and short-term non-financial assets	23 058	(36 310)

(in thousand PLN)

Balance sheet change in amounts due from clients under PPAs	(236)	4 018
Change in advances for fixed assets under construction	(2 311)	862
Other changes	(65)	(805)
Change in receivables shown in the cash flow statement	(134 838)	93 370

	31 December 2020	*31 December 2019*
Liabilities:		
Balance sheet change in trade liabilities and other financial liabilities, long and short-term	75 744	(48 593)
Balance sheet change in other non-financial liabilities	(24 780)	6 972
Balance sheet change in amounts paid to clients under PPAs	4 950	(752)
Change in liabilities under investment settlements	(52 582)	14 701
Purchase of debt securities	-	-
New lease agreements and payment of lease liabilities	2 835	(503)
Other changes	(5 952)	(1 579)
Change in liabilities shown in the cash flow statement	215	(29 754)

	31 December 2020	*31 December 2019*
Change in provisions, prepayments and accruals and employee benefits:		
Change in provisions and prepayments	35 231	69 965
Change in long and short-term employee benefits	(4 995)	1 403
Decrease of provision from redemption EUA	618 090	492 068
Change in actuarial provisions indicated in other comprehensive income	(648)	(3 848)
Other changes	5 743	894
Change in provisions, prepayments and accruals and employee benefits	653 421	560 482

	31 December 2020	*31 December 2019*
Inventories		
Balance change in inventories	36 482	4 898
Transfer to strategic spare parts	-	(13 127)
Change in inventories disclosed in the statement of cash flows	36 482	(8 229)

(in thousand PLN)

29. Share capital and other capitals

29.1. Share capital

Share capital	*31 December 2020*	*31 December 2019*
50 823 547 shares with a nominal value of PLN 2 each	101 647	101 647

29.1.1. Share nominal value

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

29.1.2. Shareholders rights

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

29.1.3. Shareholders with significant share

	19 April 2021	*31 December 2020*	*31 December 2019*
Elektrim SA			
Share in capital	-	-	0,39%
Share in voting rights	-	-	0,39%
Embud II sp. z o.o.			
Share in capital	-	-	1,16%
Share in voting rights	-	-	1,16%
Argumenol Investment Company Limited			
Share in capital	65,96%	65,96%	56,68%
Share in voting rights	65,96%	65,96%	56,68%
Nationale - Nederlanden OFE			
Share in capital	8,86%	8,86%	8,86%
Share in voting rights	8,86%	8,86%	8,86%
OFE PZU Złota Jesień			
Share in capital	9,12%	9,12%	9,12%
Share in voting rights	9,12%	9,12%	9,12%
Others			
Share in capital	16,06%	16,06%	23,79%
Share in voting rights	16,06%	16,06%	23,79%
	100,00%	100,00%	100,00%

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

30. Supplementary capital

As of 31 December 2020, the structure of the supplementary capital origin in the amount of zloty 1 124 376 thousand is as follows:

- From the sale of shares above their nominal value 380 030
- Created in accordance with the articles of association
  Above the statutory (minimum) value 617 397

(in thousand PLN)

• Other, including:	126 949
- merger with PAK Odsiarczanie sp. z o.o. and PAK Holdco sp. z o.o.	66 126
- liquidation of fixed assets	60 823

30.1. Other reserve capital

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

The value of the reserve fund consists of the Privatisation Fund in the amount of zloty 3 472 thousand, which was created from the profit of 1994, on the basis of a resolution of the Extraordinary General Meeting of the newly established Company, and the values related to the redemption of own shares in the amount of zloty 2 405 thousand. Due to the negative result of ZE PAK SA for 2015 in the amount of zloty 1,515,851 thousand, the General Meeting of the Company, on 28 June 2016, adopted a resolution no. 5 on covering the Company's loss for 2015. According to the resolution, the General Meeting allocated the amount of zloty 2 405 thousand from the reserve capital. The total value of other reserve capitals, as of 31 December 2020, is zloty 3 472 thousand.

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

30.2. Undivided financial result and restrictions on payment of dividend

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

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

In the Group, as of 31 December 2020, the full amount of undivided profit (including the equivalent of reserve and supplementary capitals created within the division of profits in the previous years) is subject to the restriction on payment of dividend. The following conditions are the basis of such an assumption:

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

As of 31 December 2020, there are no other restrictions on the payment of the dividend.

(in thousand PLN)

30.3. Non-controlling interest

	Year ended 31 December 2020	*Year ended 31 December 2019*
At the beginning of the period		
Acquisition - defining non-controlling interest at the acquisition date	30 971	30 971
Employee share program - correction of the original settlement	(955)	(955)
Result of subsidiaries in a given year - attribution to non-controlling interests	(4 072)	(967)
The result of subsidiaries in a given year - attribution to non-controlling interests	(1 245)	(278)
Settlement PUT options - the recognition of the commitment to purchase employee shares	(30 016)	(30 016)
Settlement PUT option - recognition of the difference between the value of non-controlling interest and obligation at end of period	3 566	3 566
Total	(1 751)	2 321

Allocation of the result to the non-controlling interests

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

The Company's obligation to buy employee shares was recognized as at the date of taking control and applies to situations in which employees have the option to sell shares. In accordance with the chosen policy, non-controlling interests received the allocation of the result and other comprehensive income in the next reporting periods. At the end of each reporting period, the value of non-controlling interests was adjusted as if they were acquired while simultaneously recognizing the liability for the share buyback option. The difference between the value of non-controlling interest derecognized as at the reporting date and the recognized financial liability was recognized in the position of retained earnings. As at 31 December 2020 and 31 December 2019, ZE PAK SA's obligation to buy employee shares expired.

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

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

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

(in thousand PLN)

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

As at 31 December 2020, in the opinion of the Management Board of ZE PAK SA, the obligation to buy employee shares of PAK KWB Konin SA and PAK KWB Adamów SA in liquidation expired.

31. Interest-bearing loans and borrowings

Short-term	*Maturity*	*31 December 2020*	*31 December 2019*
Overdraft facility at Santander Bank Polska SA in the amount of PLN 40 000 thousand; interest rate at WIBOR 1M + bank margin (PAK KWB Konin SA)	30.06.2021	24 123	14 747
Non-revolving loan at Alior Bank SA in the amount of PLN 66,700 thousand, interest rate according to WIBOR 3M + bank's margin (PAK KWB Konin SA)	15.12.2021	30 880	32 020
TOTAL		**55 003**	**46 767**

Long-term	*Maturity*	*31December 2020*	*31 December 2019*
Non-revolving loan at Alior Bank SA in the amount of PLN 66,700 thousand, interest rate according to WIBOR 3M + bank's margin (PAK KWB Konin SA)	15.12.2021	-	29 773
TOTAL		**0,00**	**29 773**

Change in loans and advances the year ended December 31, 2020

	Bank loans	*Investment loans*	*Total*
As of 1 January	76 540	-	76 540
Borrowing	10 946	-	10 946
Repayment, including:	(32 483)	-	(32 483)
Capital repayment	(30 914)	-	(30 914)
Interest repayment	(1 569)	-	(1 569)
Provisions paid	-	-	-
Change of valuation	-	-	-
As at the end of the year	55 003	-	55 003

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

	Bank loans	*Investment loans*	*Total*
As of 1 January	101 885	318 494	420 379
Borrowing	70 007	-	70 007

(in thousand PLN)

Repayment, including:	(95 352)	(323 131)	(418 483)
Capital repayment	(92 139)	(316 279)	(408 418)
Interest repayment	(3 152)	(6 416)	(9 568)
Provisions paid	(61)	(436)	(497)
Change of valuation	-	4 637	4 637
As at the end of the year	76 540	-	76 540

As at December 31, 2020, two companies in the capital group, PAK KWB Konin SA and PAK Serwis sp.z o.o. have provisions regarding financial covenants in their loan agreements.

