CONSOLIDATED FINANCIAL STATEMENTS

OF THE KOGENERACJA S.A. GROUP

FOR THE PERIOD

FROM 1 JANUARY TO 31 DECEMBER 2020

Prepared in accordance with the International Financial Reporting Standards approved by the EU in the Polish zloty (in PLN thousand)

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for the period from 1 January to 31 December 2020, in accordance with EU-adopted IFRS (in PLN thousand)

A. Consolidated financial statements

I. Consolidated statement of comprehensive income for the period ended 31 December 2020

	Note	*For the year ended 31 December 2020* current period	*For the year ended 31 December 2019* previous period *(transformed data)*
Revenue from sales	1	1 183 441	1 092 489
Cost of sales	3	(1 073 026)	(910 776)
Revenue/(cost) of compensation for stranded costs	2	29 824	(7 237)
Gross profit on sales		**140 239**	**174 476**
Other operating income	4	120 831	17 547
Selling and distribution expenses	3	(26 429)	(26 757)
General and administrative expenses	3	*(63 877)*	*(53 560)*
Other operating expenses	4	*(13 673)*	*(7 692)*
Operating profit		**157 091**	**104 014**
Finance income		7 919	10 669
including: interest income		*2 988*	*10 591*
Finance expenses		(7 242)	(8 233)
Net finance income	5	**677**	**2 436**
Profit before tax		**157 768**	**106 450**
Income tax	6	(31 814)	(22 623)
Net profit		**125 954**	**83 827**
Other comprehensive income, net of tax		**(1 279)**	**(684)**
Items that may be reclassified to profit or loss in the future:			
Valuation of hedging instruments		(1 363)	-
Deferred tax	6a	259	-
Items that will not be reclassified to profit or loss in the future:			
Actuarial gains/(losses) related to employee benefits		(216)	(844)
Deferred tax	6a	41	160
Total comprehensive income		**124 675**	**83 143**
Net profit attributable to			
the ordinary shareholders	22	123 935	82 917
non-controlling interests		2 019	910
Total comprehensive income attributable to			
the ordinary shareholders		122 656	82 233
non-controlling interests		2 019	910
Basic and diluted earnings per share attributable to shareholders of the Parent Company *(in PLN)*	22	8,32	5,56

Accounting policies and notes
to the consolidated financial statements
are an integral part of the consolidated financial statements.

for the period from 1 January to 31 December 2020, in accordance with EU-adopted IFRS (in PLN thousand)

II. Consolidated statement of financial position as at 31 December 2020

	Note	As at 31 December 2020	As at 31 December 2019	As at 1 January 2019
		current period	previous period (transformed data)	previous period (transformed data)
ASSETS				
Non-current assets				
Property, plant and equipment	7	1 609 793	1 606 500	1 589 656
Intangible assets, including:	8	42 495	42 506	42 667
- goodwill on related parties		41 559	41 559	41 559
Right-of-use assets	9	68 996	70 388	12 747
Investment property	10	14 948	15 533	15 666
Long-term receivables	18	5 393	5 926	7 633
Shares in other related entities	12,13	-	-	4
Other non-current assets	11	27 277	5 058	3 762
Deferred tax assets	15	77 116	80 639	76 262
Total non-current assets		**1 846 018**	**1 826 550**	**1 748 397**
Current assets				
Inventories	16	120 296	123 111	114 064
Carbon-dioxide emission rights acquired for redemption	17	59 080	997	2 480
Short-term investments	14	-	8 826	1 294
Income tax receivables	15	-	4 602	1 474
Trade and other receivables	18	805 718	600 581	505 715
Other current assets	11	9 118	5 744	4 085
Cash and cash equivalents	19	14 083	16 194	18 935
Total current assets		**1 008 295**	**760 055**	**648 047**
Total assets		**2 854 313**	**2 586 605**	**2 396 444**

for the period from 1 January to 31 December 2020, in accordance with EU-adopted IFRS (in PLN thousand)

Consolidated statement of financial position as at 31 December 2020 (continued)

	Note	*As at 31 December 2020*	*As at 31 December 2019*	*As at 1 January 2018*
		current period	previous period *(transformed data)*	previous period *(transformed data)*
EQUITY AND LIABILITIES				
Equity	21			
Share capital		252 503	252 503	252 503
Share premium		251 258	251 258	251 258
Hedging reserve		(1 087)	-	-
Other reserve capital		764 413	737 959	660 923
Retained earnings		412 455	315 148	309 757
Equity attributable to ordinary shareholders		**1 679 542**	**1 556 868**	**1 474 441**
Non- controlling interests		6 186	4 185	3 275
Total equity		**1 685 728**	**1 561 053**	**1 477 716**
Liabilities				
Non-current liabilities				
Long-term lease liabilities	23	55 907	56 451	267
Derivatives	24	478	-	-
Deferred tax liability	15	83 180	95 382	93 642
Deferred income and government grants	25	87 184	87 505	89 358
Other non-current liabilities	26	394 995	430 220	455 280
Employee benefit liabilities	27	1 717	2 507	3 121
Long-term provisions	28	37 465	31 701	24 961
Total non-current liabilities		**660 926**	**703 766**	**666 629**
Current liabilities				
Loans and borrowings	23	-	-	24 781
Short-term lease liabilities	23	2 338	2 297	185
Derivatives	24	885	-	-
Income tax payables	15	12 011	2 707	3 052
Deferred income and government grants	25	8 686	7 158	10 896
Trade and other payables	26	256 925	189 499	152 645
Employee benefit liabilities	27	18 702	17 043	17 021
Short-term provisions	28	208 112	103 082	43 519
Total current liabilities		**507 659**	**321 786**	**252 099**
Total liabilities		**1 168 585**	**1 025 552**	**918 728**
Total equity and liabilities		**2 854 313**	**2 586 605**	**2 396 444**

Accounting policies and notes
to the consolidated financial statements
are an integral part of the consolidated financial statements.

for the period from 1 January to 31 December 2020, in accordance with EU-adopted IFRS (in PLN thousand)

III. Consolidated statement of cash flows for the period ended 31 December 2020

	Note	*For the year ended 31 December 2020* current period	*For the year ended 31 December 2019* previous period
Cash flows from operating activities			
Profit before tax for the period		**157 768**	**106 450**
Income tax paid		(26 589)	(28 731)
Adjustments			
Depreciation, amortisation and impairment losses	3	161 741	143 438
Loss on disposal of property, plant and equipment		684	30
Interest and dividends		2 391	3 063
Other adjustments	34	9 005	(8 139)
Change in carbon-dioxide emission rights acquired for redemption		(58 083)	1 483
Change in receivables	31	(207 576)	(91 557)
Change in inventories		2 815	(9 047)
Change in short-term and other liabilities, except for loans and borrowings	32	136 954	75 830
Change in employee benefits		869	(592)
Change in other assets		(25 593)	(2 955)
Net cash from operating activities		**154 386**	**189 273**
Cash flows from investing activities			
Proceeds from disposal of intangible assets and property, plant and equipment		3 009	848
Proceeds from sale of financial assets		-	28
Purchases of intangible assets and property, plant and equipment	33	(165 049)	(165 629)
Net cash from investing activities		**(162 040)**	**(164 753)**
Cash flows from financing activities			
Grants received		8 515	925
Repayment of loans and borrowings		-	(24 750)
Interest paid		-	(581)
Lease payments		(2 972)	(2 855)
Net cash from financing activities	35	**5 543**	**(27 261)**
Total net cash flows		**(2 111)**	**(2 741)**
Net change in cash and cash equivalents		**(2 111)**	**(2 741)**
Cash and cash equivalents at the beginning of the period	19	16 194	18 935
Cash and cash equivalents at the end of the period	19	14 083	16 194

for the period from 1 January to 31 December 2020, in accordance with EU-adopted IFRS (in PLN thousand)

IV. Consolidated statement of changes in equity for the period ended 31 December 2020

	Share capital	Share premium	Hedging reserve	Other reserve capital	Retained earnings	**Share capital attributable to ordinary shareholders**	Non-controlling interest	**TOTAL equity**
Equity as at 1 January 2020	**252 503**	**251 258**	**-**	**737 959**	**315 148**	**1 556 868**	**4 185**	**1 561 053**
Net profit	-	-	-	-	123 935	**123 935**	2 019	**125 954**
Other comprehensive income	-	-	(1 087)	-	(174)	**(1 261)**	**(18)**	**(1 279)**
Total comprehensive income	**-**	**-**	**(1 087)**	**-**	**123 761**	**122 674**	**2 001**	**124 675**
Transactions with owners:								
Distribution of profit to other capital reserves	-	-	-	26 454	(26 454)	-	-	-
Equity as at 31 December 2020	**252 503**	**251 258**	**(1 087)**	**764 413**	**412 455**	**1 679 542**	**6 186**	**1 685 728**

	Share capital	Share premium	Hedging reserve	Other reserve capital	Retained earnings	**Share capital attributable to ordinary shareholders**	Non-controlling interest	**TOTAL equity**
Equity as at 1 January 2019	**252 503**	**251 258**	**-**	**660 923**	**309 757**	**1 474 441**	**3 275**	**1 477 716**
Net profit	-	-	-	-	82 917	**82 917**	910	**83 827**
Other comprehensive income	-	-	-	-	(684)	**(684)**	-	**(684)**
Total comprehensive income	**-**	**-**	**-**	**-**	**82 233**	**82 233**	**910**	**83 143**
Transactions with owners:								
Distribution of profit to other capital reserves	-	-	-	77 036	(77 036)	-	-	-
Other	-	-	-	-	194	**194**	-	**194**
Equity as at 31 December 2019	**252 503**	**251 258**	**-**	**737 959**	**315 148**	**1 556 868**	**4 185**	**1 561 053**

for the period from 1 January to 31 December 2020, in accordance with EU-adopted IFRS (in PLN thousand)

B. Notes to the consolidated financial statements

I. Basic information

1. Basic information about the Group

Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. ("KOGENERACJA S.A.," "Parent Company," "Company") is the parent company of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. ("KOGENERACJA S.A.", "Group," "KOGENERACJA S.A. Group").

The Parent Company was registered in Poland and entered into the Register of Entrepreneurs in the District Court for Wroclaw-Fabryczna, 6th Business Division of the National Court Register on 19 February 2001 under KRS No. 0000001010. The Parent Company's registered office is located in Wrocław, ul.Łowiecka 24. The Company's duration is unlimited.

Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.	
Address:	ul. Łowiecka 24, 50-220 Wrocław
Phone:	71/32-38-111
Fax:	71/32-93-521
Company's website:	http://www.kogeneracja.com.pl
E-mail:	kogeneracja@kogeneracja.com.pl
REGON:	931020068
NIP:	896-000-00-32
KRS:	0000001010
LEI:	529900IIZX8UAI8MJ703

The business activities of the Parent Company and its consolidated subsidiary include the following:

- production of electricity and heat,
- wholesale and retail sales of electricity, heat, power industry products and services, distribution of heat and electricity.

The business operations of the Parent Company are conducted on the basis of relevant licenses granted to KONGREGACJA S.A. in production plants in Wrocław and Siechnice (near Wrocław).

Since 13 November 2017 KOGENERACJA S.A. Group belongs to PGE Polska Grupa Energetyczna S.A Group.

The parent shareholder of the Company is PGE Energia Ciepła S.A.

As at 31 December 2020, KOGENERACJA S.A. and its subsidiary EC Zielona Góra S.A. were consolidated under the full accounting method by the ultimate parent company: PGE Polska Grupa Energetyczna S.A. with its registered office in Warszawa.

The consolidated financial statements for the period ended 31 December 2019 include financial statements of the Parent Company and its subsidiary (collectively referred to as the "Group").

The Company's accounting books are kept by PGE Energia Ciepła S.A.

for the period from 1 January to 31 December 2020, in accordance with EU-adopted IFRS (in PLN thousand)

2. Composition of the Parent Company's Management Board

As at 1 January 2020, the Parent Company's Management Board was composed of the following persons:

Paweł Szczeszek	–	President of the Management Board,
Paweł Strączyński	–	Vice President of the Management Board.

On 21 February 2020, a written statement of Mr. Paweł Strączyński was received regarding his resignation from the function of the Vice President of the Management Board effective as of 23 February 2020 (*Current Report 5/2020*). On the same day, the Company's Supervisory Board adopted a resolution based on which it delegated a member of the Supervisory Board, Mr. Radosław Woszczyk, to temporarily perform the duties of a Member of the Company's Management Board (*Current Report 4/2020*).

On 21 May 2020, the Company's Supervisory Board adopted a resolution under which it delegated a member of the Supervisory Board, Mr. Radosław Woszczyk, to temporarily perform the duties of a Member of the Company's Management Board as of 22 May 2020 for the period of 3 months (*Current Report 10/2020*).

On 25 May 2020, a written statement of Mr. Paweł Szczeszek was received regarding his resignation from the function of the President of the Management Board effective as of 26 May 2020 (*Current Report 11/2020*). On 26 May 2020, the Company's Supervisory Board adopted a resolution based on which it delegated a member of the Supervisory Board, Mr. Roman Nowak, to temporarily perform the duties of a Member of the Company's Management Board as of 27 May 2020 for the period of 3 months (*Current Report 12/2020*).

On 2 June 2020, the Company's Supervisory Board adopted a resolution to appoint Mr. Mariusz Michałek to the Management Board to act as President of the Management Board and a resolution to appoint Mr. Krzysztof Kwiecień to the Management Board to act as Vice President of the Management Board. The above resolutions became effective on the date of adoption thereof (*Current Report 13/2020*).). On the same day, the resignations of Mr. Radosław Woszczyk and Mr. Roman Nowak from the position of Member of the Management Board of the Company were received and thus the delegation of Members of the Supervisory Board to temporarily perform the duties of Members of the Management Board of the Company ended.

On 15 September 2020, a written statement of Mr. Mariusz Michałek was received regarding his resignation from the function of the President of the Management Board effective as of 15 September 2020 (*Current Report 20/2020*).

On 6 October 2020, the Supervisory Board adopted a resolution to appoint Mr. Andrzej Jedut to the Management Board to act as President of the Management Board and a resolution to appoint Mr. Krzysztof Kryg to the Management Board to act as Member of the Management Board. The above resolutions became effective on the date of adoption thereof (*Current Report 22/2020*).

On 29 October 2020, a written statement of Mr. Krzysztof Kwiecień was received regarding his resignation from the function of the Vice President of the Management Board effective as of 1 November 2020 (*Current Report 27/2020*).

On 15 December 2020, the Supervisory Board adopted a resolution to entrust Mr. Krzysztof Kryg, a Member of the Company's Management Board, appointed to the Management Board of KOGENERACJA S.A. on 6 October 2020, with the function of Vice President of the Management Board as of 16 December 2020 (*Current report 32/2020*).

As at 31 December 2020 and at the date of publication of these financial statements, the Company's Management Board was composed of the following persons:

Andrzej Jedut	–	President of the Management Board,
Krzysztof Kryg	–	Vice President of the Management Board.

for the period from 1 January to 31 December 2020, in accordance with EU-adopted IFRS (in PLN thousand)

3. Shareholders

Table: List of shareholders holding directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Meeting of KOGENERACJA S.A. as at the date of submission of the report for 2020.

	Share (%)	
	As at 31 December 2020	**As at 31 December 2019**
PGE Energia Ciepła S.A.	58,07	58,07
Aviva OFE Aviva Santander	9,99	9,99
OFE PZU "Złota Jesień"	8,02	8,02
Aegon OFE	6,45	6,45
Nationale-Nederlanden OFE	5,01	-

The shareholding status was updated according to data gathered after the Parent Company's extraordinary General Meeting held on 18 December 2020 (*Current Report 34/2020*).

4. Subsidiaries

Accounting policies

Subsidiaries are entities which the Group controls. The Group exercises control when:

- it has authority over a given entity,
- it is exposed to variable returns or has rights to variable returns on its investment in a given entity,
- it can use its authority in order to shape the level of returns.

The Parent Company verifies the control over entities in case of a change in one or a number of the above-mentioned terms and conditions of control.

Table: The percentage share of the Parent Company in the consolidated subsidiary is as follows (direct share):

	Share (%)	
	As at 31 December 2020	**As at 31 December 2019**
EC Zielona Góra S.A.	98,40	98,40

EC Zielona Góra S.A. is a company that produces electricity and produces and distributes heat. The company's registered office is located in Zielona Góra at al. Zjednoczenia 103.

As at 31 December 2020 and 31 December 2019, the share of the total number of votes held by the Group in the subsidiary is equal to the Group's interest in the entity capital.

5. Companies covered by the consolidated financial statements

KOGENERACJA S.A. – As at 31 December 2020, KOGENERACJA S.A., the Parent Company of the Group, included its subsidiary, EC Zielona Góra S.A. in the consolidated financial statements (full consolidation).

6. Changes in the Group's structure in 2020

In 2020, there were no changes in the KOGENERACJA S.A. Group's structure.

II. Basis of financial statements preparation

1. Statement of compliance

The KOGENERACJA S.A. Group has prepared the separate financial statements in accordance with the International Financial Reporting Standards which were approved by the European Union, hereinafter referred to as the EU IFRSs, and, to the extent not regulated in the above standards, in accordance with the requirements set forth in the Accounting Act of 29 September 1994 (Dz. U. [Journal of Laws] of 2019, item 351) and related implementing provisions.

EU IFRS include all International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") as well as related Interpretations except for Standards and Interpretations which are awaiting approval by the European Union, and Standards and Interpretations which have been approved by the European Union, but have not yet come into force.

The consolidated financial statements have been prepared on the historical cost basis, except for assets and liabilities measured at fair value: derivatives, financial instruments measured at fair value through profit or loss or other comprehensive income.

These consolidated financial statements were drawn up based on the assumption that the Group companies will continue its operation in the foreseeable future. As at the date of approval of these consolidated financial statements, there are no circumstances indicating a threat to the continued operation of the Group companies.

These consolidated financial statements of the KOGENERACJA S.A. Group cover the period from 1 January 2020 to 31 December 2020 and comparative data for the period from 1 January 2019 to 31 December 2019.

These consolidated financial statements use the accounting policies and calculation methods applicable to companies within PGE S.A. Group.

The accounting policies used in the preparation of these financial statements are described in the individual detailed notes and have been applied for all periods presented in the consolidated financial statements. The accounting policies have been applied by all Group entities directly in their accounting books or by means of appropriate restatements in the data prepared in accordance with the Accounting Act and included in the consolidation documentation.

2. Presentation and functional currency

The data in the consolidated financial statements are given in Polish zloty (PLN) (the functional currency of the Parent Company and the presentation currency of these consolidated financial statements), rounded to the nearest thousands.

3. New Standards and Interpretations which have been issued but are not yet effective

The following new Standards, amendments to Standards and Interpretations are not yet effective for annual period beginning on 1 January 2020, and have not been applied in these consolidated financial statements. The Group plans to adopt them when they become effective.

- IFRS 14 *Regulatory Deferral Accounts* – according to the decision of the European Commission, the process of adoption of the draft standard will not be initiated before the publication of the final version of the standard – not adopted by the EU by the date of approval of these financial statements.
- IFRS 17 *Insurance Contracts,* as amended, effective for annual periods beginning on or after 1 January 2023. The Standard defines a new approach to recognition of revenues and profit/loss in the period of providing insurance services.
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Sales or Contributions of Assets between an Investor and its Associate/Joint Venture* – the date of becoming effective was postponed until research on the equity method was completed.
- Amendments to IAS 1 *Presentation of Financial Statements* address the classification of liabilities as current or non-current, effective for annual periods beginning on or after 1 January 2022.
- Amendments to IAS 1 *Presentation of Financial Statements* address disclosures about accounting policies applied, effective for annual periods beginning on or after 1 January 2023.
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* effective for annual periods beginning on or after 1 January 2023.
- Amendments to IAS 16 *Property, plant and equipment* – revenue generated before a non-current asset is commissioned, effective for annual periods beginning on or after 1 January 2022.
- Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – Onerous Contracts – Cost of Fulfilling a Contract, effective for annual periods beginning on or after 1 January 2022.
- Amendments to IFRS 3 *Business Combinations* – amendments to reference to the conceptual framework, together with amendments to IFRS 3, effective for annual periods beginning on or after 1 January 2022.
- Amendments to various standards *Amendments to IFRSs* (2018 – 2020 cycle) – amendments made under the annual improvements to IFRSs (IFRS 1, IFRS 9, IFRS 16 and IAS 41) mainly aimed at resolving inconsistencies and clarifying vocabulary (amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendments to IFRS 16 relate only to an illustrative example and therefore no effective date is provided.).
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16 (Phase 2) – The amendments relate to interest rate benchmark reform, effective for annual periods beginning on or after 1 January 2021.
- Amendments to IFRS 4 *Insurance Contracts* – extension of the temporary exemption from applying IFRS 9, effective for annual periods beginning on or after 1 January 2021.
- Amendments to IFRS 16 *Leases* – amendments relate to COVID-19-related rent concessions, effective for annual periods beginning on or after 1 January 2021.