PAK KWB Konin SA has three existing loan agreements with banks: Santander Bank Polska SA (Overdraft Agreement) and Alior Bank SA (Non-revolving loan agreement and Debt limit agreement), which include two financial ratios based on data from the consolidated financial statements of ZE PAK SA Capital Group. Both the ratio of consolidated net debt to consolidated EBITDA (reference level max. 3.50) and the ratio of consolidated net fixed assets to consolidated total assets (reference level min. 0.30) are met as at the date of the indicator, i.e. December 31, 2020.

PAK Serwis sp.z o.o. has an active multi-product line agreement with mBank, which concerns only issued and active bank guarantees, which includes three financial ratios based on the data from the separate report of ZE PAK SA and the consolidated report of ZE PAK SA Capital Group. All ratios, i.e. the unit DSCR ratio (minimum reference level 1.20), the consolidated net debt to consolidated EBITDA ratio (maximum reference level 3.50) and the ratio of consolidated net fixed assets to total consolidated assets (minimum reference level 0.30) are met as at the indicator test date, i.e. December 31, 2020.

32. Provisions and accruals

32.1. Accruals

	31 December 2020	*31 December 2019*
Provision for bonuses and holiday leaves	24 283	25 490
Compensation from an insurance company	647	313
Audit of financial statements	290	223
Other	2 565	1 280
Total	27 785	27 306
Short-term	27 785	27 306
Long-term	-	-

Provisions for retirement benefits and other post-employment benefits are presented by the Group in the statement of financial position under "employee benefits" broken down into short-term and long-term. Details on these provisions are provided in note 25.1

The main components of the "Other" item are provisions for economic severance pay for layoffs in the amount of PLN 1,262 thousand and a provision for a penalty for exceeding the amount of dust released into the air in 2015 in the amount of PLN 1,190 thousand. At the request of the Group, the Voivodship Inspector for Environmental Protection set a date to defer the payment of the above-mentioned penalties as of March 31, 2023, in accordance with the implementation of individual stages of the schedule for the project "Preparation of Adamów Power Plant grounds for new investments".

(in thousand PLN)

32.2. Change in provisions

	Provision for EUA redemption	*Provision for return of CO_2 emission allowances*	*Provision for the fixed assets liquidation costs*	*Provision for the reclamation of ash storage yards*	*Provision for the long-term contract loss*	*Provision for the certificates of origin of energy redemption*	*Reclamation provisions and other provisions related to mining activities*	*Other*	*Total*
As at 1 January 2020	587 487	6 362	18 190	63 921	66	19 249	361 134	24 121	1 080 530
increase	649 190	676	261	3 392	10	11 245	25 775	1 309	691 858
Decrease, incl.:	(596 165)	-	-	-	(40)	(19 249)	(35 130)	(6 524)	(657 108)
Use	*(596 081)*	-	-	-	-	*(16 649)*	*(31 332)*	*(2 042)*	*(646 104)*
termination	*(84)*	-	-	-	*(40)*	*(2 600)*	*(3 798)*	*(4 482)*	*(11 004)*
As at 31 December 2020	640 512	7 038	18 451	67 313	36	11 245	351 779	18 906	1 115 280
Long-term			18 451	67 313	-		327 631	1 132	414 527
Short-term	640 512	7 038			36	11 245	24 148	17 774	700 753
As at 1 January 2019	492 104	30 640	17 391	63 656	65	21 919	358 718	25 983	1 010 476
increase	562 390	-	799	265	162	452	16 218	1 698	581 984
Decrease, incl.:	(467 007)	(24 278)	-	-	(161)	(3 122)	(13 802)	(3 560)	(511 930)
Use	*(467 007)*	*(24 278)*				*(3 122)*	*(12 494)*	*(2 039)*	*(508 940)*
termination					*(161)*		*(1 308)*	*(1 521)*	*(2 990)*
As at 31 December 2019	587 487	6 362	18 190	63 921	66	19 249	361 134	24 121	1 080 530
Long-term	-	6 362	18 190	63 921	-	-	334 561	2 095	425 129
Short-term	587 487	-	-	-	66	19 249	26 573	22 026	655 401

32.3. Description of significant titles of provisions

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

The Group recognizes a provision for redemption of greenhouse gas emission allowances. As at December 31, 2020, the provision amounts to PLN 640,512 thousand. The provision is created in correspondence with the cost of sales. As at December 31, 2020, the trade and other receivables include an advance payment for CO2 emission rights in the amount of PLN 64,582 thousand. (Note 27).

CO_2 emission allowances

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

In February 2020, ZE PAK SA was granted EUA related to the heat generated for 2020, resulting from art. 10a, in the amount of 29 370 tonnes.

In 2020, as in the previous year, companies from ZE PAK SA Group did not apply for EUAs resulting from art. 10c of Directive 2009/29 / EC.

In April 2020, ZE PAK SA redeemed CO2 emissions for 2019 in the amount of 4,158,913 EUA, and Elektrownia Pątnów II sp. z o.o. of 2,450,404 EUA. After the redemption, from 2019 to 2020, there are 33,369 EUAs left at ZE PAK SA and 1,272 EUAs at Elektrownia Pątnów II sp. z o.o.

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

In the fourth quarter of 2020, the Group purchased EUA for 2021 in futures contracts for December 2021 and March 2022 in the amount of 2,570,000 EUA and 1,000 EUA for 2020 with delivery in December 2020.

The provision is created in correspondence with the prime cost of sales.

CO2 emission allowances in the year ended 31 December 2020

		Zespół Elektrowni Pątnów-Adamów-Konin SA	
	CO_2 emission (in tons)*	5 510 260	
		quantity (in tons)	amount (in thousand PLN)
EUA	Balance at the beginning of the period	1 107 945	93 217
	Purchased	5 561 000	528 438
	Free of charge	29 370	-
	Redemption for 2019	(6 609 317)	(618 090)
	Balance at the end of the period	88 998	3 565
	Remain to purchase	5 421 262	636 947

Expenses and inflows related to CO2 emission allowances disclosed in the statement of cash flows amount to PLN 528,438 thousand.