The effective dates are the dates arising from the standards published by the International Financial Reporting Board. The effective dates of the standards in the European Union may differ from the effective dates arising from the standards and are announced upon the adoption of the standards by the European Union.

The Parent Company estimates that the above-mentioned new standards and amendments to existing standards would not have a significant impact on the financial statements, if they had been applied by the Group companies as at the balance sheet date.

4. Changes in accounting policies and data presentation

In the consolidated financial statements for the year ended 31 December 2020, the KOGENERACJA S.A. Group applied the same accounting policies as in the consolidated financial statements for the year ended 31 December 2019 with the following exceptions: application of new or amended standards and interpretations applicable to annual periods beginning on 1 January 2020 and later, and change of the comparative data in order to adjust them to the accounting policies of the PGE S.A. Group.

The effect of the new Standards and Interpretations effective for the first time for the period beginning on 1 January 2020

- Amendments to the *Conceptual Framework References* in International Financial Reporting Standards. The changes concern the unification of Conceptual Assumptions.
- Amendment to IFRS 3 *Business Combinations* (clarifying the definition of economic activity).
- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (changes in the definition of materiality).
- Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* (reform of the interest rate benchmark).

The above amendments do not significantly affect the consolidated financial statements.

The Group decided not to apply early any other standard, interpretation or amendment which have been published but have not yet become binding.

Change in data presentation:

As a result of verifying the accounting and reporting treatment of the individual financial statement items in accordance with the accounting policies of the PGE S.A. Group, it was decided to change the presentation of individual items of the statement of financial position and statement of comprehensive income. The changes had no effect on the Group's net profit.

Detailed information on the changes introduced is presented in chapter B *Notes to the Financial Statements*, item 44.

5. Professional judgement and uncertainty over estimates and assumptions

For the financial statements to be drawn up in accordance with the International Financial Reporting Standards as adopted by the European Union (EU IFRSs), the Management Board has to give its opinions, make assessments and assumptions which influence the accepted policies and presented values of assets, liabilities, revenues and expenses. Estimates and relevant assumptions are based on the historical experience and other factors which are deemed reasonable under given circumstances, and their results give a basis for an opinion to be issued as to the balance sheet value of the assets and liabilities which cannot be directly inferred from other sources. The actual value may differ from the estimated value. Estimates and relevant assumptions are regularly reviewed. Changes in the accounting estimates are disclosed in the period in which the estimate was changed or in the current and future periods if the change made in the estimate refers to both the current period and future periods. Details of the opinions, estimates and assumptions made are set out below or in the relevant notes.

- Depreciation – every year, the Group verifies the expected useful lives of its fixed assets and changes the depreciation rates of fixed assets based on this verification. As a result of verification, the Management Board of KOGENERACJA S.A. and the Management Board of its subsidiary, EC Zielona Góra S.A., decided to change the depreciation rates for selected items from 1 January 2020 in order to adjust the economic useful lives to the expected technical life. The change resulted in an increase in the level of depreciation in 2020 by approximately PLN 5 284 thousand (including the increase by PLN 5,306 thousand for KOGENERACJA S.A. and the decrease by PLN 22 thousand for EC Zielona Góra S.A.).
- The compensation for covering the stranded costs of KDTs are presented in Chapter III *Notes to the Financial Statements,* Item 2.

- The Group operates in one operating segment: Electricity and heat production, distribution of heat and electricity. The Parent Company's Management Board makes a professional judgement in identifying the segments in accordance with IFRS 8. The detailed approach to identification of segments and basic financial data are presented in Note 36 to these consolidated financial statements.
- For the purpose of impairment testing, the Group identified cash-generating units. The Group identified two cash-generating units: Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. and EC Zielona Góra S.A. The impairment testing for cash-generating units to which goodwill was allocated is presented in Note 8.
- Revenue comprises of gross inflows of economic benefits for a given period arising from the (ordinary) business activities of the Company, resulting in increasing the Company's equity.
- During the reporting period, the Group updated its asset impairment allowances. Detailed information on impairment losses is presented in chapter III *Notes to the financial statements*, item 20.
- The Group estimates actuarial liabilities (provisions) for pension benefits. The assumptions relating to these liabilities are presented in chapter III *Notes to the financial statements*, item 28.
- Provisions are liabilities of uncertain amount or due dates. During the reporting period, the Group changed its estimates regarding the validity or the amount of certain provisions. Details are presented in chapter III *Notes to the financial statements*, item 28.
- Classification of the leases and detailed information on the lease agreements are presented in chapter III *Notes to the financial statements*, item 37.
- Uncertainties related to tax settlements are described in chapter III *Notes to the financial statements*, item 41.
- KOGENERACJA S.A. and its subsidiary, EC Zielona Góra S.A., monitor the impact of the COVID-19 pandemic on the Company's financial condition. All potential scenarios for savings in both capital expenditure and operating costs were analyzed in order to focus on the most important development projects related to the core business. Details of the impact of the COVID-19 pandemic on the Group are described in chapter III *Notes to the financial statements*, item 42.

6. Principles of consolidation

a. Subsidiaries

Subsidiaries are companies controlled by the Parent Company. Control takes place when the Parent Company, due to its involvement, is exposed or entitled to variable financial results and can affect the amount of variable financial results through its power over the subsidiary. In assessing control, the existing rights and potential voting rights that are exercisable or convertible at the balance sheet date are taken into consideration. The Group verifies the control over other entities in case of a change in one or more of the above-mentioned conditions of control.

The financial statements of subsidiaries included in the consolidated financial statements cover the period from the date the control is obtained until the date the control expires.

The financial statements of the subsidiaries, after adjustments to ensure compliance with IFRS, are prepared for the same reporting period as the financial statements of the Parent Company, using consistent accounting policies, based on uniform accounting policies used for business transactions and events of a similar nature. In order to eliminate any discrepancies in the accounting policies, the adjustments are made.

b. Consolidation adjustments

Balances of internal settlements between Group companies, transactions within the Group, and all related unrealized gains or losses, income and expenses are eliminated in preparing the consolidated financial statements.

III. Notes to the financial statements

Notes to the statement of comprehensive income

1. Revenues from sale

Accounting policies

In accordance with IFRS 15, revenues are recognized when goods and services are transferred to the customer at a value that reflects the price expected by the entity in exchange for the transfer of those goods and services. Revenues are recognized when the performance obligation is met by transferring the promised good (product) to the customer. The transfer of a good occurs when the customer gains control over that good.

Identifying the contract with the customer

The Group recognizes a contract with a customer only if all the following criteria are met:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are required to perform their respective obligations,
- The Group can identify each party's rights and obligations regarding the goods or services to be transferred,
- The Group can identify the payment terms for the goods or services to be transferred,
- the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract), and
- it is probable that the Group will collect the consideration due to it in exchange for the goods or services to be transferred to the customer.

In evaluating whether collectability of an amount of consideration is probable, the Group shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration due to the Group may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession.

Identification of performance obligations
At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

The Group recognizes revenue upon fulfilling (or during fulfilment) of the performance obligation by transferring the promised goods or services (i.e. assets) to the customer. An asset is transferred when the customer obtains control over the asset, i.e. when the customer is able to directly manage the asset and to obtain substantially all the remaining benefits from it.

The Group transfers control over a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:
- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Company performs;
- the Group's performance creates or enhances an asset (e.g. work in progress) that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

For each performance obligation satisfied over time, the Group recognizes revenue over time by measuring the progress towards complete satisfaction of that performance obligation. The objective of the measurement is to depict the Company's performance in transferring control of goods or services promised to a customer (i.e. the satisfaction of the Company's performance obligation).

Determination of the transaction price
When (or as) a performance obligation is satisfied, the Group recognizes as revenue the amount of the transaction price that is allocated to that performance obligation. The transaction price includes a part of or the whole amount of estimated variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Revenue is recognized net of value added tax (VAT), excise duty, other sales taxes and charges, and discounts and rebates.

The Group considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to the customer, excluding amounts collected on behalf of third parties (e.g. some sales taxes). The consideration promised in a contract with the customer may include fixed amounts, variable amounts, or both.

When another party is involved in providing goods or services to the customer, the Group determines whether the nature of its promise is to provide the specified goods or services (the Group is a principal) or to arrange for those goods or services to be provided by the other party (the Group is an agent).

The Group determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer. If a contract with the customer includes more than one specified good or service, the Group could be a principal for some specified goods or services and an agent for others.

The Group is a principal if it controls the specified good or service before that good or service is transferred to the customer.
If the Group that is a principal satisfies a performance obligation, the Company recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. The Group's fee or commission might be the consideration that the Company retains after paying the other party the consideration received in exchange for goods and services to be provided by the party.

Revenues from sale of electricity
Revenues from the sale of electricity are recognized based on the month of the sale to which the invoice relates.

Revenues from sale of electricity distribution services
Revenues from the sale of the electricity distribution service is derived from sales documented by invoices. Revenues from the sale of electricity distribution services are presented net of the value of fees collected on behalf of third parties for which the Company acts as the payer, i.e. the transitory charge and the cogeneration charge.

Revenues from sale of heat and distribution of heat
Revenues from the sale of heat are measured at the currently applicable tariff rates, which are subject to approval by the President of the Energy Regulatory Office. Tariff rates relate to the ordered heat power, sold heat energy and heat carrier, fixed transmission and variable transmission. Revenues invoiced for the sale of heat are the product of the tariff rates described above and the sales volumes. The sales of heat in terms of quantity are derived from the measurement and settlement readings. Readings are taken on the indicated working days of each calendar month. Revenue from the sale of heat is recognized when heat is delivered in accordance with the readings obtained.

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Revenues from sale of certificates
Energy origin certificates (green and red energy certificates) are recognized as inventory, at the end of month in which certified energy has been produced, and as revenue. Certificates are measured at fair value, determined based on market selling prices as at date of initial recognition.

Revenues from sale of rental services
Revenue from sale of rental services from investment property is recognized in the statement of comprehensive income on a straight-line basis over the period of rental agreement.

Revenues from sale of services
Revenue from sale of services is recognized in the statement of comprehensive income proportionally to the completion of the service as at the end of reporting period.

Table: Revenue from sales for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	**For the year ended 31 December 2019** *(transformed data)*
Revenues from sale of finished goods	**1 079 516**	**1 025 227**
Revenue from sale, distribution and trade of electricity	558 437	555 113
Revenue from sale and distribution of heat	509 441	459 005
Revenue from energy origin certificates	3 941	4 417
Revenue from sale of surplus of CO_2 emission rights	-	-
Revenue from agriculture and holticulture	-	-
Revenue from support for high-efficiency gas cogeneration	1 131	-
Revenue from rental of investment property	5 236	4 292
Revenue from gas compensation	-	-
Revenue from sale of other products	1 330	2 400
Revenues from sale of merchandise and raw materials	**103 925**	**67 262**
Revenue from resale of electricity	79 730	61 847
Revenues from sale of CO_2 emission right	23 945	4 521
Revenue from sale of merchandise and raw materials	250	894
	1 183 441	**1 092 489**

Higher revenues from the sale of electricity (increase by PLN 3 324 thousand) are primarily the result of higher electricity prices compared to 2019 and lower sales volume due to lower availability of equipment at EC Czechnica in the period from May to October 2020 (turbine overhaul).

Higher revenues from the sale of heat in 2020 (increase by PLN 50 436 thousand) are the result of higher heat sale prices and the increase in power ordered by new recipients.

Higher revenues from the resale of electricity (increase by PLN 17 883 thousand) result from the higher volume of resale of purchased electricity.

Higher revenues from the sale of CO_2 emission rights (increase by PLN 19 424 thousand) are due to the higher volume and price of the allowances sold.

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Revenue from property rental (lease payments recognized as revenue) in 2020 amounted to PLN 5 236 thousand. The Group had no operating lease income relating to variable lease payments that are not dependent on index or rate.

In 2020, costs relating to property rental (depreciation) amounted to PLN 1 187 thousand (2019: PLN 1,103 thousand).

The KOGENERACJA S.A. Group operates in one operating segment – *Power generation as well as heat generation and distribution*, only domestically.

Table: Revenue from contracts with customers for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	For the year ended 31 December 2019 *(transformed data)*
Revenue from contracts with customers	1 295 288	1 088 197
Revenues from sale of finished goods, merchandise and raw materials	*1 178 205*	*1 088 197*
Revenue from contracts with customers recognized in other operating revenues	*117 083*	-
Revenue from rental of investment property	5 236	4 292
	1 300 524	**1 092 489**

The item *Revenue from contracts with customers recognized in other operating revenues* presents revenues from sale of CO_2 emission rights from the pool of unspent CO_2 emission rights for the previous years of the settlement period. Detailed information is presented in the *Notes to the financial statements*, item 4a.

2. Compensations to cover stranded costs in the subsidiary EC Zielona Góra S.A.

Accounting policies

EC Zielona Góra S.A., similarly to other producers of electricity which acceded to the program for early termination of long-term contracts for the sale of power and electricity ("KDTs"), is entitled to receive compensation (quarterly advance payments) to cover stranded costs. After each year, the annual adjustment is performed. Upon expiry of the period for which KDT was concluded, the final adjustment is performed.

The Company recognizes as revenue the amounts received in advance, adjusted as appropriate for the annual adjustment and the appropriate part of the anticipated final adjustment. The final adjustment to a given reporting period is allocated in fixed prices, based on the anticipated distribution of revenue from the sale of electricity and system-related services over the adjustment period, taking into account the final adjustment. The medium-term risk-free rate was adopted for discounting.

If accumulated profit or loss from KDTs as at the balance sheet date exceeds the estimated cash flows to be received to settle the program, the company applies a limiting condition. Cash flows in excess of the limiting condition due ti the return do not represent the company's revenue and are recognized directly in the final adjustment liability.

The final adjustment liability is calculated as the difference between the discounted amount of cash flows received under KDTs for the duration of the program and the estimated amount of stranded costs. The amount of the anticipated final adjustment is determined based on the model developed to calculate KDT compensations. The key parameters used in the model which affect the revenue, costs and settlements recognized in the financial statements are electricity selling prices and the interest rate used for discounting the long-term liability. Changes in the interpretation of the provisions of the KDT Act or assumptions may materially affect the estimates and result in significant changes in the company's assets, financial position and results of operation. The final adjustment to a given reporting period is allocated based on the planned distribution of revenue for the sale of electric energy over the adjustment period (in practice, the part of the final adjustment to be recognized in a given year depends on the ratio of sales revenue for that year and the sum of revenue for the entire KDT period).

In accordance with Article 6 of the Act of 29 June 2007 on the rules of covering producers' costs in connection with early termination of long-term contracts for the sale of power and electricity, the total sum of cash flows transferred to a producer to cover stranded costs, discounted as at 1 January 2007, cannot exceed the maximum amount of such stranded costs determined for the producer, as specified in Appendix 2 to the Act, in fixed prices as at 1 January 2007.

Changes in estimates due to the calculation of the final adjustment are taken into account prospectively by recognizing them in the statement of comprehensive income for the period in which the change has occurred and in future periods provided that the change applies to all such periods.

On the basis of the Act of 29 June 2007 on the rules of covering producers' costs in connection with early termination of long-term contracts for the sale of power and electricity (Dz. U. [Journal of Laws] of 2007, No. 130, item 905) (the "KDT Act"), the subsidiary EC Zielona Góra S.A. is entitled to receive cash flows to cover stranded costs (the so-called KDT compensations).

In accordance with the KDT Act, EC Zielona Góra S.A. receives compensations (quarterly advances) to cover stranded costs. After each year, the annual adjustment is performed. Upon expiry of the period for which KDT was concluded (KDT settlement period), the final adjustment is performed.

The amount of revenue, costs, and settlements recognized in a given year in relation to KDT compensation is an estimate of the Management Board. The estimate is determined on the basis of the Company's interpretation of the provisions of the KDT Act and the expected amounts of annual adjustments and the final adjustment set out by way of decisions issued by the President of the Energy Regulatory Office. Changes in the interpretation of the provisions of the KDT Act or assumptions may materially affect the estimates and result in significant changes in the company's assets, financial position and results of operation.

The amounts of the anticipated annual adjustments and the final adjustment are determined based on the model developed to calculate KDT compensations. The key parameters used in the model which affect the revenue, costs and settlements recognized in the financial statements are electricity selling prices and the interest rate used for discounting the long-term liability. For the purposes of the calculation model, the price paths based on best available knowledge were adopted (based on the report prepared by the third party, i.e. Agencja Rynku Energii S.A.).

In accordance with Article 18.1 of the KDT Act, the legislator defines the discount rate for the j-th period as the update rate equal to the yield on five-year treasury bonds issued as at the nearest day preceding 30 June of a given "j" year, according to data published by the minister competent for public finance and the Central Statistical Office, increased by the difference between the rediscount credit rate and the deposit rate of the National Bank of Poland valid as at 30 June of a given "j" year. The effective discount rate shall be understood as the average rate constant over the entire forecast period. As of 31 December 2020, the effective discount rate for the entire program is 4,03%.

Following the update of the assumptions adopted in the KDT compensation calculation model, it was estimated that the final adjustment would be lower than the sum of KDT compensations paid during the entire period. In connection with the expectations as to the sales revenue in 2021–2024, i.e. over the remaining KDT settlement period, EC Zielona Góra S.A. will not have to return all amounts received under KDT compensations. The retained amounts will represent a grant to increase the revenue. As at 31 December 2020, the estimated amount of compensation not subject to the final adjustment amounts to PLN 51 460 thousand.

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In connection with the Group's recognition of the maximum level of Stranded Costs over the entire period of the program (according to the estimates as at 31 December 2020, updated based on actual financial results for 2020), the Group recognizes as the KDT costs the amount corresponding to the amount of financial costs during the reporting period and the change in estimates. The decisive factors influencing the change in estimates are as follows:

- update of the forecasts for 2021–2024, including the Company's current financial plan for 2021–2022,
- inclusion of the BPG turbine overhaul expected to increase the turbine's power generation efficiency (higher margin for power generation results in a decrease in Stranded Costs due),
- update of data based on actual performance in 2020.

As at 31 December 2020, in accordance with the accounting principles, the part of the program results attributable to the current reporting period was recognized.
In the period from 1 January to 31 December 2020, the revenue from KDT compensations amounted to PLN 29 824 thousand (KDT compensation costs for the period from 1 January to 31 December 2019: PLN 7,237 thousand).

In the period from 1 January to 31 December 2020, the financial costs from KDT compensations amounted to PLN 3 934 thousand (in the period from 1 January to 31 December 2019: PLN 4,301 thousand).

The value of the liabilities due to KDT compensations as at 31 December 2020 amounted to PLN 416 551 thousand, of which a long-term liability: PLN 394 941 thousand and short-term liability: PLN 21 610 thousand (as at 31 December 2019: PLN 466,629 thousand).

3. Expenses by nature and by function

Accounting policies

The cost of sales includes the value of electricity sold, certificates of origin for energy, fuels, coal, gas and other goods and materials at purchase prices.

Costs that can be directly attributed to the revenues generated by the Group affect the financial result for the reporting period in which these revenues occurred.

Costs that can only be indirectly attributed to revenues or other benefits achieved by the Group affect the financial result in the part in which they relate to a given reporting period, ensuring compliance with the accrual principle and taking into account the principles of valuation of fixed assets and inventories.

a. Cost of goods, merchandise and raw material sold

Table: Cost of goods, merchandise and raw materials sold for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	**For the year ended 31 December 2019** *(transformed data)*
Cost of goods sold	(979 896)	(845 869)
Cost of merchandise and raw materials sold	(93 130)	(64 907)
	(1 073 026)	**(910 776)**

for the period from 1 January to 31 December 2020, in accordance with EU-adopted IFRS (in PLN thousand)

b. Expenses by nature

Table: Expenses by nature for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	For the year ended 31 December 2019 *(transformed data)*
Depreciation, amortisation and impairment losses	(161 741)	(143 438)
Materials and energy	(466 491)	(459 915)
External services	(131 834)	(115 701)
Taxes and charges, including:	(233 258)	(128 720)
CO_2 allowances	*(200 951)*	*(101 497)*
Costs of employee benefits	(70 087)	(68 000)
Other expenses by nature	(6 791)	(10 412)
Total expenses by nature	**(1 070 202)**	**(926 186)**
Cost of merchandise and raw materials sold	(93 130)	(64 907)
Total cost of goods, merchandise and raw material sold, selling expenses and general and administrative expenses	**(1 163 332)**	**(991 093)**
Selling and distribution expenses	26 429	26 757
General and administrative expenses	63 877	53 560
Cost of sales	**(1 073 026)**	**(910 776)**

The increase in depreciation costs by PLN 18 303 thousand is mainly due to the purchase of new fixed assets and the verification of the useful lives of fixed assets (an increase by PLN 5 284 thousand). Depreciation related to the right-to-use assets amounted to PLN 1 389 thousand.