CO2 emission allowances in the year ended 31 December 2019

		Zespół Elektrowni Pątnów-Adamów-Konin SA		*„Elektrownia Pątnów II" sp. z o.o.*	
	CO_2 emission (in tons)*	4 159 237		2 450 505	
		quantity (in tons)	amount (in thousand PLN)	quantity (in tons)	amount (in thousand PLN)
EUA	Balance at the beginning of the period	1 062 113	42 236	820 908	24 581
	Purchased	3 744 000	292 566	2 679 000	225 902
	Free of charge	37 081	-	-	-
	Redemption for 2018	(4 780 925)	(334 714)	(2 454 232)	(157 354)
	Balance at the end of the period	62 269	88	1 045 676	93 129
	Remain to purchase	4 096 968	365 157	1 404 829	129 113

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

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

The Group creates the provision for future costs of reclamation of the land on the basis of legal obligation resulting from the "Integrated Permits." The basis of estimation of the provision size are data prepared by external expert. The value of the provision is estimated and verified on every balance sheet date on the basis of estimated cost to be incurred in the future and a discount. As of 31 December 2020, the created provision amounted to PLN 67,313 thousand. Descriptions of the created provision are included in notes 5 and 12.

Due to the legal obligation to liquidate fixed assets after their period of use, the Group creates the provision for projected future costs, which will be necessary to pay for fulfilment of this obligation. As of 31 December 2019, the provision due to this amounted to PLN 18 451 thousand. The provision is created in correspondence with the cost of sales. The discount amount recognized in financial costs is PLN 757 thousand. The change in the strategy and the associated shortening of electricity production based on lignite combustion will result in an earlier start of the ash dump reclamation process.

32.3.3. Reclamation provisions and other provisions related to mining activities

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

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

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

The provision for decommissioning and reclamation of mining areas and for the preparation of operational areas at PAK KWB Konin SA and PAK KWB Adamów SA in liquidation as at December 31, 2020 amounted to PLN 351 779 thousand and decreased compared to the year ended December 31, 2019 by PLN 9,355 thousand. While calculating the provision, the Group adopted the following assumptions: discount rate, calculated for the period of 3 years, at 2.6%, inflation level at 2.5%.

The provision is created in correspondence with the cost of sales. The discount amount charged to financial expenses is PLN 10,029 thousand.

32.3.4. Provision for redemption of Energy certificates

Due to the sale of electricity to the final recipients, the Group is obliged to redeem the specified number of certificates of origin of energy from renewable energy sources, gas, and peak load co-generation. As of 31 December 2020, the provision due to this amounted to PLN 11,245 thousand. The provision is created in correspondence with the cost of sales.

(in thousand PLN)

32.3.5. Other provisions

In PAK KWB Konin, the main items of other reserves as of 31 December 2020 are: provisions for mining damage in the amount of PLN 1 329 thousand, the provisions for pending legal proceedings in the amount of PLN 520 thousand. In PAK KWB Adamów in liquidation: provisions for permanent exclusion from forest production of land for the final reservoir of Adamów open pit in the amount of PLN 15 828 thousand, the provision for mining damage in the amount of PLN 600 thousand, the provisions for legal proceedings in the amount of PLN 524 thousand. Provisions for mining damage and provision for permanent exclusion from production are created in correspondence with the cost of sales and provisions for pending court proceedings in correspondence with other operating costs.

33. Trade liabilities, other liabilities and accruals

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

	31 December 2020	*31 December 2019*
Trade liabilities:	98 960	84 731
Other liabilities:		
Investment liabilities	50 818	4 484
Liabilities to employees due to salaries	16 119	15 848
Bail liabilities	19 254	-
Other	3 110	3 906
Total	188 261	108 969

In the line other liabilities as at December 31, 2020, the Group presents mainly liabilities due to settlements with employees and deductions from the payroll in the amount of PLN 1,599 thousand, settlements due to the security deposit in the amount of PLN 1,308 thousand and due to the deposit in the amount of PLN 139 thousand.

Principles and terms of payment of above financial liabilities:

Liabilities due to supplies and services are not subject to interest and are usually settled within either the 14-day, or 30-day period.

Liabilities due to interests are usually settled within either monthly or quarterly periods during the whole financial year.

33.2. Other non-financial liabilities

	31 December 2020	*31 December 2019*
VAT tax liabilities	31 182	46 008
Liabilities due to environmental charges	11 926	18 496
Liabilities due to the excise tax	519	714
Liabilities due to social insurance	19 191	20 910
Income tax from individuals	4 409	4 596
Other budget liabilities	3 827	4 598
Advanced payments for deliveries	329	55
Service charge	6 153	7 092
Other	616	463
Total	78 152	102 932

(in thousand PLN)

Liabilities due to environmental charges concern charges for air pollution, waste storage, intake of water, and wastewater disposal. The year is a settlement period.

Liabilities due to mining fees concern charges for the extracted mineral resulting from the Geological and Mining Law. The half-year is a settlement period.

The main components of the "Other" item are liabilities to PFRON in the amount of PLN 340 thousand.

33.3. Derivative financial instruments

	31 December 2020	*31 December 2019*
Exchange rate hedging instruments (forward) (assets)	6 550	-
Exchange rate hedging instruments (forward) (liabilities and equity)	-	1 757
Total	6 550	1 757
Short-term – assets	6 550	-
Short-term – liabilities and equity	-	1 757

33.4. Grants and deferred income (long-term)

	31 December 2020	*31 December 2019*
Long-term grants	32 710	38 501
Other	3 317	3 292
Total	36 027	41 793

The main component of the item "Long-term subsidies": The subsidies in the amount of PLN 32,393 thousand presented as at December 31, 2020 arose as a result of the valuation received from the National Fund for Environmental Protection and Water Management, as if it had been granted on market terms. The loan was repaid in June 2015. The subsidy is settled in accordance with the useful life period of fixed assets included in the 464 MW unit.

The main component of the "Other" item is land received free of charge from the Poviat Starosty and the Commune, amounting to PLN 3 166 thousand.

33.5. Grants and deferred income (short-term)

	31 December 2020	*31 December 2019*
Short-term grants	3 646	1 502
Other	-	-
Total	3 646	1 502

34. Contingent liabilities and description of significant judicial cases

Apart from liabilities described in notes 34.1 and 35 below, as of 31 December 2020 the Group did not have any other contingent liabilities, guarantees and sureties granted.

34.1. Court proceedings

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

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

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

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

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

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

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

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

On August 25, 2020, a hearing was held before the Supreme Administrative Court, as a result of which the court dismissed the cassation appeal of the Director of the National Tax Information, thus sharing the arguments of Elektrownia Pątnów II sp. z o.o.

As a consequence, the case has returned to the Director of the National Tax Information, who is obliged to issue an individual interpretation consistent with the judgment of the Supreme Administrative Court, i.e. favourable for the Company.

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

The proceeding is finished.

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

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

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

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

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

On June 19, 2020, at a closed session by the Provincial Administrative Court in Poznań, the Company received information about the issuance of a judgment dismissing the complaint against the decision of the Local Government Appeal Court in Konin, concerning the refusal to declare the environmental decision invalid, issued on August 7, 2007 by the Head of Wierzbinek Commune, related to the exploitation of Tomisławice lignite open pit.