A higher level of costs of materials and energy consumption (an increase by PLN 4 439 thousand) is mainly results from the increase of the costs of biomass consumption by PLN 3 510 thousand and the costs of coal consumption by PLN 1 242 thousand as well as the decrease of the costs of gas consumption by PLN 2 527 thousand.

The increase in cost of services is primarily due to higher costs of support services, transmission service fees paid to Tauron Dystrybucja S.A., increased repair costs and increased costs related to the coronavirus pandemic.

The increase in taxes and fees by PLN 104 538 thousand is mainly due to the increase in the provision for the shortage of CO_2 emission rights as a result of higher prices of contracted CO_2 emission rights.

The higher cost of employee benefits (increase by PLN 2 087 thousand) results from the increase in payroll expenses related to the transfer, pursuant to Article 23 (1) of the Labor Code, as from 1 July 2020 of 42 employees previously employed in the asset maintenance area in local divisions of PGE Energia Ciepła S.A.

The increase in the value of goods and materials sold is the result of a higher volume of electricity purchased and resold by the Group companies.

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c. Employee benefit costs

Table: Employee benefit costs for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	**For the year ended 31 December 2019** *(transformed data)*
Payroll expenses	(54 291)	(51 188)
Social security contributions	(10 725)	(10 115)
Change in employee benefits	(1 409)	1 188
Cost of Voluntary Leave Programme	(1 535)	(1 398)
Other post-employment benefits	(179)	(89)
Other employee benefits	(6 759)	(6 398)
	(74 898)	**(68 000)**
Payroll costs reclassified to capital expenditures	4 811	-
	(70 087)	**(68 000)**

4. Other operating income and costs

<u>Accounting policies</u>

Other operating income and costs are recognized in the financial statements in accordance with prudence and matching principle.

a. Other operating income

Table: Other operating income for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	**For the year ended 31 December 2019** *(transformed data)*
Penalties, fines and compensations	1 996	421
Settlement of grants received	7 057	6 721
Reversal of impairment losses on inventories and receivables	299	221
Revenue from the sale of CO_2 emission allowances from the pool of undistributed CO2 emission allowances, adjusted by the valuation	108 713	8 370
Gain on sale of property, plant and equipment	26	230
Sale of scrap	1 199	512
Lease revenues	820	857
Other	721	215
	120 831	**17 547**

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Pursuant to the announcement of the Minister of Environment of 16 April 2019 on electricity generating installations, the KOGENERACJA S.A. Group received, free of charge, from PGE Polska Grupa Energetyczna S.A., the allocation of CO_2 emission rights from the pool of unspent CO_2 emission rights for the previous years of the settlement period in the amount of 972 thousand tonnes (of which KOGENERACJA S.A. 470 thousand tonnes of emission rights; subsidiary EC Zielona Góra S.A.: PLN 502 thousand tonnes of emission rights).

On 4 and 8 July 2019, the Parent Company and its subsidiary EC Zielona Góra S.A. entered into transaction agreements for the sale of the above CO_2 emission rights.

In accordance with the Group's accounting policies, the revenues from the sale of CO_2 emission rights received free of charge are recognized in other operating revenues.

The transactions were executed on 18 March 2020 for the amount of PLN 110,400 thousand (of which KOGENERACJA S.A: PLN 53 328 thousand; EC Zielona Góra S.A.: PLN 57 072 thousand).
EC Zielona Góra S.A. also received the allocation of CO_2 emission rights from the pool of unspent CO_2 emission rights for 2019 in the amount of 75 thousand tonnes worth PLN 6 683 thousand.

Such revenues were recognized in other operating revenues in the total amount of PLN 117 083 thousand and adjusted by the value of the valuation performed in 2019 in the amount of PLN 8,370 thousand (of which: KOGENERACJA S.A.: PLN 4 043 thousand; EC Zielona Góra S.A.: PLN 4 327 thousand).

A contractual penalty of PLN 1 864 thousand charged to the counterparty for exceeding the service performance deadline was recognized in other operating revenue.

b. Other operating costs

Table: Other operating costs for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	**For the year ended 31 December 2019** *(transformed data)*
Loss on sale of property, plant and equipment	-	(138)
Impairment loss on inventory and receivables	(3 380)	(376)
Inventory variances	-	(157)
Write off of fixed assets under construction	(639)	-
Provision for recultivation of ash storages	(4 680)	(5 163)
Provision for the other costs	(1 864)	-
Donations	(570)	(679)
Penalities, compensations and fines paid	(30)	(239)
Costs of liquidation of fixed assets and materials	(1 681)	-
Maintenance costs of ESP Młoty	(60)	(69)
Maintenance costs of social facilities	(74)	(71)
Receivables' write-offs	(94)	(77)
Costs of leased assets	(489)	(471)
Other	(112)	(252)
	(13 673)	**(7 692)**

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The increase in other operating costs is due to the creation of a provision for a contractual penalty for exceeding the service performance deadline in the amount of PLN 1 864 thousand and an impairment loss on receivables in the amount of PLN 2 779 thousand.

In addition, the subsidiary EC Zielona Góra S.A. recognized a cost of PLN 1 681 thousand relating to the liquidation of fixed assets in connection with the closed coal unit and the write-off of the abandoned investment of PLN 482 thousand.

5. Net finance income

Accounting policies

Finance income and costs comprise interest due on debt determined by applying effective interest rate, interest due on cash invested by the Group, dividends receivable, foreign exchange gains and losses, and gains and losses on hedging instruments recognized through the statement of comprehensive income.

Interest income and expenses are recognized in the statement of comprehensive income based on accrual basis using effective interest rate method. Dividend income is recognized in the statement of comprehensive income when the right to receive the dividend is obtained by the Group. Financing part of lease payments is recognized in the statement of comprehensive income using effective interest rate method.

Table: Net finance income for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	For the year ended 31 December 2019
Interest income on loans, receivables and on bank deposits	7 653	10 389
Interest on leasing	223	202
Other finance income	43	78
Total finance income	**7 919**	**10 669**
Interest on lease liabilities	(2 508)	(2 482)
Other interest expense on financial liabilities	(96)	(594)
Valuation of foreign exchange forwards	-	(78)
Interest expense on employee benefits	(129)	(157)
Unwinding of discount from compensation of stranded costs	(3 934)	(4 301)
Other finance expenses	(575)	(621)
Total finance expenses	**(7 242)**	**(8 233)**
Net finance income	**677**	**2 436**

The lower interest income results from the lower level of excess cash made available by the Group companies under cash pooling.

Interest paid on lease liabilities amounted to PLN 2 508 thousand and interest accrued in 2020 amounted to PLN 1 796 thousand). Other information on lease agreements are presented in chapter III *Notes to the financial statements*, item 37.

6. Income tax

Accounting policies

Income tax recognized in the statement of comprehensive income comprises current tax and deferred tax. Income tax is recognized in the statement of comprehensive income except for the amounts recognized directly in equity (in which case it is recognized in equity) and in other comprehensive income as the amounts not subject to reclassification to profit or loss.

Current tax is the amount of income tax payable in respect to the taxable profit for a year, calculated using tax rates enacted at the reporting date corrected by tax adjustments for prior periods.

a. Income tax recognized in the statement of comprehensive income

Table: Income tax recognized in the statement of comprehensive income for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	For the year ended 31 December 2019
Income tax for the period	(40 195)	(25 098)
Deferred tax	8 381	2 475
Income tax relating to items in other comprehensive income	41	160
Income tax recognized in the statement of comprehensive income	**(31 773)**	**(22 463)**

b. Effective tax rate

Table: Reconciliation of income tax on gross earnings before taxes at the statutory tax rate to income tax calculated at the effective tax rate for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020 %	For the year ended 31 December 2020 PLN thousand	For the year ended 31 December 2019 %	For the year ended 31 December 2019 PLN thousand
Profit before income tax		157 768		106 450
Income tax using the Group's binding tax rate	19,00%	(29 976)	19,00%	(20 225)
Non-deductible expenses (permanent differences)	1,10%	(1 730)	2,13%	(2 269)
Other (donations)	0,07%	(108)	0,12%	(129)
	20,17%	**(31 814)**	**21,25%**	**(22 623)**

Notes to the statement of financial position

7. Property, plant and equipment

Accounting policies

Property, plant and equipment are assets:
-held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
-expected to be used for more than one year.

Own property, plant and equipment

Property, plant and equipment are accounted for at their acquisition price or production cost less depreciation and impairment losses. The acquisition price comprises the purchase price of an asset (i.e. amount payable to the seller less deductible taxes: VAT and excise tax), public charges and fees (in the case of imported assets) and costs directly attributable to the asset being acquired and made fit for use, including transport costs and loading, unloading and storage costs. Discounts, volume rebates and other similar reductions and returns decrease the acquisition price of the asset.

Costs of production of a non-current asset or fixed assets under construction comprise all the costs incurred by the entity during construction, assembly, adjustment and improvement of such asset until the asset is made available for use (or until the reporting date if the asset is not yet available for use), including non-deductible VAT and excise tax. Production costs also comprise, if so required, the initial measurement of costs relating to the property, plant and equipment being disassembled, removed and restored to the original condition.

The production cost also includes:
-borrowing costs directly attributable to acquisition, building or construction of the qualified component of property, plant and equipment,
-costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produces when testing equipment).

Property, plant and equipment revalued by the Group in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies* are stated at restated purchase price reflecting the fair value at the revaluation date adjusted by applying the relevant hyperinflation indices.

In Elektrociepłownia Zielona Góra S.A., fixed assets were measured at fair value at the date the control was obtained.

If a given property, plant and equipment item comprises individual, significant components of various useful lives, such components are treated as separate assets.

Property, plant and equipment leased out

In order to acquire new users for heat from the heat distribution network, the Group carries out financing, co-financing and building of heat centers which are then leased out to counterparties. Upon the expiration of an agreement the user has the right to purchase the installation on favorable terms and conditions or to extend the agreement for another period. In addition, lessees are obliged to maintain and repair heat centers on a current basis (the transfer of risk). For this reason, the agreements were recognized as financial lease. The lease of the heat centers is directly correlated to the concluded new agreements on the sale of heat and power. The Group recognizes the leased assets (the heat centers leased out) in the statement of financial position and presents them as receivables in an amount equal to a net investment in the lease, i.e. at the total of discounted future cash flows derived from the lease of the heat centers and from the relevant part of sales of heat power.

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Other heat centers not meeting the terms of lease (no purchase option) are the property of KOGENERACJA S.A. and are presented in the financial statements under property, plant and equipment in the group of *Plant and equipment* and depreciated in accordance with their useful lives.

Reclassification to investment properties
In case of cessation of using the property for own needs and its allocation for investment purposes, the property is reclassified to investment properties.

Subsequent expenditures
The subsequent cost of exchanged parts of an item of property, plant and equipment is recognized if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be estimated reliably. Other costs are recognized in the statement of comprehensive income as expense.

Depreciation
Items of property, plant and equipment, or their major and separate components, are depreciated on a straight-line basis over their estimated useful lives and with consideration of the net sale price expected to be paid upon liquidation for the remaining part of the asset (residual value). Land is not depreciated. The Group assumes the following useful lives for individual property, plant and equipment categories:

Group 1	Buildings	2,5%
Group 2	Engineering structures	1,7% - 5,0%
	excluding:	
	211 – internal technological networks wires	2,5% - 10,0%
Group 3	Boilers and power machines	10,0% - 25,0%
Group 4	Machinery and equipment	10,0% - 20,0%
	excluding:	
	491 – computer sets	30,0%
Group 5	Special branch machinery and equipment	12,5% - 20,0%
	excluding:	
	580 – Chargers	20,0%
Group 6	Technical equipment	5,0% - 20,0%
Group 7	Vehicles	14,0% - 25,0%
Group 8	Tools, devices, movables and equipment	10,0% - 20,0%
	excluding:	
	Electronic equipment	20,0% - 25,0%

The accuracy of useful lives, depreciation methods and residual values of property, plant and equipment is reviewed by the Group annually.

The economic useful life of property, plant and equipment have been determined based on the Group's current strategy for the life of the power units.

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Table: Change in property, plant and equipment for the year ended 31 December 2020 and 31 December 2019

	Land	Buildings	Plant and equipment	Vehicles	Other tangible assets	Fixed assets under construction	Total
Gross carrying value as at 1 January 2019	**1 843**	**1 341 843**	**2 815 868**	**2 259**	**18 309**	**66 726**	**4 246 848**
Additions (transfer) of assets brought to use	-	41 565	131 888	378	1 681	(175 512)	-
Additions due to purchases	-	-	-	-	-	160 760	**160 760**
Disposals due to liquidation/sale	-	(5 213)	(12 315)	(101)	(175)	-	**(17 804)**
Reclassifications	-	1 337	(2 424)	(341)	742	-	**(686)**
Other changes	6	-	-	-	-	-	**6**
Gross carrying value as at 31 December 2019	**1 849**	**1 379 532**	**2 933 017**	**2 195**	**20 557**	**51 974**	**4 389 124**
Gross carrying value as at 1 January 2020	**1 849**	**1 379 532**	**2 933 017**	**2 195**	**20 557**	**51 974**	**4 389 124**
Additions (transfer) of assets brought to use	-	32 256	87 796	4	942	(120 998)	-
Additions due to purchases	-	-	-	-	-	163 286	**163 286**
Disposals due to liquidation/sale	-	(91)	(1 533)	(144)	(2)	(640)	**(2 410)**
Reclassifications to assets held for sale	-	-	548	(301)	382	(540)	**89**
Change of composition of consolidated entities	-	-	29 563	57	-	-	**29 620**
Gross carrying value as at 31 December 2020	**1 849**	**1 411 697**	**3 049 391**	**1 811**	**21 879**	**93 082**	**4 579 709**

	Land	Buildings	Plant and equipment	Vehicles	Other tangible assets	Fixed assets under construction	Total
Accumulated depreciation as at 1 January 2019	**(3)**	**(836 411)**	**(1 803 131)**	**(1 691)**	**(9 968)**	**-**	**(2 651 204)**
Depreciation for the period	-	(33 111)	(106 470)	(164)	(1 317)	-	**(141 062)**
Disposals of depreciation due to liquidation/sale	-	4 754	10 307	101	176	-	**15 338**
Reclassifications	-	(336)	1 161	265	(798)	-	**292**
Accumulated depreciation as at 31 December 2019	**(3)**	**(865 104)**	**(1 898 133)**	**(1 489)**	**(11 907)**	**-**	**(2 776 636)**
Accumulated depreciation as at 1 January 2020	**(3)**	**(865 104)**	**(1 898 133)**	**(1 489)**	**(11 907)**	**-**	**(2 776 636)**
Depreciation for the period	-	(36 494)	(121 387)	(146)	(1 384)	-	**(159 411)**
Disposals of depreciation due to liquidation/sale	-	91	1 533	145	2	-	**1 771**
Reclassifications to assets held for sale	-	-	(8)	138	(219)	-	**(89)**
Other changes	-	-	(29 563)	-	-	-	**(29 563)**
Accumulated depreciation as at 31 December 2020	**(3)**	**(901 507)**	**(2 047 558)**	**(1 352)**	**(13 508)**	**-**	**(2 963 928)**

for the period from 1 January to 31 December 2020, in accordance with EU-adopted IFRS (in PLN thousand)

	Land	Buildings	Plant and equipment	Vehicles	Other tangible assets	Fixed assets under construction	Total
Accumulated impairment losses as at 1 January 2019	-	-	**(5 338)**	-	-	**(650)**	**(5 988)**
Accumulated impairment losses as at 31 December 2019	-	-	**(5 338)**	-	-	**(650)**	**(5 988)**
Accumulated impairment losses as at 1 January 2020	-	-	**(5 338)**	-	-	**(650)**	**(5 988)**
Reclassifications	-	-	18	-	(18)	-	-
Accumulated impairment losses as at 31 December 2020	-	-	**(5 320)**	-	**(18)**	**(650)**	**(5 988)**
Net carrying value							
As at 1 January 2019	1 840	505 432	1 007 399	568	8 341	66 076	1 589 656
As at 31 December 2019	1 846	514 428	1 029 546	706	8 650	51 324	1 606 500
As at 31 December 2020	1 846	510 190	996 513	459	8 353	92 432	1 609 793

In the current and comparative reporting period, the Group did not enter into any material transactions of purchase or sale of property, plant and equipment.

8. Intangible assets

Accounting policies

Goodwill

Goodwill resulting from the settlement of a business acquisition is recognized under intangible assets and is not subject to depreciation. Each year, goodwill is tested for impairment at the balance sheet date as part of the cash-generating unit to which it was initially allocated.

Other intangible assets

Other intangible assets acquired by the Group are measured at purchase price less amortization and impairment losses. Expenditure on internally generated goodwill or trademarks is recognized in the statement of comprehensive income as incurred.

Depreciation

Intangible assets are amortized on a straight-line basis over their estimated useful lives, unless it has not been specified. Goodwill and intangible assets that have indefinite useful lives are reviewed for impairment at the end of each reporting date. Other intangible assets are amortized since the day when available for use. The estimated useful lives are 8–20 years.

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Table: Change in intangible assets for the year ended 31 December 2020 and 31 December 2019

	Goodwill	Concessions, licenses, software and other	Other intangible assets	Total intangible assets
Gross carrying value as at 1 January 2019	**54 507**	**842**	**2 830**	**58 179**
Gross carrying value as at 31 December 2019	**54 507**	**842**	**2 830**	**58 179**
Gross carrying value as at 31 December 2020	**54 507**	**946**	**2 830**	**58 283**

	Goodwill	Concessions, licenses, software and other	Other intangible assets	Total intangible assets
Accumulated depreciation as at 1 January 2019		**(800)**	**(1 764)**	**(2 564)**
Depreciation for the period		(37)	(124)	**(161)**
Accumulated depreciation as at 31 December 2019		**(837)**	**(1 888)**	**(2 725)**
Accumulated depreciation as at 1 January 2020		**(837)**	**(1 888)**	**(2 725)**
Depreciation for the period		(6)	(109)	**(115)**
Accumulated depreciation as at 31 December 2020		**(843)**	**(1 997)**	**(2 840)**

	Goodwill	Concessions, licenses, software and other	Other intangible assets	Total intangible assets
Accumulated impairment losses as at 1 January 2019	**(12 948)**	-	-	**(12 948)**
Accumulated impairment losses as at 31 December 2019	**(12 948)**	-	-	**(12 948)**
Accumulated impairment losses as at 1 January 2020	**(12 948)**	-	-	**(12 948)**
Accumulated impairment losses as at 31 December 2020	**(12 948)**	-	-	**(12 948)**
Net carrying value				
As at 1 January 2019	41 559	42	1 066	42 667
As at 31 December 2019	41 559	5	942	42 506
As at 31 December 2020	41 559	103	833	42 495

Impairment testing for cash-generating units to which goodwill was allocated

At 31 December 2020, the Group performed the impairment testing for the subsidiary EC Zielona Góra S.A.

The testing methodology complies with International Accounting Standard 36 *Impairment of Assets*. The tests consisted in comparing the carrying amounts of the cash generating units (CGUs) to which goodwill was allocated with its recoverable value. Determining fair value for very large groups of assets with no active market and only few comparable transactions is very difficult in practice. For a power and heating plant for which the value on the local market has to be determined, there are no observable fair values.

The energy market, and in particular the heating market, is a regulated market in Poland and as such is subject to many regulations and cannot be freely shaped solely on the basis of business decisions. The objectives of the Energy Law include, among others, effective regulatory actions aimed at ensuring energy security. This means that the regulatory environment aims at stable operation of heat suppliers in a given area in order to meet the long-term needs of consumers.

Therefore, the Group does not assume the end of life of assets due to the regulatory environment, which limits the possibility of discontinuation of operations. Moreover, in the heating sector, we can observe an extended service life of equipment (boilers, turbine sets), which is operated much longer than it would result from the original assumptions. In view of the above, the impairment tests assume the continuation of operations (in the form of residual value) while maintaining expenditures at the replacement level on current assets in the long term, due to, among others, the public interest, i.e. heat supplies. The life cycle approach is in line with the Group's asset maintenance strategy.

The value in use was adopted as recoverable value in the tests. In accordance with the standard, the value in use is the current, estimated value of future cash flows expected to be received on further use of a cash generating unit. The adopted model assumes calculation of the value of Elektrociepłownia Zielona Góra S.A. based on the discounted cash flow (DCF) in 2021–2030 and the residual value determined by the Gordon model. In the Group's opinion, adopting financial projections longer than the five-year ones recommended by IAS 36, is justified due to the material and long-term impact of the estimated changes in the regulatory environment.

The key assumptions influencing the recoverable amount of tested CGUs were as follows:

- forecasts of electricity prices for 2021–2030 assuming an increase in the average nominal electricity market price by 56% in the period 2021–2030,
- CO_2 emission right price forecasts for 2020–2030 assuming an increase in nominal price in 2030 by 39%, compared to 2021,
- gas price forecasts in EC Zielona Góra S.A. for 2019–2024 in accordance with the long-term agreement for the supply of natural gas,
- accounting for the allocation of free CO_2 emission rights in the period 2021–2030 for district heating and high-efficiency cogeneration,
- no bonus regarding the support system for high-efficiency cogeneration in gas-fired units in EC Zielona Góra S.A, due to the lack of the projected financing gap.
- maintaining production capacity as a result of capital expenditure on replacement projects,
- adopting the weighted average cost of capital after tax (WACC) over the period of the projection at a level of 7,0%,
- compensations for eligible producers for early termination of long-term contracts and partial return in this respect.

As at 31 December 2020, the value of goodwill amounted to PLN 40 120 thousand. As a result of the asset impairment testing, the Company estimated the surplus of the value in use of the tested assets over their carrying amount, and determined that there was no need to recognise or release impairment losses on these assets.

9. Right-of-use assets

Accounting policies

As defined by IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group defines the lease term as the non-cancellable period of a lease over which the lessee has the right to use the underlying asset, It includes:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that right; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In determining the lease term and assessing the length of the non-cancellable period of a lease, the Group applies the definition of a contract and determines the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. The term “penalty” encompasses all kinds of economic “detriment” forming contract exit barriers.

If only a lessee has the right to terminate a lease, that right is considered to be an option to terminate the lease available to the lessee that an entity considers when determining the lease term. If only a lessor has the right to terminate a lease, the non-cancellable period of the lease includes the period covered by the option to terminate the lease.

The lease term begins at the commencement date (date of transferring the underlying asset for the lessees to use) and includes any rent-free periods provided to the lessee by the lessor.

At the commencement date, the Group considers all relevant facts and circumstances that create an economic incentive to the lessee to exercise, or not to exercise an option to extend the lease, to purchase the underlying asset, or not to exercise an option to terminate the lease.

The interest rate implicit in the lease is the interest rate that causes the present value of the lease payments and the unguaranteed residual value to be equal to the sum of the fair value of the underlying asset and any initial direct costs of the lessor. The lessee’s incremental borrowing rate of interest is the rate of interest the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to purchase an asset with a similar value as the right-of-use asset in a similar economic environment.

The lessee recognizes the right-of-use asset at the commencement date.

As a lessee, the Group takes advantage of an exemption in respect of recognition, measurement and presentation in relation to:

- short-term leases, i.e. leases with the lease term not exceeding 12 months and which do not contain the purchase option;

- leases, in respect of which the underlying asset is of low value and which are not subject to further sub-lease. The Group considers that the value of the underlying asset is low (the value of the asset when it is new, regardless of the age of the asset being leased) if it does not exceed PLN 18 thousand.

At the commencement date, a lessee measures the right-of-use asset at cost.

The cost of the right-of-use asset should comprise:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

After the commencement date, a lessee measures the right-of-use asset applying a cost model. A lessee measures the right-of-use asset at cost:

- less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged over the entire lease term, from the moment of transferring the asset for use. Right-of-use assets classified as non-current assets held for sale are not depreciated.
- adjusted for any remeasurement of the lease liability (e.g. as a result of a change in lease payments).

A lessee recognizes a lease liability at the commencement date.

At the commencement date, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee uses the lessee's incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, a lessee measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability, which in each period during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability;
- reducing the carrying amount to reflect the lease payments made; and

remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

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Table: Change in right-of-use of assets for the year ended 31 December 2020 and 31 December 2019

	Right of perpetual usufruct of land	Tenancy and rental of land	Buildings	Plant and equipment	Vehicles	Other	TOTAL
Gross carrying value at 1 January 2019	**14 574**	**-**	**-**	**-**	**-**	**-**	**14 574**
Comming into force of IFRS 16	50 131	2 007	1 718	2 393	-	902	57 151
Additions	647	28	648	-	-	-	1 323
Reclassifications	-	-	-	44	654	-	698
Gross carrying value at 31 December 2019	**65 352**	**2 035**	**2 366**	**2 437**	**654**	**902**	**73 746**
Gross carrying value as at 1 January 2020	**65 352**	**2 035**	**2 366**	**2 437**	**654**	**902**	**73 746**
Comming into force of IFRS 16	-	27	124	-	-	512	663
Disposals	-	(589)	(80)	-	(90)	-	(759)
Reclassifications	2 523	10	28	(2 357)	(261)	-	(57)
Gross carrying value as at 31 December 2020	**67 875**	**1 483**	**2 438**	**80**	**303**	**1 414**	**73 593**
Accumulated depreciation and impairment losses at 1 January 2019	**(1 827)**	**-**	**-**	**-**	**-**	**-**	**(1 827)**
Depreciation for the period	(942)	(129)	(201)	(30)	(158)	-	(1 460)
Disposals	228	-	-	-	-	-	228
Reclassifications	-	-	-	-	(299)	-	(299)
Accumulated depreciation and impairment losses at 31 December 2019	**(2 541)**	**(129)**	**(201)**	**(30)**	**(457)**	**-**	**(3 358)**
Accumulated depreciation and impairment losses at 1 January 2020	**(2 541)**	**(129)**	**(201)**	**(30)**	**(457)**	**-**	**(3 358)**
Depreciation for the period	(932)	(129)	(199)	(30)	(67)	(32)	(1 389)
Disposals	-	-	8	-	142	-	150
Reclassifications	(215)	-	-	-	215	-	-
Accumulated depreciation and impairment losses at 31 December 2020	**(3 688)**	**(258)**	**(392)**	**(60)**	**(167)**	**(32)**	**(4 597)**
Net carrying value							
As at 1 January 2019	12 747	-	-	-	-	-	12 747
As at 31 December 2019	62 811	1 906	2 165	2 407	197	902	70 388
As at 31 December 2020	64 187	1 225	2 046	20	136	1 382	68 996

In the item *Right-to-use assets*, the Company recognizes the right to perpetual usufruct of land, which at the effective date of *IFRS 16 Leases*, i.e. 1 January 2019, was measured at the value of future discounted payments.

The total amortization period for the right-to-use assets ranges from 3 to 79 years.

As at 31 December 2020, no impairment risk has been identified for these assets.

Other information on lease agreements are presented in Note 37.

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10. Investment property

Accounting policies

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is initially recognized at its purchase price taking into account transaction costs. For subsequent measurement, the Group uses the cost model.

Investment property is depreciated on a straight-lines basis over its estimated useful lives. Average useful life of the investment property amounts to approximately 40 years. The useful lives are reviewed annually.

If the manner of property use is changed (the investment property becomes a property occupied by the owner), it is reclassified to property, plant and equipment.

Table: Change in investment properties for the year ended 31 December 2020 and 31 December 2019

Gross carrying value as at 1 January 2019	**51 585**
Additions	620
Other additions/disposals	7
Reclassifications	(12)
Gross carrying value as at 31 December 2019	**52 200**
Gross carrying value as at 1 January 2020	**52 200**
Additions	241
Gross carrying value as at 31 December 2020	**52 441**
Accumulated depreciation and impairment losses as at 1 January 2019	**(35 919)**
Depreciation for the period	(755)
Reclassifications	7
Accumulated depreciation and impairment losses as at 31 December 2019	**(36 667)**
Accumulated depreciation and impairment losses as at 1 January 2020	**(36 667)**
Depreciation for the period	(826)
Accumulated depreciation and impairment losses as at 31 December 2020	**(37 493)**
Net carrying value	
As at 1 January 2019	15 666
As at 31 December 2019	15 533
As at 31 December 2020	14 948

Investment properties include the following: office and social buildings partially for rental purposes, residential buildings, car parks, lorries' car park, scrap and waste disposal facility and sheds of total carrying amount of PLN 14 948 thousand as at 31 December 2020 (31 December 2019: PLN 15 333 thousand).

Impairment loss on investment properties as at 31 December 2020 amounts to PLN 3 590 thousand (31 December 2019: PLN 3 590 thousand) and refers to the canteen building currently leased.

The fair value of investment properties as at 31 December 2020 is PLN 35 106 thousand (31 December 2019: PLN 33 952 thousand), classified as level 3 fair value according to IFRS 13.

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11. Other long-term and short-term assets

Accounting policies

Other assets include in particular: prepaid expenses, receivables from public and legal settlements, advances for deliveries and services, advances for fixed assets under construction and receivables from dividends.

The Group recognizes assets as prepaid expenses if the following conditions are met:
- they result from past events – incurring an expense for an entity's operating purpose,
- their amount can be reliably determined,
- they relate to future reporting periods.

Prepayments are set at the amount of incurred, reliably determined expenses, which relate to future periods and are associated with future economic benefits.

Table: Other long-term and short-term assets as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019
Prepayments for fixed assets under construction	24 110	2 093
Deferred costs in respect of the program of connecting buildings to the heat distribution network	3 056	2 901
Other	111	64
Other non-current assets	**27 277**	**5 058**
Deferred costs in respect of property and civil liability insurance	53	3 565
Deferred costs in respect of the program of connecting buildings to the heat distribution network	600	531
VAT receivables	7 721	364
Settlements for Social Fund	547	806
Other	197	478
Other current assets	**63 672**	**15 860**

Prepayments for fixed assets under construction refer to the following:
- the fee for connecting the electricity source (cogeneration units in EC Czechnica) to the power grid (PLN 2 093 thousand),
- gas turbine modernization project in EC Zielona Góra S.A. (PLN 22 017 thousand).

12. Investments in affiliated companies

The Parent Company and its subsidiary do not hold any shares in affiliated companies that are not subject to consolidation.

13. Impairment testing of assets

In the previous reporting periods, the Parent Company and its subsidiary did not recognize any significant impairment losses on non-current assets. The key assumptions used for the asset impairment tests performed in 2019 are described in the prior year financial statements.

In the current reporting period, the circumstances were analyzed to verify whether the assets may have been impaired or may have required the reversal of previously recognized write-downs. The analysis covered the following:

- financial plan,
- investment plan,
- energy and gas prices,
- assumptions concerning the so-called capacity market, support for high-efficiency co-generation,
- estimates of margins on production and sales of electricity in future periods vs. forecasts of energy, coal and CO_2 emission right prices.

The analysis of circumstances showed that the Group's generating units are achieving positive flows in the 2021–2022 financial plan. Forecasts of natural gas, electricity, hard coal and CO_2 emission right prices available to the PGE Group result in favourable forecasts of realized margins. The support received for high-efficiency co-generation in gas-fired units was reduced and was partially offset by revenues from the so-called capacity market, thus not posing the risk of a significant change in the value in use. Therefore, in the opinion of the PGE Group, as at the reporting date, there are no circumstances for impairment of non-current assets or reversal of impairment losses recognized in previous periods.

Having analyzed the risks associated with the pandemic and its impact on future estimated cash flows, the Parent Company has not identified any indication of impairment of assets related to the COVID-19 pandemic. The heat market in Poland is a regulated market subject to many regulations. Therefore, it cannot be freely shaped based solely on business decisions. This means that the regulatory environment aims for stable operation of heat suppliers in a given area in order to meet the long-term needs of consumers. The main task of the power and heating plant is to deliver the ordered heat to the distribution network. This task not only involves the need to maintain production at an appropriate level, but also ensures revenue from the sale of heat at rates set in heat sales tariffs, not directly dependent on the current market situation. Accordingly, the analysis of circumstances does not take into account the impact of the pandemic.

14. Short-term investments

In the *Consolidated statement of financial position* as at 31 December 2019, the item *Short-term investments* includes the valuation of contracts for the sale of CO_2 emission rights in the amount of PLN 8 826 thousand. The valuation was reversed in 2020 following the sale of CO_2 emission rights. The value under *Short-term investments* as at 31 December 2020 is PLN 0.

15. Income tax recognized in the statement of financial position

Accounting policies

Current tax is the amount of income tax payable in respect to the taxable profit for a year, calculated using tax rates enacted at the reporting date corrected by tax adjustments for prior periods.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and its tax base. No deferred tax liability is recognized in respect to: goodwill as its impairment loss is a non-deductible cost, initial recognition of assets or liabilities that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not be tax deductible in the foreseeable future. Deferred tax is measured based on expected manner in which the assets or liabilities will be recovered or settled and applying tax rates that are valid or enacted at the end of the period.

Deferred tax asset is recognized to the extent that it is probable the assets will be realized with future taxable profits. Deferred tax assets are reduced to the extent that it is no longer probable the assets will be fully or partly realized with the future profits. Such adjustments are performed upwards to the extent that it is probable sufficient taxable income will be obtained.

The value of the component of assets and liabilities due to deferred income tax in the statement of financial position is verified as at each reporting day. Assets and liabilities due to deferred income tax are treated in their entirety as long-term. The company compensates assets and liabilities due to deferred tax.

The Group does not recognize deferred tax:

- when a deferred tax asset results from the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction it affects neither the gross financial result nor taxable income (tax loss), and
- on differences associated with investments in subsidiaries, affiliated companies and interests in joint ventures, where deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future, and taxable profit against which the deductible temporary differences can be utilised will be available, and
- on differences associated with the initial recognition of goodwill.

a. Income tax receivable and payable

At the end of the reporting period, the liability for current income tax amounted to PLN 12 011 thousand (as at 31 December 2019, the receivable in the amount of PLN 4 602 thousand and liability in the amount of PLN 2 707 thousand).

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b. Deferred tax assets and liabilities

Table: Deferred tax assets and liabilities as at 31 December 2020 and 31 December 2019

	Assets		Liabilities		Net value	
	As at 31 December 2020	As at 31 December 2019	As at 31 December 2020	As at 31 December 2019	As at 31 December 2020	As at 31 December 2019
Property, plant and equipment and investment property	-	-	(145 747)	(140 478)	(145 747)	(140 478)
Inventories	1 086	970	(1 252)	(923)	(166)	47
Receivables	211	205	(455)	(1 213)	(244)	(1 008)
Employee benefits	4 664	4 395	-	-	4 664	4 395
Provisions	134 780	123 921	-	-	134 780	123 921
Other	895	175	(246)	(2 242)	649	(2 067)
Tax losses carried forward	-	447	-	-	-	447
Deferred tax assets/liabilities	**141 636**	**130 113**	**(147 700)**	**(144 856)**	**(6 064)**	**(14 743)**
Set off of tax	(64 520)	(49 474)	64 520	49 474	-	-
Net deferred tax assets/liabilities in the statement of financial position	**77 116**	**80 639**	**(83 180)**	**(95 382)**	**(6 064)**	**(14 743)**

The deferred tax asset of PLN 79 145 thousand relating to the subsidiary EC Zielona Góra S.A. with modern production facilities (gas-steam unit and gas-oil boilers) is presented under *Provisions*. The analyses of the electricity market and gas availability as well as the opportunities arising from the power market introduced in Poland confirmed the advisability of building an additional gas cogeneration source in EC Zielona Góra S.A. A feasibility study for the technical scenarios under consideration was launched. Therefore, the Management Board does not identify the risk of impairment of the disclosed asset.

Unrecognized deferred tax assets and liabilities

As at 31 December 2020, the unrecognized deferred tax liability amounted to PLN 15 476 thousand (31 December 2019: PLN 8 289 thousand), with temporary differences in the amount of PLN 81 452 thousand (31 December 2019: PLN 43 627 thousand) related to investment in the subsidiary as the Parent Company controls the moment when the liability arose and believes that the liability will not arise in the foreseeable future.

Set off of deferred tax assets and liabilities

In accordance with paragraph 74 of IAS 12, assets and liabilities relating to deferred tax may be set off only if:
- the entity has a legally enforceable right to set off deferred tax assets against deferred tax liabilities,
- deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority on the same tax payer or various tax payers who settle taxes jointly.

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As the conditions specified above are met at the level of individual Group companies, assets and provisions are set off separately for each company.

As a result, the deferred tax assets amounting to PLN 77 116 thousand and deferred tax liabilities amounting to PLN 83 180 thousand recognized in the statement of financial position result from the set off of deferred tax assets and liabilities for individual companies of the KOGENERACJA S.A. Group.

c. Changes in temporary differences in the period

Table: Changes in temporary differences for the year ended 31 December 2020 and 31 December 2019

	Balance as at 01.01.2020	Changes in temporary differences recognised in the statement of comprehensive income	Changes in temporary differences recognised in the statement of other comprehensive income	Balance as at 31.12.2020
Property, plant and equipment and investment properties	(739 355)	(27 735)	-	**(767 090)**
Inventories	244	(1 114)	-	**(870)**
Receivables	(5 306)	4 021	-	**(1 285)**
Employee benefits	23 132	1 202	216	**24 550**
Provisions	652 217	57 151	-	**709 368**
Other	(10 886)	12 936	1 364	**3 414**
Tax losses carried forward	2 354	(2 354)	-	**-**
	(77 600)	**44 107**	**1 580**	**(31 913)**

	Balance as at 01.01.2019	Changes in temporary differences recognised in the statement of comprehensive income	Changes in temporary differences recognised in the statement of other comprehensive income	Balance as at 31.12.2019
Property, plant and equipment and investment properties	(609 412)	(129 943)	-	**(739 355)**
Inventories	(20 964)	21 208	-	**244**
Receivables	(2 160)	(3 146)	-	**(5 306)**
Employee benefits	20 347	1 941	844	**23 132**
Provisions	518 419	133 798	-	**652 217**
Other	(2 384)	(8 502)	-	**(10 886)**
Tax losses carried forward	4 679	(2 325)	-	**2 354**
	(91 475)	**13 031**	**844**	**(77 600)**

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16. Inventories

Accounting policies

Inventories are valued at purchase price or production cost not higher than the net realizable value. Net realizable value is the difference between the estimated selling price made in the ordinary course of business and the estimated costs of completion and costs necessary to bring the sale to fruition.

Disbursement of materials (coal, biomass) is measured in accordance with first in first out method.

Acquisition price or production cost of other inventories is determined based on first in first out method. The acquisition price includes the purchase price plus costs directly related to the purchase.

Energy origin rights are recognized as inventory at the end of month in which certified energy has been produced. Certificates are measured at fair value at the end of the month in which the certified energy has been produced and are recognized as inventory and secondarily as revenue from product sales. At the time of sale of energy origin certificates, gain/loss on sale, being a difference between the sale value and the corresponding fair value of the certificates as at the day of their valuation, is recognized as revenues from sale of products.

The outflow of CO_2 emission rights, due to the specificity of sales, is valued using the detailed identification method. As the Group enters into transactions concerning the purchase of CO_2 emission rights at the moment of contracting sales, each purchase is assigned to a relevant basket related to the sale contracted for a given year.

Table: Inventories as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	**As at 31 December 2019**
Raw materials	117 266	121 676
Prepayments for deliveries	-	51
Energy origin certificates	3 030	1 384
	120 296	**123 111**

Inventories were not pledged as security in 2020 and 2019.

Inventories are presented in net amounts decreased by impairment losses in the amount of PLN 5 717 thousand, including a write-down on spare parts: PLN 2 159 thousand and write-down on certificates: PLN 3 558 thousand (31 December 2019: PLN 5 095 thousand, including a write-down on spare parts: *5,095*PLN 1 619 thousand and write-down on certificates: PLN 3 476 thousand).

In 2020, the value of inventories recognized at cost of sales amounted to PLN 466 491 thousand (2019: PLN 459,915 thousand).

The value of energy origin rights recognized in inventories increased by PLN 1 646 thousand, mainly due to lower sales volume and higher volume of production from biomass.

17. CO_2 emission rights

Accounting policies

Emission rights granted free-of-charge through National Allocation Plan of Emission Rights as well as acquired emission rights are presented separately in the statement of financial position as *Carbon-dioxide emission rights acquired for redemption*. However, the rights received free of charge are presented at nil value while acquired rights are presented at acquisition price.

Provision for actual CO_2 emission is recognized in the amount exceeding emission rights grants received in the form of free CO_2 emission rights (at market prices). The estimation of expenditure necessary to meet the obligation to redemption of CO_2 emission rights is based on the method of detailed identification, taking into account the allocation of allowance purchases to a given year.

Revenue from sale of surplus of emission rights is recognized as at the date of rights' sale and presented in the statement of comprehensive income as revenue.

As at 31 December 2020, CO_2 emission rights acquired for redemption were recognized in the amount of PLN 59,080 thousand in the statement of financial position (31 December 2019: PLN 997 thousand).

18. Non-current trade receivables and other receivables

Accounting policies

Receivables are valued at least at the end of reporting period at the amount due from, i.e. in nominal value of receivable increased by interest receivable accounted for and, in accordance with the principle of prudence, i.e. less impairment allowances.