The judgment of the Provincial Administrative Court in Poznań, dated June 18, 2020, means that the environmental decision issued on August 7, 2007 by the Head of Wierzbinek Commune is still in legal circulation.

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

Proceedings on an environmental decision on lignite deposit in Ościsłowo

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

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

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.

By letter of June 26, 2020, PAK KWB Konin SA asked GDOŚ again to set a new date for settling the matter for December 31, 2020.

On July 2, 2020, GDOŚ announced the appointment of a new date for settling the matter for December 31, 2020.

By letter of December 16, 2020, PAK KWB Konin SA withdrew the appeal to the decision of the Regional Director for Environmental Protection in Poznań, following the new strategy of the ZE PAK SA Capital Group, which provides for the abandonment of electricity production based on lignite. As a result of the company's request, the General Director for Environmental Protection, by a decision of January 29, 2021, discontinued the appeal proceedings against the decision of the Regional Directorate of Environmental Protection in Poznań of March 10, 2017 refusing consent to the implementation of the project called "Extraction of lignite and accompanying minerals from the Ościsłowo Open-pit mine". The case for PAK KWB Konin SA was thus definitely closed.

Court order on the decision of the Minister of Climate (adjustment to BAT)

On January 20, 2021, the Company received the Order of the Provincial Administrative Court in Warsaw of January 5, 2021 to suspend the execution of the contested decision of the Minister of Climate of August 4, 2020 ("Decision of the Minister of Climate"), upholding the decision of Marshal of Wielkopolska Province on adjusting the integrated permit for 474 MW power unit (former Pątnów II sp. z o.o.) to the requirements of BAT conclusions ("Marshal's Decision"). The above-mentioned Decision granted the Company a temporary derogation from the emission limit values specified in the Commission Implementing Decision (EU) 2017/1442 of July 31, 2017, establishing the conclusions on the best available techniques (BAT) for large combustion plants in accordance with the Directive of the European Parliament and the Council 2010/75/EU, with regard to the emission of nitrogen oxides, dust, mercury and sulphur dioxide into the air.

The company filed a complaint against the abovementioned decision to suspend the enforcement. A complaint against the above decision was also submitted by the Minister of Climate.

On March 16, 2021, the Company received another decision of the Provincial Administrative Court in Warsaw of March 12, 2021 to suspend the execution of the above-described decision of the Provincial Administrative Court to suspend the execution of the decision of the Minister of Climate.

The decisions contained in the above-mentioned decisions of the Provincial Administrative Court in Warsaw of January 5, 2021 and of March 12, 2021, expired as a result of the judgment issued by the Provincial Administrative Court in Warsaw on April 9, 2021 in the case.

Judgment of the Provincial Administrative Court in Warsaw regarding the decision of the Minister of Climate (adjustment to BAT)

Provincial Administrative Court in Warsaw, at a closed session, by a judgment of April 9, 2021, file ref. IV SA / Wa 2149/20, repealed the decision of the Minister of Climate of August 4, 2020, challenged by Greenpeace Polska Foundation, on the basis of which the Decision of the Marshal of Wielkopolska Province of April 29, 2020 was upheld. As a result of the above judgment, the decision of the Minister of Climate does not have any legal effects. However, the Provincial Administrative Court in Warsaw did not reverse the decision of the first instance body, i.e. Marshal's Decision.

As at April 15, 2021, the Company had not received the justification for the above-mentioned judgment. The company is waiting for the preparation and delivery of the justification for the above-mentioned judgment by the Provincial Administrative Court.

34.2. Tax settlements

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

In 2017, the audit of the corporate income tax for 2016 was carried out in the company Elektrownia Pątnów II sp. z o.o. In the opinion of Elektrownia Pątnów II sp. z o.o. all returns / repayments from Elektrownia Pątnów II sp. o.o. for Zarządca

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

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

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

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

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

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

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

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

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

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

On 25 June 2018 Elektrownia Pątnów II sp. z o.o. was given the decision of the Head of the Second Wielkopolska Tax Office on suspension of the tax proceeding initiated in April 2018, on the settlement of the corporate income tax for 2016, until the issue is resolved by the Supreme Administrative Court.

On August 25, 2020, the Supreme Administrative Court dismissed the cassation appeal of the Director of the National Tax Information, as a result of which, on December 29, 2020, the Head of the Second Wielkopolska Tax Office in Kalisz discontinued the tax proceedings initiated against the Company regarding the settlement of corporate income tax for 2016.

Thus, at the end of 2020, both tax proceedings and court proceedings were completed with a positive result for Elektrownia Pątnów II sp. z o.o.

Tax audit towards Zespół Elektrowni Pątnów-Adamów-Konin SA on the settlement of corporate income tax for 2018

On June 9, 2020, the Director of the Second Wielkopolska Tax Office in Kalisz initiated a tax audit against Zespół Elektrowni Pątnów-Adamów-Konin SA in the field of corporate income tax settlement for 2018.

(in thousand PLN)

As a result of the audit, the tax authority questioned the tax qualification of selected types of intangible costs and depreciation, as a result of which the Company reduced the tax loss previously shown in the CIT-8 tax declaration of the Company for 2018 by the amount of PLN 3 805 thousand.

The audit was completed on August 11, 2020.

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

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

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

35. Liability repayment securities

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

As of 31 December 2020 and 31 December 2019, the Group had liabilities protected with its assets and other protections of payment of liabilities:

Liabilities secured with the assets

Agreement	*Kind of security*	*31 December 2020 Security amount*	*currency*	*31 December 2019 Security amount*	*currency*
Non-revolving loan agreement with Alior Bank SA of 25 July 2019 for PLN 66.7 m for PAK KWB Konin SA	Registered pledge on machines and devices	Up to 141 400	PLN	Up to 141 400	PLN

Other securities of liabilities

Guarantees given

Kind of guarantee	*31 December 2020 Security amount*	*currency*	*31 December 2019 Security amount*	*currency*
Guarantees of good performance of the contract	8 819	PLN	15 175	PLN
Guarantees to remove defects and faults	7 223 434	PLN EUR	4 827 2 657	PLN EUR
Payment guarantees (including guarantees securing transactions on TGE / IRGIT)	30 000 9 980	PLN	30 208	PLN

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

The below table shows the sum of granted guarantees.

(in thousand PLN)

	31 December 2020	*currency*	*31 December 2019*	*currency*
Intra-Group Guarantees	-	PLN	120 700	PLN
The Guarantees granted to the entities outside the Group	-	PLN	16 259	PLN
Total of granted Guarantees	**-**	**PLN**	**136 959**	**PLN**

36. Received guarantees and sureties

Kind of guarantee	*31 December 2020* *Security amount*	*currency*	*31 December 2019* *Security amount*	*currency*
Guarantees of good performance of the contract	23 437	PLN	9 211	PLN
Guarantees to remove defects and faults	2 711 -	PLN EUR	2 812 -	PLN EUR
Payment guarantees	- -	PLN EUR	6 204 -	PLN EUR
Advance payment guarantees	12 705 2 083	PLN EUR	- -	PLN EUR

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

37. Information about related entities

The following table shows the total amounts of significant transactions concluded with related entities (controlled by the same majority owner) for the current year.