For each reporting day, the Group measures the impairment allowance at an amount equal to lifetime expected credit losses. For trade receivables from significant customers who are subject to the credit risk assessment procedure, the Group estimates expected credit losses based on a model used to assess this risk, relying on ratings assigned to each customer. The ratings are attributed with probability of bankruptcy adjusted for the impact of macroeconomic factors.

For trade receivables from mass market customers or those not covered by the credit risk assessment procedure, the Group estimates expected credit losses based on an analysis of the probability of credit losses in each age bracket.

The Parent Company and its subsidiary EC Zielona Góra S.A. are participants in cash pooling in the PGE Polska Grupa Energetyczna S.A. Group. Under cash pooling, the PGE Group companies make their surplus funds available to other companies or, in the event of cash shortages, use the funds made available by the other participants.

Cash pooling funds are presented as short-term receivables.

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a. Non-current receivables

Table: Non-current receivables as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019 *(transformed data)*
Leases receivables	5 363	5 926
Other receivables	30	-
	5 393	**5 926**

b. Trade and other receivables

Table: Trade and other receivables as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019 *(transformed data)*
Trade receivables due from related parties	73 849	52 433
Trade receivables due from other entities	93 970	85 146
Cash pooling receivables	630 655	448 989
Support for cogeneration	168	-
Receivables due from sale of tangible fixed assets	605	3 577
Receivables related to the guarantee fund	2 887	9 405
Deposits and bid bonds	3 022	-
Leases receivables	548	459
Other receivables, prepayments and defered costs	14	572
	805 718	**600 581**

The amount of PLN 2 887 thousand (31 December 2019: PLN 9 405 thousand) refers to the deposit held to secure continuity of energy supplies and the need to purchase energy from the market.

Trade and other receivables are presented in net amounts, decreased by bad debt allowances of PLN 4 398 thousand (31 December 2019: PLN 1 417 thousand).

Receivables under the cash pooling agreement increased by PLN 181 666 thousand and will be allocated in a substantial part to the repayment of KDT compensations in EC Zielona Góra and to the implementation of the New EC Czechnica investment in the Parent Company.

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Table: Aging analysis of trade and other receivables as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019 (transformed data)
up to 1 month	805 337	600 066
over 1 month up to 3 months	199	223
over 3 months up to 6 months	57	182
over 6 months up to 1 year	125	110
	805 718	**600 581**

Table: Aging of overdue receivables as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2017
Gross overdue receivables		
up to 1 month	3 141	720
over 1 month up to 3 months	83	103
over 3 months up to 6 months	41	5
over 6 months up to 1 year	151	64
over 1 year	1 366	1 214
	4 782	**2 106**
Allowances for overdue receivables	(4 398)	(1 417)
Net overdue receivables	**384**	**689**

19. Cash and cash equivalents

Accounting policies

Cash consists of cash on hand and deposits payable on demand.

Cash equivalents are short-term, highly liquid investments that are easily convertible to specific amounts of cash and exposed to an insignificant risk of change in value.

Table: Cash and cash equivalents as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019 (transformed data)
Cash at bank	1 314	14 091
Cash in VAT accounts	12 769	2 103
Cash and cash equivalents in the statement of financial position	**14 083**	**16 194**
Cash and cash equivalents in the statement of cash flows	14 083	16 194

20. Impairment losses

Accounting policies

Financial assets
The Group assesses expected credit losses on debt instruments measured at amortized cost and fair value through other comprehensive income, regardless of whether there is any indication of impairment.

For trade receivables, the Group applies a simplified approach and measures the loss allowance at an amount equal to lifetime expected credit losses using a provision matrix. The Group uses its historical credit losses experience, adjusted where appropriate for the impact of forward-looking information.

For other financial assets, the Group measures the loss allowance at an amount equal to 12-month expected credit losses. If the credit risk on a financial instrument has increased significantly since initial recognition, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses.

In the financial result, the Group recognizes as profit or loss on impairment the amount of expected credit losses (or the amount of the reversal of the provision) that is required to adjust the allowance for expected credit losses at the reporting date to the amount to be recognized under IFRS 9 *Financial Instruments*.

Non-financial assets

The carrying amount of the Group's assets other than inventories and deferred tax assets is reviewed at the end of each reporting period to determine whether there is any indication of impairment. If such indications occur, the Group estimates the recoverable amount of individual assets.

For goodwill, intangible assets with indefinite useful lives or intangible assets not yet available for use, the recoverable amount is estimated at the end of reporting period.

Impairment loss is recognized when the carrying amount of an asset or of its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of comprehensive income for the period, in the profit and loss section.

Impairment losses recognized in respect of cash-generating units are allocated primarily to goodwill related to the unit (group of units) and then to the carrying amount of the other assets of the unit (group of units) on a pro rata basis.

Reversal of impairment losses

The Group companies, not later than at the end of each financial year, assess whether there are any indications that the impairment of an asset recognized in previous periods has ceased to exist or has partially ceased to exist. If such indications exist, the Group estimates the recoverable amount of a given asset.

If there are indications that an asset (other than goodwill) is no longer impaired or has diminished in value, this may indicate that the remaining useful life, amortization method or residual value should be reassessed and adjusted, even if the impairment on that asset has not been reversed.

Impairment recognized for assets other than goodwill is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment recognition. The carrying amount is then increased to the recoverable amount.

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The increased carrying amount of an asset, other than goodwill, resulting from a reversal of an impairment loss may not exceed the carrying amount that would have been determined (including amortization) had no impairment loss been recognized in prior periods.

Reversal of impairment loss for assets other than goodwill is recognized directly in the statement of comprehensive income as an adjustment to operating expenses.

Table: Impairment losses as at 31 December 2020 and 31 December 2019

	1 January 2020	Recognition of impairment allowances	Use/reversal of impairment allowances	31 December 2020
Intangible assets	(12 948)	-	-	(12 948)
Property, plant and equipment	(5 988)	-	-	(5 988)
Investment properties	(3 590)	-	-	(3 590)
Inventories	(5 095)	(622)	-	(5 717)
Short-term receivables	(1 417)	(3 581)	600	(4 398)
Total impairment losses	**(29 038)**	**(4 203)**	**600**	**(32 641)**

	1 January 2019	Recognition of impairment allowances	Use/reversal of impairment allowances	31 December 2018
Intangible assets	(12 948)	-	-	(12 948)
Property, plant and equipment	(5 988)	-	-	(5 988)
Investment properties	(3 590)	-	-	(3 590)
Inventories	(4 812)	(325)	42	(5 095)
Short-term receivables	(2 654)	(312)	1 549	(1 417)
Total impairment losses	**(29 992)**	**(637)**	**1 591**	**(29 038)**

21. Equity

Accounting policies

Equity is stated at nominal value, classified by type and in accordance with the legal regulations and the Company's Articles of Association.

In the financial statements, share capital is presented in the amount specified in the Articles of Association and registered in the Court Register.

a. Share capital

Table: Share capital as at 31 December 2020 and 31 December 2019

in thousand of shares	**As at 31 December 2020**	**As at 31 December 2019**
Number of shares as at opening balance	14 900	14 900
Number of shares as at closing balance (fully paid)	14 900	14 900
Nominal value of share (in PLN)	5	5
in PLN thousand		
Nominal value of issue A	54 500	54 500
Nominal value of issue B	20 000	20 000
Hiperinflation	178 003	178 003
	252 503	**252 503**

From the day of registration of the share capital in 1991 until December 1996, the Group operated in the environment of hyperinflationary economy. IAS 29 *Financial Reporting in Hyperinflationary Economies* requires that each component of the shareholders capital (except retained profit and restatement surplus) be restated by applying a general price index during the hyperinflationary period. The retrospective application of IAS 29 resulted in the increase in the share capital by PLN 178 003 thousand and share premium by PLN 56 671 thousand, and the decrease in retained earnings in this period by PLN 234 674 thousand.

The changes described above have been recognized in the statement of financial position in share capital, share premium and retained profit.

The holders of ordinary shares are entitled to obtain dividends as resolved and they hold the right to one vote per share at the Parent Company’s General Meeting of Shareholders. All shares are equal as to conferring the right to the Parent Company’s property should it be distributed.

b. Other reserve capital

Other reserve capital is raised out of all or any portion of approved profit generated by the Parent Company. The General Meeting can also indicate a specific purpose for which the funds are to be allocated (e.g. investments, restructuring).

Other reserve capital was also increased by the value of shares granted to employees (PLN 4 704 thousand, of which PLN 3 384 thousand in KOGENERACJA S.A. and PLN 1 320 thousand in EC Zielona Góra S.A.). The program was finalized in the previous years and was not in force as at 31 December 2020 and 31 December 2019.

c. Share premium

Share premium relates to reserve capital, which was formed, as at the date of change of the Parent Company’s legal status from the state-owned entity to joint-stock company, from the founding capital and enterprise fund excluding share capital, and hyperinflationary revaluation and additional issue of shares on the Stock Exchange. The condition set forth in Article 396 of the Code of Commercial Companies relating to the creation of reserve capital to cover losses in the amount of 8% of profit for a given financial year until the reserve funds reach a level of at least one-third of the share capital has been satisfied.

d. Hedging reserve

The hedging reserve includes the valuation of the derivative arising from the implemented hedge accounting. Detailed information is presented in the *Notes to the financial statements*, item 24.

e. Dividends proposed by the Management Board

KOGENERACJA S.A.

In 2020, the Parent Company's net loss amounted to PLN 436 thousand. As at the date of publication of the financial statements, the Company's Management Board had not made a decision on the coverage of the 2020 loss.

Pursuant to the Resolution No. 6/2020 of the Ordinary General Meeting of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. of 3 June 2020, the Parent Company allocated the net profit for 2019 in the amount of PLN 26 454 thousand to reserve capital.

EC Zielona Góra S.A.

In 2020, the net profit of the subsidiary EC Zielona Góra S.A. was PLN 126 511 thousand. The Management Board of the subsidiary did not decided to propose the distribution of the financial result for 2019.

Pursuant to the Resolution No. 3 of the Ordinary General Meeting of Elektrociepłownia Zielona Góra S.A. of 29 May 2020, the subsidiary allocated the net profit for 2019 in the amount of PLN 55 959 thousand to reserve capital.

22. Earnings per share

Accounting policies

The Parent Company presents basic and diluted earnings per share for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is determined by dividing the adjusted profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, adjusted for own shares held and for the effects of all dilutive potential ordinary shares, which may comprise e.g. convertible bonds and share options granted to employees.

The calculation of the profit per share was based on the Parent Company's shareholders' loss of PLN 123 935 thousand (31 December 2019: profit in the amount of PLN 82 917 thousand) and weighted average number of shares outstanding as at the date of preparation of the financial statements in the amount of 14 900 thousand pcs (31 December 2019: 14 900 thousand pcs).

Table: Profit per 1 share for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	For the year ended 31 December 2019
Net profit attributable to shareholders of Parent Company	123 935	82 917
Weighted average number of ordinary shares as at closing balance *(in thousands of shares)*	14 900	14 900
Net profit for the period attributable to shareholders of Parent Company per ordinary share *(in PLN)*	8,32	5,56

As at 31 December 2020 and 31 December 2019, there were no diluting instruments.

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23. Liabilities due to lease and other financial instruments

Table: Liabilities due to lease and other financial instruments as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019
Long-term lease liabilities	55 907	56 451
Non-current liabilities	**55 907**	**56 451**
Short-term lease liabilities	2 338	2 297
Current liabilities	**2 338**	**2 297**

Lease liabilities mainly refer to the right of perpetual usufruct of land.

The schedule of payments of lease liabilities is presented in Chapter III *Notes to the financial statements*, item 37.

24. Derivatives

Accounting policies

Changes in the measurement of fair value of derivative financial instruments designated as cash flow hedging instruments are taken to the revaluation capital for the portion regarded as an effective hedge, while the ineffective portion of the hedge is taken to the income statement.

Amounts of the cumulative revaluation to fair value of the hedging instrument previously recognized in the revaluation capital are transferred to the income statement in the period or periods during which the hedged item affects the income statement. Alternatively, when a hedge of a planned transaction results in the recognition of a non-financial asset or non-financial liability, the Company removes the amount from capitals and includes it in the initial acquisition cost or other book value of the non-financial asset or non-financial liability.

In connection with the contract for the modernization of the gas turbine at the Elektrociepłownia Zielona Góra S.A., the price of which is denominated in USD, the Group applies cash flow hedge accounting from 9 October 2020. Payments under the contract will be made between October 2020 and December 2022. The implementation of hedge accounting is intended to hedge against adverse changes in cash flows in the subsidiary resulting from probable future liabilities for the costs of modernization works in foreign currency (USD exchange rate fluctuations) and to eliminate the accounting mismatch that may occur between hedging instruments and the hedged items of the modernization contract. The statement of financial position as at 31 December 2020 shows a derivative arising out of the above in the amount of PLN 1 363 thousand, including: long-term part: PLN 448 thousand and the short-term part: PLN 885 thousand.

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25. Deferred income and government grants

Accounting policies

Government grants related to income are recognized as a profit or loss in the period and presented as other operating income when the grant is due.

Other government grants (including grants related to assets) are initially recognized as deferred income at fair value if there is reasonable assurance that the Group will meet the conditions and receive the grant. Grants received as a reimbursement of expenditures incurred by the Group are recognized as profit for the current period and presented as other operating income on a systematic basis in the periods the related costs are recognized. Grants related to assets are recognized as current period income on a systematic basis over the period of the useful life of the granted assets.

Table: Deferred income and government grants as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019
Non-current grants	87 139	87 449
Other	45	56
	87 184	**87 505**
Current grants	8 666	6 899
Other	20	259
	8 686	**7 158**

KOGENERACJA S.A.

- On 17 December 2009, a grant agreement with National Environmental Protection Fund and Water Management seated in Warszawa was entered into under Priority 4.5 of *Operating Program: Infrastructure and Environment 2007–2013*. The subject of the agreement is co-financing of the project *„Change in combustion technology – conversion of coal combustion chamber OP130/K2 in EC Czechnica to biomass combustion chamber*," which represents 26.75% of total qualified capital expenditures incurred in relation to the project, not exceeding PLN 20 000 thousand. The Company applied for the final payment on 31 June 2011. On 1 February 2011, the Company received a partial payment of PLN 18 930 thousand and the remaining part of PLN 1 070 thousand was paid in June 2011.

As at 31 December 2020, the value of grant presented in statement of financial position amounted to PLN 3 922 thousand (31 December 2019: PLN 5 492 thousand), including the short-term part of PLN 1 569 thousand and the long-term part of PLN 2 353 thousand.

- On 11 June 2012, a grant agreement for co-financing the project "*Construction of cogeneration source based on the natural gas in EC Zawidawie*" was entered into. The project was settled and finished on 30 June 2014. Financial resources coming from European funds in the amount of PLN 2 771 thousand were granted for the implementation of the project. The grant constitutes a public support in the amount of not more than 40% of total qualified capital expenditures. Total value of the project amounted to PLN 8 945 thousand and the amount of qualified capital expenditures related to the implementation of the project amounted to PLN 6 927 thousand.

As at 31 December 2020, the value of grant presented in statement of financial position amounted to PLN 1 484 thousand (31 December 2019: PLN 1 731 thousand), including the short-term part in the amount of PLN 247 thousand and the long-term part in the amount of PLN 1 237 thousand.

- On 27 May 2013, the Company signed an agreement for co-financing of the project *"Extension of the heating network in the south-west part of Św. Katarzyna"* under the Regional Operational Program for Lower Silesia for 2007–2013. Total value of the grant from the EU budget amounts to PLN 295 thousand, which accounts for 40% of total qualified capital expenditures. Total value of the project amounts to PLN 1 599 thousand, own contribution equals to PLN 422 thousand and share of own funds amounts to PLN 1 304 thousand. Own contribution amounts to at least 25% of total qualified capital expenditures. The project was completed on 9 May 2014, and settled.

As at 31 December 2020, the value of the above grant presented in the statement of financial position amounted to PLN 244 thousand (31 December 2019: PLN 252 thousand), including the short-term part in the amount of PLN 7 thousand and the long-term part in the amount of PLN 237 thousand).

- On 5 July 2013, an agreement was signed between Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. and the National Environmental Protection Fund and Water Management seated in Warszawa, concerning the grant for the project "Flue gas denitrification installation in Elektrociepłownia Wrocław for boiler No. 3", co-financed by the Operational Program: Infrastructure and Environment, within the scope of priority IV, measure 4.5 for the years 2007–2013. Completion and commissioning of the $DeNO_x$ installation has taken place on 31 August 2015. According to the grant agreement, the project received the total grant amounting to PLN 10 800 thousand.

As at 31 December 2020, the value of the above grant presented in the statement of financial position amounted to PLN 8 265 thousand (31 December 2019: PLN 8 711 thousand), including the short-term part in the amount of PLN 548 thousand and the long-term part in the amount of PLN 7 717 thousand).

- On 11 March 2014, Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. and National Environmental Protection Fund and Water Management seated in Warszawa signed a grant agreement for co-financing of the project "*Execution of the wet flue gas desulfurization installation at Elektrociepłownia Wrocław for boilers K1, K2, K3*" funded by Norwegian Financial Mechanism 2009–2014 in amount of PLN 20 000 thousand. On 3 November 2014, the first tranche of the grant of PLN 3 763 thousand was received. On 15 May 2015, the second tranche of PLN 10 589 thousand was received. On 2 September 2015, the third tranche of PLN 3 706 thousand was received. The remaining amount, i.e. PLN 1 941 thousand, was transferred after the removal of defects identified during the guarantee measurements and after the settlement and preparation of the final report of the investment on 9 June 2017.

As at 31 December 2020, the value of the above grant presented in the statement of financial position amounted to PLN 15 865 thousand (31 December 2019: PLN 17 015 thousand), including the short-term part in the amount of PLN 1,048 thousand and the long-term part in the amount of PLN 14,817 thousand).

- On 21 December 2017, an agreement was signed between Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. and the National Fund for Environmental Protection and Water Management seated in Warszawa, regarding co-financing of the project "*Construction of heating networks from ul. Bierutowska towards the Zakrzów estate in Wrocław*". The planned total cost of the project implementation is PLN 11 225 thousand and the amount of qualified expenses related to the implementation of the project is PLN 9 115 thousand. Project co-financing in the amount not exceeding PLN 3 822 thousand depends on the value of qualified expenses incurred in the course of the project and approved by the Implementing Institution (NFEPWM). On 23 September 2019, the first tranche of the grant in the amount of PLN 547 thousand was received.

As at 31 December 2020, the value of the above grant presented in the statement of financial position amounted to PLN 1 676 thousand (31 December 2019: PLN 547 thousand).

EC Zielona Góra S.A.

- The subsidiary Elektrociepłownia Zielona Góra S.A. received government grants from EKO Fund in connection with the construction of the gas and steam unit in the total amount of PLN 40 000 thousand. The unit was commissioned in August 2004. The grant amount, recognized as deferred revenue, is written off over the useful life of the facility.

As at 31 December 2020, the value of the above grant presented in the statement of financial position amounted to PLN 6 201 thousand (31 December 2019: PLN 7 931 thousand), including the short-term part in the amount of PLN 1,730 thousand and the long-term part in the amount of PLN 4 471 thousand).

- In December 2007, Elektrociepłownia Zielona Góra S.A. received the first of the two tranches of the grant from NFEPWM concerning the co-financing of the construction of the main line of heat distribution closing the ring around the midtown of Zielona Góra. The first tranche amounted to PLN 3 450 thousand. The second tranche of PLN 1 042 thousand was paid out in July 2008.

As at 31 December 2020, the value of the above grant presented in the statement of financial position amounted to PLN 2 207 thousand (31 December 2019: PLN 2 348 thousand), including the short-term part in the amount of PLN 141 thousand and the long-term part in the amount of PLN 2 066 thousand).

- In 2011, under the project "Modernization and reconstruction of the heating system in Zielona Góra," a grant from the National Fund for Environmental Protection was awarded. The grant was recognized in deferred income in the amount of PLN 8 992 thousand. In the following year, as the part of the expenses incurred was not recognized as eligible, the value of the grant was reduced by PLN 2 442 thousand to PLN 6 550 thousand. In 2014, EC Zielona Góra S.A. received a cash grant of PLN 14 445 thousand as part of the expenses incurred in 2012 and 2013. In 2015, a grant in the amount of PLN 8 473 thousand was received as part of the expenses incurred in 2014–2015, of which the amount of PLN 7 268 thousand will be settled after the fixed asset is established. In 2016, the company received a cash grant of PLN 6 750 thousand as part of the expenses incurred in 2015. The grant amount, recognized as deferred revenue, is written off over the useful life of the subsidized part of the assets of the heat.

As at 31 December 2020, the value of the above grant disclosed in statement of financial position amounted to PLN 29 903 thousand (31 December 2019: PLN 30 936 thousand), including the short-term part in the amount of PLN 1,034 thousand and the long-term part in the amount of PLN 28 869 thousand).