Related entity		*Sales to related entities*	*Purchase from related entities*	*Receivables from related entities*	*Liabilities towards related entities*
Elektrim S.A.	2020	-	120	-	-
	2019	-	120	-	-
Megadex Development sp. z o.o.	2020	68	-	-	4
	2019	-	-	-	-
Megadex Expo sp. zo.o.	2020	680	-	73	-
	2019	-	-	-	-
Megadex Serwis sp. z o.o.	2020	-	-	-	-
	2019	3	25 508	-	-
Polkomtel sp. z o.o.	2020	116 570	7 220	13 227	1 087
	2019	170 641	12 863	22 375	719
Polkomtel Infrastruktura sp. z o.o.	2020	114	-	24	-
	2019	110	-	136	-
Laris Investments sp. z o.o.	2020	556	362	46	44
	2019	460	389	171	149
Laris Technologies sp. z o.o.	2020	2 580	-	68	-
	2019	-	-	-	-
CPE sp. z o.o.	2020	1	1 230	11	96
	2019	-	135	-	60

(in thousand PLN)

Plus Flota sp. z o.o.	2020	-	2 587	2	314
	2019	-	336	-	91
Cyfrowy Polsat	2020	4 486	9	752	2
	2019	-	3	-	3
Esoleo sp. z o.o.	2020	546	26 722	455	480
	2019	-	-	-	-
Maciej Nietopiel	2020	-	20	-	-
	2019	-	-	-	-
Andrzej Janiszowski	2020	-	38	-	46
	2019	-	-	-	-
Tomasz Zadroga	2020	-	240	-	25
	2019	-	-	-	-
KD Management Krzysztof Dziaduszyński	2020	-	130	-	6
	2019	-	-	-	
Strategic Consulting Maciej Koński	2020	-	275	-	31
	2019	-	-	-	-
Paweł Markowski	2020	-	41	-	51
	2019	-	-	-	-
Impact Paweł Lisowski	2020	-	41	-	51
	2019	-	-	-	-
Total	**2020**	**125 601**	**39 035**	**14 658**	**2 237**
	2019	171 214	39 354	22 682	1 022

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

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

Transactions with ESOLEO sp. z o.o. mainly concern the construction of photovoltaic farm with a capacity of 70 MWp.

Transactions with related entities are made on market terms.

37.1. Loan granted to a member of the Management Board

Both in the financial year ended 31 December 2020 and in the one ended 31 December 2019, the Parent Company did not grant any loans and similar benefits to members of the management and supervisory staff.

37.2. Other transactions involving members of the Management Board

Both in the financial year ended 31 December 2020 and in the one ended 31 December 2019, there were no transactions with members of management and supervisory staff.

(in thousand PLN)

37.3. Remuneration of Chief executive Staff of the Group

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

	Year ended *31 December 2020*	Year ended *31 December 2019*
Management Board of the parent company		
Short-term employee benefits	4 383	2 376
Post-employment benefits	285	-
Benefits for termination of the contract of employment	41	65
Remuneration for the provision of consulting services	58	-
Supervisory Board of the parent company		
Short-term employee benefits	1 133	1 117
Management Boards of subsidiaries		
Short-term employee benefits	3 117	2 550
Post-employment benefits	-	25
Remuneration for the provision of consulting services	727	-
Supervisory Board of subsidiaries		
Short-term employee benefits	6	14
Total	9 750	6 147

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

	Year ended 31 December 2020	*Year ended 31 December 2019*
Short-term employee benefits	11 604	11 157
Jubilee awards	22	-
Post-employment benefits	74	-
Benefits for termination of the contract of employment	65	216
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Board)	11 765	11 373

The main management team includes directors and senior management.

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

The following table presents the remuneration of an entity entitled to audit accounts paid or due to the year ended 31 December 2020, and for the year ended 31 December 2019, divided into types of services:

	Year ended 31 December 2020	*Year ended 31 December 2019*
Compulsory examination and unit review and consolidated financial statements	620	675
Other services	133	-
Total	753	675

39. Goals and rules of financial risk management

The main financial instruments, used by the Group, consist of bank credits, loans received from related entities and other institutions, funds, and short-term deposits. The main goal of these financial instruments is to obtain funds for the Group's activities. The Group also has other financial instruments, such as receivables and liabilities due to supplies and services created directly within its conducted activities.

The main kinds of the risk resulting from the Group's financial instruments include the interest rate risk, liquidity risk, foreign currency risk, and credit risk. The Management Board verifies and consults the rules of management of each of these kinds of risk – these rules were discussed shortly below. The Group also monitors the market price risk regarding all its held financial instruments.

39.1. Interest rate risk

Potential exposure of the Group to risk caused by the changes of interest rates mainly concerns financial liabilities.

Interest rate risk – the sensitivity gap

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

(in thousand PLN)

Classes of financial instruments	31 December 2020		Interest rate risk sensitivity analysis study as of 31 December 2020							
			WIBOR				EURIBOR			
			WIBOR + 214 pb		WIBOR - 214 pb		EURIBOR + 15,57 pb		EURIBOR - 15,57 pb	
	Carrying amount	value at risk	Profit/loss	Other comprehensive income	Profit/loss	Other comprehensive income	Profit/loss	Other comprehensive income	Profit/loss	Other comprehensive income
Other financial assets	5 091	3 470	74	-	(74)	-	-	-	-	-
Trade and other receivables	385 056	-	-	-	-	-	-	-	-	-
Derivative financial instruments	6 550	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	497 861	497 861	9 834	-	(9 834)	-	60	-	(60)	-
Interest-bearing loans and borrowings	(55 003)	(55 003)	(1 177)	-	1 177	-	-	-	-	-
Trade payables and other financial liabilities	(193 509)	-	-	-	-	-	-	-	-	-
Lease liabilities	(51 495)	(51 495)	(1 102)	-	1 102	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Total	**594 551**	**394 833**	**7 629**	**-**	**(7 629)**	**-**	**60**	**-**	**(60)**	**-**

Lease liabilities mainly relate to the presentation of perpetual usufruct rights to land in accordance with IFRS 16.

(in thousand PLN)

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

39.2. Currency risk

The Group is exposed to currency risk due to concluded transactions.

As at December 31, 2020, one company of the Group used instruments to mitigate the risk resulting from changes in foreign exchange rates. ZE PAK SA hedged the euro exchange rate for part of the flows related to the purchase of CO2 emission allowances. ZE PAK SA used forward transactions with the settlement in March 2021 to secure the exchange rate.

(in thousand PLN)

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

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

	31 December 2020		*Analysis of sensitivity to interest rate risk as of 31 December 2020*			
			EUR/PLN			
Classes of financial instruments			**EUR/PLN + 5,775%**		**EUR/PLN - 5,775%**	
			4,8813		**4,3483**	
	Carrying amount	*Value at risk*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Other comprehensive income*
Other financial assets	5 091	-	-	-	-	-
Trade and other receivables	385 056	88 902	5 134	-	(5 134)	-
Derivative financial instruments	6 550	-	-	-	-	-
Cash and cash equivalents	497 861	38 310	2 212	-	(2 212)	-
Interest-bearing loans and borrowings	(55 003)	-	-	-	-	-
Trade payables and other financial liabilities	(193 509)	(17 249)	(996)	-	996	-
Lease liabilities	(51 495)	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Total	**594 551**	**109 963**	**6 350**	**-**	**(6 350)**	**-**

Lease liabilities mainly relate to the presentation of perpetual usufruct rights to land in accordance with IFRS 16.

(in thousand PLN)

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

39.3. Commodity prices risk

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

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

	2020		*2019*	
	Volume (tons)	*Consumption cost (in PLN thousand)*	*Volume (tons)*	*Consumption cost (in PLN thousand)*
Fuel:				
Lignite	3 384 730	233 395	7 020 653	625 033
Forestry biomass	399 867	74 911	407 919	82 725
Agricultural biomass	45 398	9 675	48 020	10 676
Fuel oil	3 470	7 703	8 526	15 366
Sorbent	75 954	8 915	115 166	9 956

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

	2020		*2019*	
	CO_2 Emission (tons)	*Emission costs (thousands PLN)*	*CO_2 emission (tons)*	*Emission costs (thousands PLN)*
CO_2 emission costs	5 510 260	640 431	6 609 742	587 489

	2020		*2019*	
	Quantity (MWh)	*Purchase cost (thousands PLN)*	*Quantity (MWh)*	*Purchase cost (thousands PLN)*
Purchase of electricity	1 868 192	475 885	3 695 944	813 980

39.4. Credit risk

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

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

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

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

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

(in thousand PLN)

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

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

In addition to the banks presented in the table above, the Group also had cash at Plus Bank SA as at 31 December 2020. The bank has not been evaluated by any of the three main rating agencies, i.e. Fitch, Standard & Poor's and Moody's. Due to the fact that Plus Bank is controlled by the same owner, the Group assesses the credit risk of this bank as insignificant.

PAK Capital Group cash as at December 31, 2020, broken down into individual credit ratings of banks:

Rating level of individual rating agencies			*The amount of cash as at December 31, 2020 (without cash in hand)*
Moody's	*S&P*	*Fitch*	
Aaa	AAA	AAA	-
Aa1	AA+	AA+	-
Aa2	AA	AA	-
Aa3	AA-	AA-	3
A1	A+	A+	-
A2	A	A	1 784
A3	A-	A-	400 530
Baa1	BBB+	BBB+	73 068
Baa2	BBB	BBB	-
Baa3	BBB-	BBB-	22 395
Ba1	BB+	BB+	-
Ba2	BB	BB	81
Ba3	BB-	BB-	-
B1	B+	B+	-
B2	B	B	-
B3	B-	B-	-
Caa1	CCC+	CCC	-
Caa2	CCC		-
Caa3	CCC-		-
Ca	CC		-

	C		-
C	D	DDD	-
–		DD	-
–		D	-
TOTAL			497 861

39.5. Liquidity risk

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

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

Risks related to the business, including the risk of liquidity and the ability to generate appropriate cash flows, are also described in note 4.1 regarding the Group's going concern assumption.

The tables below present financial liabilities of the Group as of 31 December 2020 and 31 December 2019 according to the maturity date based on contractual non-discounted payments.

(in thousand PLN)

31 December 2020	*Less than 3 months*	*3 - 12 months*	*1 - 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	7 713	47 290	-	-	55 003
Trade payables and other financial liabilities	155 351	32 910	5 248	-	193 509
Lease liabilities	5 403	927	25 320	19 845	51 495
Derivative financial instruments	396 972	-	-	-	396 972
Total	**565 439**	**81 127**	**30 568**	**19 845**	**696 979**

31 December 2019	*Less than 3 months*	*3 - 12 months*	*1 - 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	8 005	38 762	29 773	-	76 540
Trade payables and other financial liabilities	101 545	7 424	8 796	-	117 765
Lease liabilities	1 655	4 967	26 488	21 906	55 016
Derivative financial instruments	110 409	205 435	-	-	315 844
Total	**221 614**	**256 588**	**65 057**	**21 906**	**565 165**

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

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

31 December 2020	*On demand*	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Net present market value (currency forwards)	**-**	**6 550**	**-**	**-**	**-**	**6 550**

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

(in thousand PLN)

40. Financial instruments

40.1. Balance sheet value of particular classes of financial instruments

The table shown below presents a comparison between balance sheet values and fair values of all financial instruments of the Group, divided into particular classes and categories of assets and liabilities according to IFRS 9.

Financial assets	Category acc. to IFRS 9	*31 December 2020*	*31 December 2019*
Other financial assets	AFwgZK	5 091	3 220
Trade receivables and other receivables	AFwgZK	385 056	228 578
Derivative financial instruments	WwWGpWF	6 550	-
Cash and cash equivalents	AFwgZK	497 861	414 634
Financial liabilities			
Interest-bearing bank credits and loans, including:		55 003	76 540
long term	PZFwgZK	-	29 773
short term	PZFwgZK	55 003	46 767
Liabilities due to supplies and services and other financial liabilities	PZFwgZK	193 509	117 765
Lease liabilities	PZFwgZK	51 495	55 016
Derivative financial instruments	WwWGpWF	-	1 757

Used abbreviations:

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

(in thousand PLN)

As of 31 December 2020 and 31 December 2019, the Group had following financial instruments evaluated in the fair value:

	31 December 2020	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	6 550	-
Derivatives hedging liabilities	-	-	-	-

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

The fair value of financial instruments other than derivatives as at December 31, 2020 and December 31, 2019 did not deviate significantly from the carrying amounts, mainly due to the fact that for short-term instruments the effect of discounting is not material and the fact that the transactions are concluded at market conditions; for this reason, the fair value of these instruments has been presented at the carrying amount.

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

As at December 31, 2020, forward transactions for currency purchase were valued at fair value. For the purposes of valuing foreign exchange contracts, the difference between discounted future cash flows is calculated between the forward price on the valuation day and the transaction price, according to quotations prepared by the relevant bank, multiplied by the nominal value of the contract in a foreign currency. The valuation of these instruments has been classified to level 2 of the fair value measurement hierarchy.

In the period ended 31 December 2020 and the one ended 31 December 2019, there were no shifts between the level 1 and the level 2 of the fair value hierarchy, and none of instruments was shifted to the level 3 of the fair value hierarchy.