- In November 2011, the subsidiary EC Zielona Góra S.A. received a grant for the construction of the oil gas water boilers in amount of PLN 1 296 thousand and recognized it as deferred revenue. In 2012, the subsidiary received another tranche of grant in the amount of PLN 11 572 thousand. In 2013, the grant was adjusted and its value decreased to PLN 693 thousand.

As at 31 December 2020, the value of the above grant disclosed in statement of financial position amounted to PLN 10 707 thousand (31 December 2019: PLN 11 139 thousand), including the short-term part in the amount of PLN 433 thousand and the long-term part in the amount of PLN 10 274 thousand).

- On 16 October 2017 and 19 November 2017, the subsidiary, EC Zielona Góra S.A., signed agreements with NFEPWM (National Fund for Environmental Protection and Water Management) on subsidies for ITI projects at companies operating under the Operational Programme Infrastructure and Environment 2014–2020. The projects concerned, among others, building and reconstruction of networks, central heating connections, installation of individual heat centers, and conversion of local boiler rooms into heat centers in Zielona Góra.

As at 31 December 2020, the value of the above grant disclosed in statement of financial position amounted to PLN 13 646 thousand (31 December 2019: PLN 8 008 thousand), including the short-term part in the amount of PLN 370 thousand and the long-term part in the amount of PLN 13 276 thousand).

- The subsidiary uses advance payments to finance the projects. As at 31 December 2020, EC Zielona Góra S.A recognized in the statement of financial position the advance payment in the amount of PLN 1 684 thousand (31 December 2019: PLN 238 thousand), including the short-term part in the amount of PLN 1 539 thousand and the long-term part in the amount of PLN 145 thousand).

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26. Trade and other liabilities

Accounting policies

Liabilities constitute a present obligation of the Group arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

Financial liabilities are subject to classification in the following categories:
- financial liabilities measured at fair value through profit or loss,
- other financial liabilities measured at subsequent reporting dates at amortized cost.
- non-financial liabilities.

Short-term trade and other non-financial liabilities are stated at amounts due and payable.

When the effect of the change in the time value of money is material, liabilities are presented at a discounted value.

The Group excludes a financial liability from its balance sheet if the obligation has lapsed, i.e. the obligation specified in the contract has been fulfilled, cancelled or expired.

a. Trade and other liabilities – long-term

Table: Long-term trade and other receivables as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019
Liabilities due to compensations for stranded costs	394 941	430 204
Payables due to tangible assets' acquisition	15	16
Other liabilities	39	-
	394 995	**430 220**

Detailed information on liabilities due to KDT compensations is presented in Note 2.

b. Trade and other liabilities – short-term

Table: Shot-term trade and other receivables as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019 *(transformed data)*
Trade payables due to related entities	145 489	49 811
Trade payables due to other entities	27 219	27 980
Tax, custom duties and social security payables	13 282	22 001
Payables due to tangible assets' acquisition	43 915	45 181
Liabilities due to compensations for stranded costs	21 610	36 425
Environmental fees	2 813	3 287
Liabilities from property insurances	-	2 998
Other payables	2 597	1 816
	256 925	**189 499**

Trade liabilities due to related entities mainly include liabilities resulting from:

- purchase of production fuel from Polska Grupa Górnicza S.A. for the amount of PLN 17 798 thousand (31 December 2019: PLN 11 494 thousand) and Jastrzębska Spółka Węglowa S.A. for the amount of PLN 705 thousand (31 December 2019: PLN 3 033 thousand).
- liabilities for services provided by PGE Ekoserwis S.A. in the amount of PLN 1 447 thousand (31 December 2019: PLN 3 986 thousand),
- liabilities to the parent company PGE Energia Ciepła S.A. in the amount of PLN 86 901 thousand (including PLN 82 768 thousand due to purchase of CO_2 emission rights) and to the ultimate parent company PGE Polska Grupa Energetyczna S.A. in the amount of PLN 16 790 thousand due to purchase of contracted electricity, SLAs and other liabilities, and liabilities to PGE Systemy S.A. in the amount of PLN 1 075 thousand,
- liabilities to PGNiG S.A. for gas purchases of PLN 16 465 thousand (December 31, 2019: PLN 15 974 thousand),
- liabilities to state-owned companies (including among others Tauron Sprzedaż Sp. z o.o., Tauron Dystrybucja S.A., ENEA S.A., PSE S.A., TGE S.A., LOTOS Group companies, PKP Cargo S.A.) in the amount of PLN 4 308 thousand (31 December 2019: PLN 396 thousand).

27. Employee benefits

Accounting policies

Provision for unused holidays
The amount of the provision for unused holidays represents the product of the number of holidays proportionally assigned to a given period and the daily rate of the equivalent for unused holidays increased by obligatory social insurance. The provision is utilized in the amount of the equivalent for the holidays taken before the reporting date increased by obligatory social insurance. The provision is reversed in the amount of the surplus if the provision amount exceeds the amounts actually paid. The provision is raised, utilized and reversed against a separate account of costs by nature adjusting payroll expenses.

Annual bonuses
According to the Collective Labor Agreement in force, the Parent Company is obliged to pay its employees an annual bonuses for previous year in amount of 8.5% of salary fund.

The provision covers the estimated costs of future payment attributable to the current period and is raised in the books of the year to which it relates, on a monthly basis, at the rate of 8.5% of the value of salaries and wages due, increased by obligatory social insurance. The provision is utilized in the month of actual payment and in amount increased by obligatory social insurance. The provision is reversed to the extent the provision amount exceeds the amounts actually paid off. The provision is raised, utilized and reversed against a separate account of costs by nature adjusting payroll expenses.

Target bonuses
A provision for target bonuses is raised in the books of the year to which it relates at the amount of the expected payment increased by obligatory social insurance. The provision is utilized in month of actual payment and in the amount increased by obligatory social insurance. The provision is reversed in the amount of the surplus if the provision amount exceeds the amounts actually paid. Payments are made after the defined targets are fulfilled by a Group company.

Individual leavings program liabilities
Provision is raised in accordance with the Employees Individual Leavings Program and calculated as a sum of foreseeable payments and other benefits on the basis of program regulations and applicable labor law.

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a. Long-term and short-term employee benefits

Table: Employee benefits as at 31 December 2020 and 31 December 2019

	As at 31 December 2020			As at 31 December 2019		
	long-term	short-term	TOTAL	long-term	short-term	TOTAL
Individual leavings programme	1 450	768	2 218	2 034	590	2 624
Annual bonuses	-	5 699	5 699	-	4 887	4 887
Target bonuses	-	1 223	1 223	-	2 260	2 260
Unused holidays	-	1 681	1 681	-	1 334	1 334
Non-competition clause	267	-	267	473	-	473
Performance bonus	-	2 443	2 443	-	1 498	1 498
Payroll liabilities	-	3 359	3 359	-	3 358	3 358
Social insurance benefits	-	3 529	3 529	-	3 116	3 116
TOTAL	**1 717**	**18 702**	**20 419**	**2 507**	**17 043**	**19 550**

28. Provisions

Accounting policies

Provisions
A provision is recognized when the Group has a present obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of time value of money is material, provisions are estimated by discounting the expected future cash flows based on a pre-tax rate that reflects current market assessments of the time value of money and, if appropriate, the risks specific to the liability.

Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. A Group company is obliged, under current regulations, to collect and pay contributions for retirement benefits of employees. These benefits constitute a state program and are treated as defined contribution plans. Obligations to contribution to the pension program are recognized as cost of employee benefits recognized through profit or loss for the period the employees provided the service.

Defined benefit plans
A defined benefit plan is a post-employment benefit plan other than defined contribution plan. Retirement benefits and post-employment allowance for the Company Social Fund (ZFŚS) are settled in accordance with IAS 19 as a defined benefit plan recognized as an employee benefit expense, except for actuarial gains and losses on the defined benefit plan, which are recognized through other comprehensive income.

Pension benefits
A Group company is obliged under applicable law to pay pension benefits in the amount set in the labor code and collective labour agreements.
The Group companies' obligations to pay pension benefits are calculated through assessing the employee's salary in the period the employee reaches the retirement age and estimating the amount of the future pension benefit. The benefits are discounted to the present value. The discount rate is calculated based on the market rate of return on State Treasury bonds at the end of the reporting date. The obligation to pay pension benefits is recognized proportionally

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to the estimated period of the employee's service. The calculation is performed by an entitled actuary based on projected unit credit method. The employee's fluctuation is estimated based on historical data and estimated future employment level.

Post-employment charges to the social fund
The provision for post-employment charges to the social fund was calculated as a sum of the provision created for both the employees employed at a Group company as at the balance sheet date and the retired employees and other beneficiaries whose a Group company was the last place of employment. In the case of an employee, the provision constitutes the present value (as at the balance sheet date) of future allowances that would be created as of the moment of an employee's retirement, in the portion to which the employee acquired the right based on their employment at a Group company to date, taking into account the increase in the basis for calculating the allowance over time and the probability of living to a certain age. In the case of a retired person, it is the present value of future allowances, taking into account the increase in the basis for calculating the allowance over time and the probability of living to a certain age.

a. Post-employment employee benefits

Table: Post-employment benefits as at 31 December 2020 and 31 December 2019

	As at 31 December 2020			As at 31 December 2019		
	long-term	short-term	TOTAL	long-term	short-term	TOTAL
Retirement pension benefits	4 063	648	4 711	4 022	690	4 712
Contributions to Social Fund	3 961	140	4 101	3 403	132	3 535
Defined benefits liabilities	**8 024**	**788**	**8 812**	**7 425**	**822**	**8 247**

Table: Change in post-employment employee benefits for the year ended 31 December 2020 and 31 December 2019

	Retirement pension benefits	Contributions to Social Fund	TOTAL
Present value of obligations as at 1 January 2020	**4 712**	**3 535**	**8 247**
Interest cost	94	71	165
Current service cost	229	87	316
Past service cost	439	83	522
Benefits paid	(449)	(199)	(648)
Actuarial gains and losses (change of actuarial assumptions)	(556)	87	(469)
Actuarial losses (change in discount rate)	242	437	679
Employee benefit liability as at 31 December 2020	**4 711**	**4 101**	**8 812**
Carrying amount of non-current liabilities	4 063	3 961	8 024
Carrying amount of current liabilities	648	140	788

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	Retirement pension benefits	Contributions to Social Fund	TOTAL
Present value of obligations as at 1 January 2019	**4 450**	**2 653**	**7 103**
Interest cost	220	80	300
Current service cost	216	62	278
Benefits paid	(665)	(117)	(782)
Actuarial losses	491	857	1 348
Employee benefit liability as at 31 December 2019	**4 712**	**3 535**	**8 247**
Carrying amount of non-current liabilities	4 022	3 403	7 425
Carrying amount of current liabilities	690	132	822

In accordance with the labor law provisions, including in particular the Supra-Company Labor Agreement and Collective Labor Agreement, Group companies are obliged to pay the benefits specified in these regulations. Thus, the Group measures and discloses in the statement of financial position discounted amounts of these liabilities. The provisions are calculated using actuarial method and updated on an annual basis.

Basic assumptions for the actuarial calculation of the provisions for pension benefits as at 31 December 2020:
a) discount rate of 1.3% p.a.,
b) the probability of remaining the Group's employee was calculated on the basis of historical data about staff turnover and estimated turnover in the industry, taking into account the effect of in-house restructuring programs,
c) terms for entitlements to be awarded were determined in accordance with the labor law applicable to the Group,
d) normal retirement arrangements have been adopted in accordance with the detailed rules of the Pension Act, except for those employees who fulfil the conditions required for early retirement,
e) the probability of incapacity for work giving entitlement to the severance grant depends on the age of the worker and mortality,
f) salary increases of 0% in 2021–2022 and 2.5% in 2023 and thereafter,
g) mortality rate and life expectancy – according to the Life Expectancy Tables published by the Central Statistical Office, assuming that the Group's employee population corresponds to the average for Poland in terms of mortality. In addition, it is assumed that the fact of having a job results in a 10% reduction in mortality,
h) increase in the basis for calculation of charges to the social fund (nominal, including inflation) at the level of 4% in 2021 and thereafter.

On the basis of data received from an actuary, the Group estimates that the impact of changes in assumptions on the amount of post-employment provisions would be as follows:

- adoption of the discount rate higher by 1 percentage point (p.p.) would decrease the amount of provisions by PLN 986 thousand, and adoption of a rate lower by 1 p.p. would increase the amount of provisions by PLN 1 252 thousand,
- adoption of the planned increases in the base by 1 p.p. would increase the amount of provisions by PLN 1,235 thousand, and adoption of a rate lower by 1 p.p. would decrease the amount of provisions by PLN 996 thousand.

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b. Other provisions

Table: Provisions as at 31 December 2020 and 31 December 2019

	CO_2 provision	Provision for reclamation	Provision for proprietary rights held for redemption	Provision for penalties and compensation	Total
Value as at 1 January 2019	**42 250**	**18 557**	**569**	**-**	**61 376**
Additions	101 463	5 719	228	-	**107 410**
Utilisation	(42 250)	-	-	-	**(42 250)**
Value as at 31 December 2019	**101 463**	**24 276**	**797**	**-**	**126 536**
Value as at 1 January 2020	**101 463**	**24 276**	**797**	**-**	**126 536**
Additions	201 194	5 165	3 469	1 864	**211 692**
Utilisation	(101 220)	-	-	-	**(101 220)**
Reversal	(243)	-	-	-	**(243)**
Value as at 31 December 2020	**201 194**	**29 441**	**4 266**	**1 864**	**236 765**

Provision for deficit of CO_2 emission rights

The value of the provision as at 31 December 2020 was PLN 201 194 thousand (31 December 2019: PLN 101 463 thousand), including the provision in the Parent Company in the amount of PLN 144 140 thousand (31 December 2019: PLN 70 473 thousand), and in the subsidiary EC Zielona Góra S.A. in the amount of PLN 57 054 thousand (31 December 2019: PLN 30,990 thousand). The provision was classified as a short-term provision.

The increase in the level of the provision in 2020 results from a lower level of granted CO_2 emission rights for generation units and is an effect of a higher purchase price of contracted rights.

Provision for reclamation of landfill

Pursuant to Article 137 section 2 of the Waste Management Act of 14 December 2012 (Dz. U. [Journal of Laws]*of 2013, item 21, as amended*) KOGENERACJA S.A. as the managing entity of the landfills in Siechnice and Kamień creates a reclamation fund for the fulfilment of obligations related to the landfill closure, reclamation, supervision and monitoring. The provision for landfill reclamation is estimated in such amount as to cover the costs referred to in section 1 of the Act, excluding construction costs, and amounts to PLN 29 441 thousand as at 31 December 2020 (31 December 2019: PLN 24 276 thousand). The provision was classified as a long-term provision.

Provision for property rights to be redeemed

The Parent Company and its subsidiary EC Zielona Góra S.A. create a provision for the value of the rights of energy origin pertaining to the sales of energy that took place in the reporting period or in the previous periods in the part that has not been redeemed by the reporting date. The value of the provision as at 31 December 2020 was PLN 4 266 thousand, including the provision in the Parent Company in the amount of PLN 3 390 thousand), and in the subsidiary EC Zielona Góra S.A. in the amount of PLN 876 thousand (31 December 2019: PLN 797 thousand).

Provision for penalties and damages

In December 2020, a contractual penalty for delayed performance of the contract in the amount of PLN 1 864 thousand was charged and then, in accordance with the provisions of the contract, deducted in the same amount from the supplier's invoice. In connection with the fact that the contractor disputed the validity of the imposition and charging the contractual penalty for the delay, KOGENERACJA S.A. recognized a provision in the amount of PLN 1 864 thousand as at 31 December 2020.

Notes to the financial instruments

29. Financial instruments

Accounting policies

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or an equity instrument of another entity.

Financial assets

A financial asset is any asset in the form of:
- cash,
- an equity instrument of another entity,
- a contractual right:
- to receive cash or another financial asset from another entity, or
- to exchange financial assets or financial liabilities with another entity on potentially favorable terms, or
- contract that will or may be settled by the entity in its own equity instruments and is:
- a non-derivative that requires or may require the entity to accept a variable number of the entity's own equity instruments, or
- a derivative that will or may be settled otherwise than by exchanging a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this reason, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Classification of financial assets

Financial assets are subject to classification in the following categories:

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

The Group classifies a financial asset on the basis of a business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The Group reclassifies investments in debt instruments only if the business model for managing financial assets is changed.

Measurement at initial recognition

Except for some trade receivables, at initial recognition an entity shall measure a financial asset at its fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of those financial assets.

Derecognition of financial assets

Financial assets are excluded from the books when:
- the rights to obtain cash flows from the financial assets have expired, or
- the rights to obtain cash flows from the financial assets have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

For the purpose of measurement after initial recognition, financial assets are classified into one of four categories:
- debt instruments measured at amortized cost,
- debt instruments measured at fair value through other comprehensive income,
- equity instruments measured at fair value through other comprehensive income,
- financial assets measured at fair value through profit or loss.

Debt instruments – financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group classifies trade receivables, cash and cash equivalents into the category of financial assets measured at amortized cost.

Debt instruments – financial assets measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income, foreign exchange differences and impairment losses are recognized in profit or loss and calculated in the same way as financial assets measured at amortized cost. Other changes in fair value are recognized in other comprehensive income. On derecognition of a financial asset, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

As at 31 December 2020, the Group did not hold any debt instruments measured at fair value through other comprehensive income.

Equity instruments – financial assets measured at fair value through other comprehensive income

As at initial recognition, the Group may make an irrevocable election to recognize in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor contingent consideration recognized by the acquirer in a business combination to which IFRS 3 applies. This election is made on an instrument-by-instrument basis. The Group has not decided to recognize such equity instruments. Cumulative gains or losses previously recognized in other comprehensive income are not reclassified to profit or loss. Dividends are recognized in the statement of comprehensive income when the entity's right to receive dividends is established, unless the dividends clearly represent a recovery of part of the costs of the investment.

Financial assets measured at fair value through profit or loss

Financial assets that do not meet the criteria for measurement at amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss.
A gain or loss on a debt instruments that are measured at fair value is recognized in profit or loss.
Dividends are recognized in *Finance income* in the statement of comprehensive income when the entity's right to receive dividends is established. The Group classifies unlisted equity instruments into the category of equity instruments measured at fair value through profit or loss.

If the Group:

- has a legally enforceable right to set off the recognized amounts, and
- intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously, a financial asset and a financial liability are offset and disclosed in the statement of financial position at a net amount.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Cash and cash equivalents' balance disclosed in the cash flow statement comprises cash and cash equivalents referred above and deducted by outstanding overdrafts being an integral part of Group's cash management system.

Financial and other receivables

Financial and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Parent Company and its subsidiary EC Zielona Góra S.A. are participants in cash pooling in the PGE Polska Grupa Energetyczna S.A. Group. Under cash pooling, the PGE Group companies make their surplus funds available to other companies or, in the event of cash shortages, use the funds made available by the other participants.

Transactions carried out within cash pooling are recognized as transactions with related entities in which the company acting as an agent is the other party to a transaction. Cash pooling funds are presented as short-term financial assets under trade and other receivables, and cash pooling payables are presented as short-term financial liabilities under financial liabilities measured at amortized cost.

Financial liabilities

Financial liabilities are subject to classification in the following categories:

- financial liabilities measured at fair value through profit or loss (financial liabilities recognized in this category are held for trading),
- other financial liabilities measured at subsequent reporting dates at adjusted acquisition cost (i.e. at amortized cost).

Financial liabilities measured at fair value through profit or loss include liabilities classified as held for trading or which upon initial recognition were designated as at fair value through profit or loss. This category of liabilities includes in particular:

- derivatives,
- separated embedded derivatives.

As other financial liabilities, the Company classifies:

- trade liabilities (including the effect of revaluation),
- bonds and other debt securities issued,
- interest-bearing loans and borrowings,
- liabilities due to financial lease,
- liabilities for purchase of property, plant and equipment,
- deposits and bid bonds received.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position only if the Group has a legal right to offset the amounts, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

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The Group uses derivatives in order to hedge against the risk relevant to changes in prices of CO_2 emission rights and exchange rates. The most frequently used derivatives are forward purchase contracts for CO_2 emission rights, contracts for EUA and CER CO_2 emission rights' exchange (SWAP), forward contracts for purchase and sale of foreign currency. Such derivatives are designated as financial instruments at fair value. Depending on whether the value of a derivative is positive or negative, it is recognized as financial asset or financial liability, respectively.

Fair value of forward purchase contracts for CO_2 emission rights and contracts for EUA and CER CO_2 emission rights' exchange (SWAP) is estimated with reference to current forward contracts of similar maturity dates. Fair value of forward exchange contracts is estimated with reference to the quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price.