(in thousand PLN)

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

Year ended 31 December 2020

	Revenues /(costs) due to interests (including effect of valuation with depreciated cost)	*Profits / (losses) due to exchange rate differences*	*Redemption / (creation) of impairment write-downs*	*Profits/(losses) due to derivative instruments*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	1 854	260	-	-	-	2 114
Other short-term financial assets	-	-	-	-	-	-
Deliveries and services receivables	-	10 938	8	-	22	10 968
Other receivables	94	-	-	-	-	94
Derivative instrument	-	-	-	33 103	-	33 103
Financial liabilities						
Credit and loan liabilities (long- and short-term ones)	(2 298)	-	-	-	(269)	(2 567)
Deliveries and services liabilities	(51)	(7 390)	-	-	-	(7 441)
Other financial liabilities (without instruments)	(101)	-	-	-	-	(101)
Derivative instruments	-	-	-	-	-	-
Other liabilities	(38)	-	(10 614)	-	(1 208)	(11 860)
Total	(540)	3 808	(10 606)	33 103	(1 455)	24 310

Year ended 31 December 2019

(in thousand PLN)

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

40.3. Interest rate risk of financial instruments

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

	Type of interest	*Carrying amount as of 31 December 2020*	*Carrying amount as of 31 December 2019*
Financial assets at interest rate risk – PLN	Fixed	-	-
	Variable	463 022	416 440
Financial assets at interest rate risk – Other currencies	Fixed	-	-
	Variable	38 310	885
Financial liabilities at interest rate risk - PLN	Fixed	-	-
	Variable	55 003	76 540
Financial liabilities at interest rate risk – Other currencies	Fixed	-	-
	Variable	-	-
Net exposure -PLN	Fixed	-	-
	Variable	408 019	339 899
Net exposure - other currencies	Fixed	-	-
	Variable	38 310	885

Interest rate of financial instrument of variable interest rate is updated in periods shorter than one year. Interests on financial instruments of the fixed interest rate are fixed through the whole period to the date of maturity of these instruments. Other financial instruments of the Group not included in the above tables are not subject to interest and they are not subject to interest rate risk.

40.3.1. Hedging

As at December 31, 2020, one of the Group's companies used instruments to mitigate the risk resulting from changes in foreign exchange rates. ZE PAK SA hedged the euro exchange rate for part of the flows related to the purchase of CO2 emission allowances. ZE PAK SA used forward transactions with the settlement in March 2021 to secure the exchange rate.

Type of concluded transaction	*Currency cross*	*Transaction amount (nominal value in euro thousand) 31 December 2020*	*Net market value (fair value in złoty thousand) 31 December 2020*	*Maturity*
Purchase of EUR transactions (forward)	(EUR/PLN)	62 000	279 141	March 2021

The change in the fair value of cash flow hedges recognized in equity is presented below:

	Year ended 31 December 2020	*Year ended 31 December 2019*
Opening balance	-	(569)
Effective part of profits / losses on a security instrument	-	951
Amounts charged to the income statement, including:	-	382
adjustment of costs of interest	-	382
adjustment under ineffective hedging	-	-

Closing balance	-	-
Deferred tax assets – recognized in the revaluation reserve	-	-
Closing balance including deferred tax	-	-

The Group also hedges the risk of changes in the prices of CO_2 emission allowances by using forward transactions to purchase allowances for its own needs. The tables below present a summary of the forward transactions active as at December 31, 2020 and December 31, 2019.

31 December 2020

Type of concluded transactions	*Number of purchased allowances*	*Total value of transactions in EUR thousand*	*Currency of transactions*	*Maturity*
Forward transaction	7 460 000	191 189	EUR	Up to 1 year
Forward transaction	1 411 000	35 837	EUR	Over 1 year

31 December 2019

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

41. Capital management

The main goal of the management of the Group's capital is maintenance of good credit rating and safe equity ratios, which would support the Group's operating activities and increased the values for its shareholders.

The Group manages the capital structure, and, as a result of changes of economic conditions, introduces amendments to it. In the period, ended 31 December 2020 and 31 December 2019, there were no introduced amendments to goals, rules and processes applying in this area.

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

	31 December 2020	*31 December 2019*
Interest-bearing credits and loans	55 003	76 540
Derivative financial instruments (liabilities)	-	1 757
Trade liabilities and other financial liabilities	193 509	117 765
Minus cash and its equivalents	497 861	414 634
Net debt	**(249 349)**	**(218 572)**
Equity	949 463	1 176 468
Capitals from revaluation of security instruments	-	-
Total capital	949 463	1 176 468
Net capital and debt	**700 114**	**957 896**
Leverage ratio	(35,62%)	(22,82%)

(in thousand PLN)

42. Employment structure

The average employment in the Group for the years ended 31 December 2020 and 31 December 2019 was developing as follows:

	Year ended 31 December 2020	*Year ended 31 December 2019*
Management Board of the parent company	5	4
Management Boards of the Group's entities	7	7
Administration	208	243
Sales department	92	114
Production division	3 617	4 082
Other	378	394
Total	4 307	4 844

43. Significant events after the balance sheet date

Loan agreement for financing an investment project at Konin Power Plant (adaptation to biomass combustion)

On January 29, 2021 the Company concluded a loan agreement with Bank Polska Kasa Opieki SA, on the basis of which the Company will be granted a loan in a total amount of up to PLN 160 million, intended for financing the investment project. The aim of the project is to adapt the existing coal-fired unit located on the premises of Konin power plant to biomass combustion. The modernized 50 MWe installation will produce electricity and act as a backup for the already operating biomass unit, supplying heat to the city of Konin. After the completion of the project, the power generation at Konin Power Plant will be approx. 100MWe (2x50MWe) using biomass as the primary fuel.

Pursuant to the agreement, the loan amount is up to PLN 160 million, and the Company undertook to contribute its own share from its own funds, in the amount of at least 20% of the project costs, but not less than PLN 52.8 million. The loan may be used no later than December 31, 2021. The borrower is obliged to repay the loan with interest and other amounts due under the terms of the agreement, with the full repayment of the loan by December 31, 2030.

In order to secure the repayment of receivables, the Company has established collaterals, i.e. a mortgage on the indicated properties of Konin Power Plant; financial and registration pledge on bank accounts maintained by the Company at Bank Pekao S.A. and power of attorney to each of the above bank accounts; transfer as security under insurance policies of the property of Konin Power Plant and assignment of receivables from heat supply contracts for the city of Konin and the Company's declaration of submission to enforcement pursuant to Art. 777 § 1 point 5 of the Code of Civil Procedure.

Signing a letter of intent with PGW Wody Polskie

In 2020, ZE PAK SA, in cooperation with Państwowe Gospodarstwo Wodne Wody Polakie, began intensive activities aimed at improving water conditions in the area of operation of the mines belonging to the Group. On February 9, 2021, ZE PAK SA and PGW Wody Polskie signed a Letter of Intent regulating the already started activities aimed at increasing retention in Eastern Wielkopolska. ZE PAK SA, together with PGW Wody Polskie, prepared an integrated program for the reconstruction of water relations, covering both post-mining excavations, rivers and canals flowing through the areas in the vicinity of the open-pit mines, as well as wetlands from the nearby Gniezno and Kujawskie Lakelands. Retention is to be increased by finding the most advantageous variants of further shaping the catchment areas of rivers and lakes occurring in the area of operation of mines owned by ZE PAK SA, using post-mining workings to conduct retention and flood management and establishing cooperation in the scope of the possibility of using the considered post-mining workings for the purposes of producing energy from renewable sources.