Ordinary shares

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

a. Classification of financial instruments

Table: Classification of financial instruments as at 31 December 2020 and 31 December 2019

	As at 31 December 2020		
	non-current	current	Total
Cash and cash equivalents	-	14 083	**14 083**
Financial and other receivables	33 336	807 115	**840 451**
Financial liabilities at fair value through profit or loss	(55 429)	(1 453)	**(56 882)**
Liability due to foreign currency forward contract	(478)	(885)	**(1 363)**
Financial liabilities and other liabilities	(394 995)	(245 022)	**(640 017)**
	(417 566)	**573 838**	**156 272**

	As at 31 December 2019		
	non-current	current	Total
Financial assets designated at fair value through profit or loss	-	8 826	**8 826**
Cash and cash equivalents	-	16 194	**16 194**
Financial and other receivables	10 984	605 961	**616 945**
Financial liabilities at fair value through profit or loss	(56 451)	(2 297)	**(58 748)**
Financial liabilities and other liabilities	(430 220)	(168 787)	**(599 007)**
	(475 687)	**459 897**	**(15 790)**

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Short-term financial liabilities and other liabilities in the amount of PLN 245 022 thousand include trade and other liabilities in the amount of PLN 256 925 thousand, excluding VAT liabilities in the amount of PLN 11 903 thousand.

Short-term loans and receivables in the amount of PLN 807 115 thousand include trade and other receivables in the amount of PLN 805 718 thousand and other current assets in the amount of PLN 9 118 thousand, less VAT receivables in the amount of PLN 7 721 thousand.

b. Effective interest rate and analysis of age categories

Table: Effective interest rate on assets and liabilities by age category as at 31 December 2020 and 31 December 2019

	Effective interest rate	Total	< 6 months	6 -12 months	1-3 years	3-5 years	> 5 years
Cash and cash equivalents	1,21%	**14 083**	14 083	-	-	-	-
Finance lease receivables	4,23%	**5 912**	471	77	1 058	867	3 439
Liability due to foreign currency forward contract	0,00%	**-**	616	(616)	-	-	-
Liabilities due to compensations for stranded costs	4,03%	**(416 551)**	-	(21 610)	(19 036)	(375 905)	-
Lease liabilities	4,50%	**(58 723)**	(2 289)	(49)	(4 886)	(4 338)	(47 161)
		(455 279)	**12 881**	**(22 198)**	**(22 864)**	**(379 376)**	**(43 722)**

As at 31 December 2019

	Effective interest rate	Total	< 6 months	6 -12 months	1-3 years	3-5 years	> 5 years
Cash and cash equivalents	2,04%	**16 194**	16 194	-	-	-	-
Finance lease receivables	4,54%	**6 385**	384	75	1 099	949	3 878
Liabilities due to compensations for stranded costs	4,93%	**(466 629)**	-	(36 425)	(42 946)	(35 998)	(351 260)
Lease liabilities	4,50%	**(58 748)**	(2 240)	(57)	(4 370)	(4 280)	(47 801)
		(502 798)	**14 338**	**(36 407)**	**(46 217)**	**(39 329)**	**(395 183)**

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c. Carrying amount of financial instruments, including their levels in the fair value hierarchy

Table: Carrying amount of financial instruments, including their levels in the fair value hierarchy as at 31 December 2020 and 31 December 2019

	Carrying value as at 31 December 2020	Level	Carrying value as at 31 December 2019	Level
Assets				
Financial assets measured at fair value				
Financial assets measured at fair value through profit or loss	-	2	8 826	2
Financial assets not measured at fair value				
Trade and other receivables	805 200	2	600 124	2
Other assets	29 339	2	10 437	2
Cash and cash equivalents	14 083	2	16 194	2
Finance lease receivables	5 912	2	6 385	2
Liabilities				
Financial liabilities measured at fair value				
Liability due to foreign currency forward contracts	(1 363)	2	-	2
Financial liabilities not measured at fair value				
Trade and other payables	(640 017)	2	(599 007)	2
Finance lease liabilities	(56 882)	2	(58 748)	2

The table does not include fair value information for assets and liabilities not measured at fair value because the carrying amount is a reasonable approximation of fair value.

d. Measurement of fair value – valuation techniques

Table: The valuation techniques used for measurement of fair values belonging to the 2nd and 3rd level of fair value hierarchy as at 31 December 2020 and 31 December 2019

Financial instruments measured at fair value	
Type	**Valuation technique**
Financial assets measured at fair value through profit or loss	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar documents.

30. Financial and other operating risk management

a. Basic information

The risk management policy of the KOGENERACJA S.A. Group is consistent with the financial risk management strategy of the PGE S.A. Group.

The overall objective of financial risk management is to support the process of value creation for the shareholders and support the realization of the business strategy by mitigating and controlling financial risk at a level that is acceptable to the Group. The Management Boards of the Parent Company and the subsidiary are responsible for managing financial risk. The Management Board defines risk appetite which is understood as an acceptable level of deterioration of the Group's results bearing in mind its current and planned financial standing. It is also up to the Management Board to decide on the allocation of risk appetite with respect to the individual areas of activity.

PGE Energia Ciepła S.A. (the parent company) has the Risk Committee which supervises the process of financial and corporate risk management. The Risk Committee monitors exposure, sets limits with respect to material financial risks, approves the applied methodologies in the area of financial risk resulting from commercial and financial activities, approves the extension of operations into new business areas and makes other key decisions in the area of risk management.

Financial risk management model comprises:

- accumulating and analyzing market data and data on exposures by individual categories of financial risk;
- calculating Value-at-Risk and Profit-at-Risk financial risk measures for individual risk factors and in aggregate for all risk factors;
- managing the consolidated exposure of the Group with reference to risk capital and risk limits set on its basis (e.g. by establishing and executing hedging strategies).

In the key areas of financial risks, the Group implemented internal regulations which set out the principles for managing those risks.

The Group's operations are exposed to the following financial risks:

- credit risk,
- liquidity risk,
- market risk,
- capital management risk.

The Group's exposure to individual financial risks depends on the scope of its operations on commodity and financial markets.

This note contains information about the Group's exposure to each type of risk indicated above, and describes the objectives and policy of risk and capital management. Disclosures of numerical data have been included in these financial statements.

b. Credit risk

Credit risk is the risk of financial loss to the Group if a customer, or counterparty to a financial instrument, fails to meet its contractual obligations.

Credit risk is primarily related to Group's receivables from customers and financial investment.

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Table: Maximum exposure to credit risk as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019
Cash and cash equivalents	14 083	16 194
Financial assets at fair value through profit or loss	-	8 826
Trade and other receivables	839 055	606 509
Other assets	29 339	10 437
	882 477	**641 966**

The table above shows the Group's maximum exposure to the credit risk equal to the book values of these items.

Investments

The Group executes the following financial investments:
- short-term, including mainly bank deposits – overnights,
- long-term – shares in non-related entities. As a shareholder, the Parent Company performs a steady supervision to increase the investment's value and minimize the risk of the investment. In case of decrease in investments' value, appropriate impairment losses are recognized.

Trade and other receivables

The Group mitigates and controls credit risk associated with commercial transactions. For commercial transactions that, due to their high value, may generate significant losses as a result of counterparty default, a counterparty assessment is performed prior to entering into the transaction taking into account financial analysis, counterparty credit history and other factors. Based on the assessment, an internal rating is assigned or the Group uses a rating assigned by an independent reputable agency. The rating is used to set a limit for the counterparty. As a rule, entering into contracts that would cause an increase in exposure beyond the limits requires the establishment of collateral compliant with the credit risk management principles. The level of utilization of the limits is monitored on a regular basis. In case of any material excesses, the units responsible for counterparty risk management are obliged to take actions to eliminate them.

Credit risk regarding the KOGENERACJA S.A. Group receivables is different for particular groups of customers:
- receivables from the sale of electricity and heat to large customers distributing and trading with electricity are not exposed to significant credit risk,
- receivables from the sale of heat to individual users include a larger amount of overdue receivables. However, the risk relating to this segment does not pose a major threat to the Group's finances,
- receivables relating to other activities also do not carry a credit risk that would be material to the Group.

The Group monitors the overdue receivables on current basis and, in justified cases, formally claims for payments and raises allowances.

Loans

Only loans to related entities within the Group over which full control is held are granted. Due to this fact, repayment of these loans is not exposed to significant credit risk.

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Cash
The Group owns cash mainly on bank accounts with minimum credit risk.

Guarantees
The Group reduces granting guarantees to related parties and to key contractors to the Group that ongoing trading cooperation is carried out with.

c. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The policy of the liquidity risk management consists in securing financial resources required for the Group to fulfil its financial and investment obligations by using the most attractive sources of financing. In 2020, the Parent Company and its subsidiary EC Zielona Góra S.A. had access to internal financing under cash pooling within the PGE S.A. Group. During periods of shortage of cash, KOGENERACJA S.A. and EC Zielona Góra S.A. benefit from the funds made available by other participants in cash pooling. In case of financial surplus, funds are made available to other participants.

The management of the Group's liquidity mainly focuses on thorough analysis, planning and appropriate acting within three areas:
- CAPEX – investments in non-current assets,
- working capital,
- net financial debt.

In October 2013, the Parent Company entered into a loan agreement with the Provincial Fund of Environmental Protection and Water Management for the purpose of financing the installation of wet flue gas desulfurization ($DeSO_x$). In December 2019, KOGENERACJA S.A. repaid the last installment of this loan.

Due to an ongoing management of risk within the above areas and the Group's market and financial position, the liquidity risk is maintained at the minimum level.

Table: Maximum exposure to liquidity risk as at 31 December 2020 and 31 December 2019

As at 31 December 2020	**Cash flow**	**< 6 months**	**6-12 months**	**1 - 3 years**	**3-5 years**	**> 5 years**
Financial liabilities, excluding derivative instruments						
Trade and other payables	**(640 017)**	(223 412)	(21 610)	(19 090)	(375 905)	-
including liabilities due to compensations for stranded costs	***(416 551)***	-	*(21 610)*	*(19 036)*	*(375 905)*	-
Finance lease liabilities	**(58 723)**	(2 289)	(49)	(4 886)	(4 338)	(47 161)
Financial liabilities						
Liability due to foreign currency forward contract	-	616	(616)	-	-	-
	(698 740)	**(225 085)**	**(22 275)**	**(23 976)**	**(380 243)**	**(47 161)**

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As at 31 December 2019	Cash flow	< 6 months	6-12 months	1 - 3 years	3-5 years	> 5 years
Financial liabilities, excluding derivative instruments						
Trade and other payables	**(599 007)**	(132 362)	(36 425)	(42 962)	(35 998)	(351 260)
including liabilities due to compensations for stranded costs	***(466 629)***	-	*(36 425)*	*(42 946)*	*(35 998)*	*(351 260)*
Finance lease liabilities	**(58 748)**	(2 240)	(57)	(4 370)	(4 280)	(47 801)
	(657 755)	**(134 602)**	**(36 482)**	**(47 332)**	**(40 278)**	**(399 061)**

d. Market risk

Market risk is the risk that relates to changes in foreign exchange rates, interest rates and equity cost that affect the Group's financial results or value of the assets held. The objective of market risk management is to maintain market risk exposures within acceptable levels while optimizing the rate of return.

Interest rate risk

Interest rate risk is related to the possibility of deterioration of the financial result due to changes in interest rates.

The Group controls the interest rate risk through a system of limits relating to the maximum potential loss due to changes in interest rates. The interest rate risk measure is based on the *Value at Risk* methodology.

Table: Maximum exposure (sensitivity profile) to interest rate risk as at 31 December 2020 and 31 December 2019

	Carrying amount As at 31 December 2020	Carrying amount As at 31 December 2019
Fixed rate instruments		
Financial assets and other assets	209 795	176 782
Financial liabilities and other liabilities	(640 017)	(599 007)
	(430 222)	**(422 225)**
Variable rate instruments		
Financial assets and other assets	644 739	465 183
Financial liabilities and other liabilities	(58 244)	(58 748)
	586 495	**406 435**

The Group has no fixed interest rate financial instruments measured at fair value through profit or loss and has not designated any derivative instruments (interest rate SWAP) as fair value hedges. As a result, the changes in interest rates do not impact the statement of comprehensive income as at the end of the period.

The Group has no fixed interest rate instruments recognized through equity. Due to this fact, the change in interest rate shall not impact the equity.

The Group has analyzed sensitivity of variable interest rate financial instruments to changing market interest rates. The table below shows the effect of interest rate falls and drops by 100 bp on financial results and equity. The analysis assumed that other variables (i.e. exchange rates) remain unchanged. The analysis was prepared for the current year and for the comparable period of the previous year.

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Table: Sensitivity analysis of financial instruments for the period ended 31 December 2020 and 31 December 2019

	Statement of comprehensive income		Equity*	
	100bp increase	100bp decrease	100bp increase	100bp decrease
from 1 January to 31 December 2020	5 865	(5 865)	-	-
from 1 January to 31 December 2019	4 064	(4 064)	-	-

* equity excludes net profit/loss

Currency risk

Currency risk is associated with transactions in foreign currencies. A change in the exchange rate results in a change in the value of the existing currency receivables and liabilities expressed in national currency. An increase in the exchange rate is beneficial in respect of receivables as their amount in national currency increases. At the same time, it is unfavourable with respect to liabilities to other entities as their equivalent in PLN increases. The decrease in the exchange rate causes the opposite phenomena.

Group companies are not exposed to a significant currency risk.

e. Other market risks not related to financial instruments

Coal prices and deliveries

Coal is the primary production fuel of the Parent Company. Policy with regard to fuel supply consists in common purchases of coal for the following companies: PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Ciepła S.A. and Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. by the Supply Department of Raw Production Materials in PGE Polska Grupa Energetyczna S.A. Common purchasing policy, and price analyses and forecasts performed on a current basis provide attractive prices of coal and significant mitigation of the risk of losses due to unfavorable changes in prices.

Considering the new standards of SO_2 and NO_x emission effective from 1 January 2016, new installation $DeSO_x$ and $DeNO_x$ was built in EC Wroclaw, and low-sulphur coal was replaced with standard coal. EC Czechnica uses low-sulphur coal as part of derogatory limits of CO_2.

The coal is delivered to EC Wroclaw by waterway which may be closed in the winter season (December to March) due to low temperatures causing water in the Odra River to freeze.

Due to the following events occurring in the spring:
- extended periods of low temperatures (frozen Odra River),
- high water levels (rainfall, melting snow),
- repair works on weirs on the Odra River,

delays in resuming of supplies (or less frequent supplies) may occur, resulting in potential difficulties to meet the requirements of minimum levels of strategic inventory (risk of non-fulfilled law requirements and unreliability of electricity sale to customers). To decrease the risk resulting from water transport, the Company takes activities to enable deliveries by railway.

Instability of Polish legislation in the area of energy from renewable energy resources may cause temporary pause or resume the production of energy from biomass. The amount of biomass has a direct impact of the amount of coal burned, which may result in the need to purchase, or decide not to purchase, a certain amount of fuel. Changeability in demand for coal may result in coal price volatility.

In connection with the COVID-19 pandemic in Poland and worldwide occurring from March 2020, periodic interruptions in the supply of basic production fuels of coal and biomass may occur due to an increase in the number of cases of disease and the resulting restrictions, which may lead to interruptions in mining, production and transport.

Biomass prices and delivery

Policy with regard to biomass supply for PGE Group companies consists in purchases of this raw material by the Supply Department of Raw Production Materials in PGE Polska Grupa Energetyczna S.A.

The development of biomass usage in energy sector is associated with Polish obligations for the share of renewable energy in final energy consumption. Instability of Polish legislation regarding the support for the production of energy from renewable sources may result in periodic economic fluctuations on the “green” energy market, and thus the biomass market. Lack of stability can result in high price volatility and fuel availability for the energy sector.

Biomass sources are diversified. The risk of agro-biomass delivery results from the possible crop failures limiting supply of this fuel. The current limited supply of agro-biomass in the form of energy willow may cause temporary shortages of this type of biomass or increase in purchase price. Imposing obligation to present wooden biomass origin certificates significantly reduced the supply of this type of biomass on the market, which may result in periodic shortages of fuel or price increases.

Gas prices

The contract for gas supply to gas and steam power unit, the main source of production of electricity and heat in EC Zielona Góra S.A., was concluded for the period of 20 years and expires in 2024. According to the contract with PGNiG, prices of gas from domestic deposits are subject to annual indexation under formula based on two indices:

- production price index for general industry, and
- production price index for industry – production and supply with electricity, gas and water.

The prices are reviewed annually effective 1st January based on data from the Statistical Bulletin of the Central Statistical Office (GUS).
Forecasts in regard to gas prices for subsequent years are made by EC Zielona Góra S.A. based on the forecasted price index which is considered to be a reliable base for estimation.

Based on the information presented above, the gas price risk is not considered significant.

Product prices

Main areas of price risks related to Group’s products are closely related to changes in the competitive wholesale electricity market and legal regulations, e.g. support mechanisms for energy generated from renewable sources. Heat prices are still regulated by the Energy Regulatory Office.

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The following issues deserve special attention:

- The market of electricity prices in wholesale trading is a competitive market with a number of energy producers. After price decline in 2019, prices increased in 2020 with a drop in electricity prices on the SPOT market (in the first half of 2020) and rise in electricity prices (in the second half of 2020).
- On 25 January 2019, the Act of 14 December 2018 on promoting energy from high-efficiency cogeneration came into force. The Act provides for dedicated support schemes and diversifies the rules for and the amount of support for existing, modernized and new entities, planned to be launched. The Act also allocates support in separate groups of installed capacity and divides cogeneration units into units with a capacity of:
  - up to 1 MW,
  - within the range of 1 to 5 MW,
  - above 50 MW, with special emphasis on generation units with a capacity above 300 MW.

Regardless of the entity's size, only entities with a unit emission rate not exceeding 450 kg per 1 MWh of generated energy may apply for support.

Product prices in 2021 may also be impacted by the change

- in the cogeneration fee charge and the RES fee rate, introduced as of 1 January 2021,
- as well as the capacity fee which, pursuant to the Power Market Law adopted in 2017, provides a mechanism to reward power generators for maintaining availability. The fee will increase the charges to end-users of electricity.

The Group performed a sensitivity analysis for the prices of main products. The table below presents the influence on the financial result due to price change (increase/decrease by 100 bp).

Table: Sensitivity analysis as at 31 December 2020 and 31 December 2019

	Statement of comprehensive income		**Equity***	
	for the year ended 31 December 2020		**as at 31 December 2020**	
Parameter	increase by 100bp	decrease by 100bp	increase by 100bp	decrease by 100bp
Price of electricity	5 597	(5 597)	-	-
Price of green certificates	15	(15)	-	-
Price of heat	5 096	(5 096)	-	-
Price of used coal	(2 267)	2 267	-	-
Price of used biomass	(146)	146	-	-
Price of used gas	(1 973)	1 973	-	-

	Statement of comprehensive income		**Equity***	
	for the year ended 31 December 2019		**as at 31 December 2019**	
Parameter	increase by 100bp	decrease by 100bp	increase by 100bp	decrease by 100bp
Price of electricity	5 420	(5 420)	-	-
Price of green certificates	29	(29)	-	-
Price of heat	4 590	(4 590)	-	-
Price of used coal	(2 255)	2 255	-	-
Price of used biomass	(110)	110	-	-
Price of used gas	(1 963)	1 963	-	-

* equity excludes net profit/loss

Grants of carbon-dioxide emission rights

Law regulations oblige producers to own and redeem CO_2 emission rights accordingly.

The Directive 2009/29/WE, amending the directive of 2003 on European Union Emission Trading Scheme, introduced the CO_2 emission trade scheme regulations in force from 2013. Based on the Resolution of the Minister of Economy concerning the CO_2 allocation, KOGENERACJA S.A. received free rights for CO_2 in connection with the heat production for housing economy and electricity production needs. Every year, the number of free rights is regularly reduced. The missing amount of CO_2 emission rights necessary for redemption for 2020 was purchased by the Group companies on the market.

The purchase of CO_2 emission rights will be continued in next reporting periods.

Changes in the prices of CO_2 emission rights

The Parent Company and its subsidiary EC Zielona Góra S.A. are exposed to price risk in connection with purchase transactions of CO_2 emission rights. Therefore, the Group has introduced a mechanism of ongoing balancing of the number of purchased rights and the actual CO_2 emissions.

Decrease in revenues from the sale of heat

The basic reasons of the risk of a decrease in heat sales revenues are as follows:

- decrease in heat power ordered by customers (as a result of thermo-modernization, implementation of energy saving technologies and extension of heating networks automatics),
- maintaining competitiveness of heating prices in comparison to other sources of energy, especially in comparison to prices of natural gas,
- unfavorable weather conditions (higher average monthly temperatures in autumn and winter result in a reduction of heat sales for heating buildings).

The policy of the Parent Company and the subsidiary focuses on maintaining current customers and gaining new customers.