In total, there are over 30 investment tasks to be implemented under the program, for which investor cost estimates are currently being prepared. The cost of these works is estimated at over PLN 120 million and will be spread over the next 10 years. Some of these investment tasks will be financed as part of the reclamation obligations imposed on companies from the ZE PAK SA Capital Group. The agreement concluded with PGW Wody Polskie also provides for the implementation of a number of investments aimed at improving water relations in Eastern Wielkopolska, the source of financing of which may be the National Reconstruction Plan and the Just Transition Fund. The implementation of the envisaged tasks will significantly shorten the period of improvement of water relations in the region as compared to the current assumptions in this regard.

Conclusion of an electricity sales contract (PPA)

On March 12, 2021 PAK PCE Fotowoltaika Sp. z o.o. concluded an electricity sale contract with Polkomtel Sp. z o.o. The contract concerns the sale of electricity and guarantees of origin of energy produced by a solar farm with a target installed capacity of 70 MWp, located in Brudzew commune, in Turek poviat, in Wielkopolskie voivodship. The farm construction project is currently being carried out by the special purpose vehicle PAK PCE Fotowoltaika Sp. z o.o. and its completion is planned for the fourth quarter of 2021.

The contract for the sale of electricity was signed for a period of 15 years with the possibility of extending it for another 5 years. The total planned volume of electricity sales under the contract applies to the entire volume produced by the farm in this period. The production volume of the farm throughout the entire period of operation will depend mainly on the insolation conditions and the degree of productivity of the installed devices. The estimated production volume of the farm in the first year of operation will amount to approximately 68 thousand MWh. The produced electricity will be sold at a fixed price, indexed from 2023 on the annual inflation rate. The total estimated sum of revenues from the sale of electricity over a period of 15 years will amount to approximately PLN 300 million.

Both parties to the contract have been adequately secured, including in the event of no electricity production by the farm, as well as no payment for the electricity supplied by the farm. The provisions of the contract also comprehensively regulate issues related to, inter alia, electricity production planning and responsibility for the commercial balancing.

Signing a long-term contract for the sale of electricity with a recipient with a stable financial position secures the revenue stream for the implemented project and makes it independent of the current fluctuations on the energy market. Such a solution, similar in its structure to auctions for renewable energy sources, is highly effective in the process of obtaining financing for large-scale renewable energy projects. The developed model of cooperation between the producer of renewable energy and its recipient, and the growing interest of commercial energy consumers in securing its supplies at predictable prices, constitute the potential to be used in the implementation of subsequent projects in the field of energy production from renewable sources.

Conclusion of a loan agreement for financing the project of construction of a photovoltaic farm with an installed capacity of 70MWp in Brudzew

On March 12, 2021, PAK PCE Fotowoltaika Sp. z o.o. concluded a loan agreement with a consortium of banks composed of: PKO BP SA (in the role of the Loan Agent and Security Agent), Bank Pekao SA and mBank SA, under which, a loan will be made available in the total amount of up to PLN 175 million, of which the investment loan is PLN 138 million, and the loan for VAT financing is PLN 37 million, intended for financing the investment project. The aim of the project is to build a photovoltaic farm with a target installed capacity of 70 MWp located in the commune of Brudzew, in the Turek poviat, in Wielkopolskie voivodship. The farm construction project is carried out on areas previously used for mining activities. The contractors of the farm are the consortium of Esoleo Sp. z o.o. and PAK Serwis Sp. z o.o. The completion of the construction of the farm is planned for the fourth quarter of 2021.

Pursuant to the agreement, the borrower undertook to contribute its own share from its own funds, in the amount of not less than PLN 51 million. The borrower is obliged to repay the loan with interest and other amounts due under the terms of the agreement, with the full repayment of the loan by December 31, 2035.

In order to secure the repayment of receivables, collaterals required by the loan agreement were established, i.e. mortgage on the indicated real estate, financial and registered pledge on shares in PAK-PCE Fotowoltaika Sp. z o.o., financial and registration pledge on bank accounts and power of attorney to each of the above-mentioned bank accounts, registered pledge on the company's assets, assignment of contracts constituting essential documentation of the project (general contracting contracts (EPC), service contracts (O&M), contracts for the sale of electricity (PPA)), assignment of insurance policies and the statements of PAK-PCE Fotowoltaika Sp. z o.o. and the Company to submit to enforcement pursuant to Art. 777 § 1 point 5 and 6 of the Code of Civil Procedure.

As part of the structure of the agreements accompanying the loan agreement, there has been signed the so-called support agreement under which ZE PAK SA acts as a guarantor in the event of, inter alia, exceeding the project costs during the construction period, subcontractors' claims, shortage of funds required to service the debt and complete the Project.

Agreement on the sale of material from the demolition of Adamów Power Plant

On March 4, 2021, the Company signed with MK Explosion sp.z o.o. (contractor of the demolition of Adamów power plant) an agreement aimed at selling the material from the demolition collected on the demolition site as of March 4, 2021. The agreement was signed as a result of a submitting a request by MK Explosion sp.z o.o. for simplified restructuring proceedings on the basis of the so-called Shield 4.0 - the Act of 19 June 2020 on interest subsidies for bank loans granted to entrepreneurs affected by COVID-19 and on simplified proceedings for approval of an arrangement in connection with the occurrence of COVID-19 (Journal of Laws of 2020, item 1086, as amended) as well as enforcement proceedings and seizure of property rights of MK Explosion sp. z o.o., to which he is entitled under the contract, the subject of which is the demolition of facilities and preparation of the area in Adamów Power Plant for potential new investments.

The agreement concerns the sale of only this material from the demolition of Adamów power plant, collected on the demolition site as of the date of the agreement.

The buyer of the material will pay ZE PAK SA the sale price immediately after the delivery of the material from the demolition, not later than within 2 days from the date of delivery of the invoice. For the activities related to the sale of the material, ZE PAK SA will pay MK Explosion Sp. z o.o. 30% of the sale price. The payment will be made directly to the bank account of the Court Bailiff conducting the enforcement proceedings until the balance of this account (taking into account payments made for other reasons) reaches the value of the seizure. After reaching this value, the payment will be made to the bank account of MK Explosion sp. z o.o.

ZE PAK SA suspended the contractor from carrying out the demolition and transport activities, apart from the material covered by the above-mentioned agreement. After settling the implementation of the agreement, the parties are to define further terms of cooperation.

Konin, 19 April 2021

SIGNATURES:

Piotr Woźny
President of the Management Board ………………………………………………………..

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

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

Andrzej Janiszowski
Vice-President of the Management Board ....

Katarzyna Sobierajska
Vice-President of the Management Board …………………………………………………………

Aneta Desecka
Chief Accountant ....