Long-term contract in EC Zielona Góra S.A.

The subsidiary EC Zielona Góra S.A. is exposed to risk related to the final settlement of compensations for stranded costs in connection with the Act of 29 June 2007 on the rules of covering producers' costs in connection with early termination of long-term contracts for the sale of power and electricity (KDT Act).

In accordance with the Act on the rules of covering producers' costs in connection with early termination of long-term contracts for the sale of power and electricity, under certain market conditions, in the program of stranded costs, EC Zielona Góra S.A. can receive a maximum amount of stranded costs provided for by the legislator in Annex 2 of the Act in the amount of PLN 464 297 thousand. In case of covering the cost of natural gas (delivered and undelivered), the entity can receive a maximum of PLN 313 477 thousand.

According to the estimates of the Management Board of EC Zielona Góra S.A. by 2015, the advances for covering the stranded costs will be returned in full in the future periods. From 2016, as a result of a change in price path forecasts for 2017–2024, the subsidiary will not be obliged to return all funds received during the Program. Due to the update of forecasts for 2021–2024, the final balance changed at the end of 2020 compared to the previous year, but still remains positive. Changes in estimates due to the calculation of the final adjustment are taken into account prospectively by recognizing them in the statement of comprehensive income for the period in which the change has occurred and in future periods provided that the change applies to all such periods.

Other information concerning long-term contracts is presented in *Notes to the financial statements*, item 2.

COVID-19 pandemic

The outbreak of COVID-19 pandemic had a tremendous impact on the global economy and the domestic situation, resulting in significant restrictions across the globe. The restrictions resulted in a deterioration in the economic environment regarding the ability to continue as a going concern. This is influenced by, inter alia, the following factors: the financial condition of customers and suppliers, compliance with credit terms, liquidity and solvency. The Management Board of KOGENERACJA S.A. and its subsidiary EC Zielona Góra S.A. analyzed financial and operational risks and threats that could adversely impact the ability to continue as a going concern and the results.

Details of the risks and actions taken to minimize the risks are presented in the *Notes to the financial statements*, item 42.

f. Equity management

The Group's main policy in respect of equity management is to maintain a strong capital base so as to maintain the confidence of investors, lenders and the market, and to sustain future development of the business. The equity management risk means the risk of not achieving the aims specified above. The Group monitors changes in shareholding, return on equity and the level of dividends paid to shareholders.

The objective of the Group is to achieve ROE index at the level satisfactory to the Group's shareholders.

In accordance with Article 347 of the Code of Commercial Companies, shareholders have the right to share profit disclosed in the financial statements, audited by a chartered accountant and allocated for distribution by the General Meeting. The profit is distributed pro rata to the number of shares held. The Parent Company's Articles of Association does not provide for any method of profit distribution other than that specified in the Code of Commercial Companies. In accordance with the Articles of Association, the General Meeting may allocate portions of profit to:
- other capitals and funds or other purposes specified in the General Meeting's resolution,
- dividend.

In accordance with Article 348 of the Code of Commercial Companies, the amount to be distributed amongst shareholders (dividend) may not be higher than the amount of profit generated for the last financial year increased by retained profit from prior years and the amounts transferred from reserve capital and other capital reserves created from profit provided they may be allocated for dividend. This amount should be reduced by not absorbed losses, own shares and the amounts which, in accordance with the Act or Articles of Association, should be allocated from the profit for the last financial year to reserve capital or to other capital reserves.

The Parent Company's Ordinary General Meeting (general meeting of a public company) sets the date of presenting a list of shareholders entitled to a dividend for a current financial year (dividend date) and the date when the dividend is paid. The dividend date may be set at the day when the resolution is passed or within the subsequent three months starting from that day. Under Article 396 of the Code of Commercial Companies, the Parent Company is obliged to create reserve capital for the purpose of absorbing losses. The reserve capital is increased each year with at least 8% of the profit generated for the financial year until the amount of reserve capital equals to at least one third of the share capital. All the surpluses resulting from share premium and others, excluding incurred costs of shares issue, should be transferred to the reserve capital. Also additional payments made by the shareholders in exchange for specific privileges awarded to their shares are transferred to the reserve capital unless such additional payments are not used to equalize extraordinary allowances or losses.

In addition, the Articles of Association of KOGENERACJA S.A. provides for other capitals to be created in order to absorb specific losses or cover expenses (other reserves). The general meeting is responsible for decision regarding use of reserve capital or other capital reserves. However, a portion of the reserve capital amounting to one third of the share capital can be allocated only to absorb loss in the financial statements.

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Notes to the statement of cash flows

Accounting policies

The statement of cash flows is prepared using the indirect method.

31. Reconciliation of change in receivables

Table: Change in receivables for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	For the year ended 31 December 2019
Change in long-term receivables	533	1 707
Change in trade and other receivables	(205 137)	(94 866)
Adjustment due to change in receivables due from sale of tangible fixed assets	(2 972)	1 602
Change in liabilities in the statement of cash flows	**(207 576)**	**(91 557)**

32. Reconciliation of change in trade and other liabilities, deferred income, grants, and provisions

Table: Change in trade and other liabilities, deferred income, grants, and provisions for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	For the year ended 31 December 2019
Change in trade and other payables (long-term and short-term)	32 201	11 794
Change in deferred income	1 207	(5 591)
Change in provisions (long-term and short-term)	110 794	66 303
Adjustment due to change in liabilities due to acquisition of tangible fixed assets	1 267	4 249
Adjustment for grants received	(8 515)	(925)
Change in liabilities in the statement of cash flows	**136 954**	**75 830**

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33. Reconciliation of investment outflows

Table: Investment outflows for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	For the year ended 31 December 2019
Additions to intangible assets, property, plant and equipment, and investment property (movement tables)	(163 782)	(161 380)
Adjustment due to change in liabilities due to acquisition of tangible fixed assets	(1 267)	(4 249)
Acquisition of intangible assets and property, plant and equipment in the statement of cash flows	**(165 049)**	**(165 629)**

34. Reconciliation of *Other adjustments*

Table: Other adjustments for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	For the year ended 31 December 2019
The valuation of contracts for the sale of CO_2 emission right	8 827	(7 557)
The valuation of contracts to hedge foreign currency exchange rate	1 364	-
Lease	93	(61)
Accrued interests	-	(31)
Other comrehensive income	(1 279)	(684)
Change of composition of consolidated entities	-	194
Other adjustments in the statement of cash flows	**9 005**	**(8 139)**

35. Cash flows from financing activities

Table: Cash flows from financing activities for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	For the year ended 31 December 2019
Change in loans, borrowings and debt instruments	-	(24 781)
Recognition of a lease liability (IFRS 16)	-	58 296
Grants received	8 515	925
Lease payments	(2 972)	(2 421)
Right-of-use asset recognition (IFRS 16)	-	(58 730)
Interest paid	-	(581)
Accrued interests (WFOŚiGW)	-	31
Cash flow from financing activities in the statement of cash	**5 543**	**(27 261)**

a. Loans and borrowings

In 2020, the Group companies did not incur any loans or borrowings.

b. Repayment of loans and borrowings

On 29 October 2013, KOGENERACJA S.A. entered into a loan agreement with the Provincial Fund for Environmental Protection and Water Management for the design and installation of wet flue gas desulfurization by limestone-gypsum technology in CHP Wrocław. In December 2019, KOGENERACJA S.A. repaid the last instalment loan from the Provincial Fund for Environmental Protection and Water Management in the amount of PLN 24 750 thousand.

c. Other financial liabilities

The Group applied the new IFRS 16 *Leases* as at 1 January 2019. *Perpetual usufruct right to land*, previously classified in accordance with IAS 17 as operating lease and recognized in off-balance sheet records, currently meets the definition of lease contained in the new IFRS 16. Therefore, the Group included in the statement of financial position a liability arising from the right to use in the amount equal to the lease liability, adjusted for any prepayments or accrued lease fees. As at 31 December 2020, a long-term financial liability in the amount of PLN 55 881 thousand and a short-term liability in the amount of PLN 2 258 thousand were recognized.
In addition, company car lease in the amount of PLN 218 thousand was recognized as a lease liability (including long-term part in the amount of PLN 26 thousand and short-term part in the amount of PLN 80 thousand).

Other notes

36. Operating segments

Accounting policies

Operating segment is a separate component of the Group which engages in providing certain products or services (business segment), or providing products or services in a certain economic environment (geographical segment), and is exposed to risks and derives benefits that are different from other segments.

Segment reporting identifies reportable segments as those Group components:
- which engage in business activities which lead to earning revenues and incurring expenses,
- whose results are regularly reviewed by the entity's operating decision maker to make decisions about the resources to be allocated to the segment and to assess its performance, and
- for which separate financial information is available.

Segment revenue
Segment revenue comprises revenue either from sales to external customers or from transactions with other Group segments which are reported in the Group's income statements, and may be directly attributed to a segment together with the appropriate part of the revenue which may be allocated to the segment based on reasonable criteria.

Segment costs
Segment costs comprise costs of sales to external customers and costs of transactions with other Group segments, which result from the operating activity of a segment and may be directly attributed to the segment, including an appropriate part of the costs of a business entity which may be allocated to the segment based on reasonable criteria.

Segment profit or loss
Segment profit or loss is the difference between segment revenue and segment costs.

Segment assets

Segment assets are operating assets used by a segment in its operating activity, which may be attributed to the segment directly or may be allocated to it based on reasonable criteria.

Income tax assets are not classified as segment assets.

Examples of segment assets include current assets used in the segment's operating activity, tangible fixed assets, assets used under finance leases and intangible assets. If depreciation/amortization of an asset is charged to segment costs, the corresponding asset should also be classified as a segment asset. Segment assets comprise operating assets used jointly by two or more segments, if there is a reasonable basis to make such an allocation and if goodwill arises, which may be directly attributed to the segment based on reasonable criteria.

Assets used jointly by a larger number of segments are attributed to those segments provided that the related revenue and costs have also been attributed to these segments.

Segment liabilities

Segment liabilities are operating liabilities arising from the segment's operating activity which may be attributed to the segment directly or may be allocated to it based on reasonable criteria.

Income tax liabilities are not classified as segment liabilities.

Segment liabilities comprise, e.g. trade payables, other liabilities, accruals, prepayments from customers, provisions for claims relating to the goods delivered and services provided. Liabilities of a segment whose operating activity is not primarily financial activity exclude loans and similar liabilities.

The KOGENERACJA S.A. Group operates in one operating segment: *electricity and heat production, and heat distribution*. Segment identification results from the management structure. It is subject to regular review by the Management Board of the Parent Company ("chief operating decision-maker") and is used to make decisions to allocate resources and assess segment activities' results.

Segment result, assets and liabilities, include items directly relating to the segment and appropriate commonly used items that can be allocated to a particular segment on a reasonable basis.

There are no unallocated items in the KOGENERACJA S.A. Group.

There is no geographical diversification within the Group's activities. The Group operates domestically and thus the activities were not divided into geographical segments.

Segment revenues include revenue from sales, revenue from KDS compensation, and other operating revenue.

Segment costs include cost of sales, expenses from KDT compensation, general and administrative expenses, and other operating expenses.

In the segment *Electricity and heat production, and distribution,* the most significant revenues were generated in transactions with PGE Polska Grupa Energetyczna S.A., PGE Energia Ciepła S.A., PGE Dom Maklerski S.A. and Fortum Power and Heat Polska Sp. z o.o., Wrocław Branch. In the period from 1 January to 31 December 2019, the revenues amounted to PLN 1 097 774 thousand (including PGE Polska Grupa Energetyczna S.A.:PLN 515 619 thousand, PGE Energia Ciepła S.A: PLN 508 091 thousand, PGE Dom Maklerski S.A.: PLN 224 484 thousand, and Fortum Power and Heat Polska Sp. z o.o.: PLN 345 355 thousand) accounting for 82,29% of the segment's revenue (in the corresponding period of the previous year, revenue amounted to PLN 915 427 thousand, accounting for 82.47% of the segment's revenue, including PGE Energia Ciepła S.A: PLN 348 177 thousand, PGE Dom Maklerski S.A.: PLN 211 735 thousand, PGE Polska Grupa Energetyczna S.A.: PLN 44 566 thousand, and Fortum Power and Heat Polska Sp. z o.o.: PLN 310 949 thousand).

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37. Lease agreements

a. Lease agreements under which the Group is a lessee

Right-of-use assets

In accordance with *IFRS 16 Leases* effective for annual periods beginning on or after 1 January 2019, all contracts which meet the criteria of a lease are presented in the statement of financial position.

Table: Future lease payments for the year ended 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019
less than 1 year	3 009	3 090
1-2 years	2 933	2 987
2-3 years	2 851	2 907
3-4 years	2 822	2 855
4-5 years	2 821	2 853
over 5 years	163 678	162 488
	178 114	**177 180**

Table: The current value of lease liabilities as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019
less than 1 year	2 338	2 297
1-2 years	2 255	2 204
2-3 years	2 153	2 167
3-4 years	2 161	2 141
4-5 years	2 177	2 138
over 5 years	47 161	47 801
	58 245	**58 748**

Other information on lease agreements

Lease liabilities were valued at the current value of lease payments. Lease payments were discounted using the lessee's marginal interest rate of 4,5%.

There were no sale and leaseback transactions in the current period.

Total cash outflows resulting from lease agreements in 2020 amounted to PLN 2 972 thousand.

The rights to use the assets are described in the *Notes to the financial statements*, item 9.

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b. Operating lease agreements under which the Group is a lessor

The Group rents office and other assets to providers of legal, IT and technical services. The duration of the agreements is usually no longer than five years. In most agreements, the period is undefined. In such cases, the Group uses the six-month notice period to estimate future payments. The changes in operating lease value are due to the expiration of the dates of signed lease agreements or amendments and the six-month notice period adopted for calculation.

Table: Future lease payments as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019
less than 1 year	2 200	1 798
1-2 years	305	586
2-3 years	227	235
3-4 years	222	201
4-5 years	207	197
over 5 years	2 609	2 534
	5 770	**5 551**

c. Financial lease agreements under which the Group is a lessor

In order to acquire new users for heat from the heat distribution network, the Parent Company carries out financing, co-financing and building of heat centers which are then leased out to counterparties. Lease agreements are usually entered into for 6 or 12 years.

After the lease period, the customer is granted with the right to prolong the lease agreement for next period or the right to acquisition at favorable terms. In addition, lessees are obliged to maintain and repair heat centers on a current basis (the transfer of risk). Lease agreements do not allow conditional payments.

The lease of heat centers is directly related to the new heating and power agreements. Thus, for the purpose of settlement in the books, the approach of multiple deliverables was applied, recognizing both lease instalments and appropriate part of the heating fee in the revenue from lease payments.

As at the end of the reporting period, the Company had 112 financial lease agreements for the lease of heat centers. Mainly housing cooperatives, housing communities and property developers are the lessees. In 2020, 1 heat center was sold after the end of the lease period for a net amount of PLN 8 thousand.

On 3 September 2014, an agreement was entered into between KOGENERACJA S.A. and PGE Ekoserwis S.A. Under the agreement, KOGENRACJA S.A. leased out an ash valorization facility to PGE Ekoserwis S.A. for the period to 31 December 2039. The receivable as at 31 December 2020 amounted to PLN 3 600 thousand.

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Table: Amounts receivable under financial lease agreements as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019
less than 1 year	548	459
1-2 years	582	532
2-3 years	476	567
3-4 years	499	462
4-5 years	368	487
over 5 years	3 439	3 878
	5 912	**6 385**

38. Claims and contingent liabilities

a. Transaction agreements for CO_2 emission missing rights purchase

Until 31 December 2020, KOGENERACJA S.A. concluded transaction arrangements on the purchase of the missing CO_2 emission rights for the year:

- 2021; to be exercised in December 2021, in the amount of 954 thousand tonnes for PLN 109 585 thousand,
- 2021; to be exercised in December 2021, in the amount of 1 357 thousand tonnes for PLN 153 238 thousand, to be exercised in April 2022 in the amount of 65 thousand tonnes for PLN 9 284 thousand,
- 2022; to be exercised in December 2022, in the amount of 146 thousand tonnes for PLN 17 405 thousand,
- 2023; to be exercised in December 2023, in the amount of 56 thousand tonnes for PLN 6 161 thousand.

The above transactions are classified as standard purchase transactions for own use and shall be recorded in the books at the time of delivery.

Until 31 December 2020, the subsidiary EC Zielona Góra S.A. concluded transaction arrangements on the purchase of the missing CO_2 emission rights for

- 2021; to be exercised in December 2021, in the amount of 357 thousand tonnes for PLN 41 436 thousand,
- 2021; to be exercised in December 2021, in the amount of 530 thousand tonnes for PLN 56 487 thousand, to be exercised in April 2022 in the amount of 12 thousand tonnes for PLN 1 723 thousand,
- 2022; to be exercised in December 2022, in the amount of 62 thousand tonnes for PLN 7 335 thousand, .
- 2023; to be exercised in December 2023, in the amount of 24 thousand tonnes for PLN 2 708 thousand, .
- 2024; to be exercised in December 2024, in the amount of 1 thousand tonnes for PLN 173 thousand.

The above transactions are classified as standard purchase transactions for own use and shall be recorded in the books at the time of delivery.

b. Contingent liabilities

In 2018, the Parent Company and its subsidiary EC Zielona Góra S.A. were included in cash pooling of the PGE Group under annexes to agreements entered into by PGE Polska Grupa Energetyczna S.A. and other system participants. The agreements expired on 19 December 2019.

The cash pooling service was continued by entering into the following agreements:

- Cash Management System Agreements in a group of accounts entered into by and between Bank Polska Kasa Opieki S.A., PGE Polska Grupa Energetyczna S.A., as the Coordinator, and other companies of the PGE Group.
- Agreements for the provision of real cash pooling services entered into by and between Powszechna Kasa Oszczędności Bank Polski S.A., PGE Polska Grupa Energetyczna S.A., as the Coordinator, and other companies of the PGE Group.

The agreements were entered into with the bank PKO BP S.A. for a period of 4 years and with Bank Pekao S.A. for a period of 5 years.

The Parent Company obtained corporate approvals for increasing the debt limit from PLN 20 000 thousand to PLN 100 000 thousand on a cumulative basis. However, due to the verification of debt limits on a cumulative basis by PGE Polska Grupa Energetyczna S.A. across the group, the currently granted limit is PLN 20 000 thousand.

The cash pooling do not need to be cross-collateralized by their participants.

c. Other contingent liabilities, pledges and guarantees

KOGENERACJA S.A.

- A bank guarantee of PLN 600 thousand issued by Bank Polska Kasa Opieki S.A. secures the occurrence of negative effects and damage to the natural environment in connection with the maintenance of a combustion waste landfill site at EC Czechnica in Siechnice. The warranty is valid until 22 September 2021.

- On 28 February 2020, an agreement was entered into with Operator Gazociągów Przesyłowych GAZ SYSTEM S.A. for the connection of gas facilities and installations situated in the newly-built Czechnica CHP Plant located in Siechnice to the transmission network. A guarantee in the amount of PLN 7 479 thousand valid until 22 September 2021 secures the payment of liabilities under the above Agreement.

- On 5 October 2017, Bank Polska Kasa Opieki S.A. opened a renewable line for issuing bank guarantees of up to PLN 10 000 thousand in total. The claim is secured with a *blank* promissory note of up to PLN 12 000 thousand. The agreement ended on 5 October 2020, but it covers the two guarantees specified above valid until 22 September 2021.

- In order to ensure the availability of the guarantee line after the expiry of the above agreement, on 27 April 2020, KOGENERACJA S.A. and PGE Polska Grupa Energetyczna S.A. *entered into an arrangement concerning the rules of establishing security (bank guarantees) for the obligations of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.* The arrangement is valid until 1 January 2021 and enables the Company to incur liabilities in connection with providing security (bank guarantees issued at the request of PGE Polska Grupa Energetyczna S.A.) for obligations of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. to third parties up to the maximum amount of PLN 20 000 thousand.

EC Zielona Góra S.A.

- On 12 December 2018, EC Zielona Góra S.A. signed with Izba Rozliczeniowa Giełd Towarowych S.A. (IRGiT) Surety Agreement for liabilities incurred by PGE Dom Maklerski S.A. towards IRGiT by virtue of clearing of transactions concluded by Dom Maklerski on behalf of EC Zielona Góra S.A. (and transactions concluded independently by the Guarantor, if they are subject to the Transfer of Positions). Signing the Surety Agreement is a consequence of the company's resignation from direct stock exchange membership and participation through PGE Dom Maklerski S.A. Pursuant to the Exchange Rules, its participants must secure transactions executed on the exchange by means of deposits established in cash or non-cash form. In order to take advantage of the non-cash form, it is necessary to grant the surety and secure it with a bank guarantee. The surety is issued for the amount of PLN 60 000 thousand and is valid until 31 December 2020. In January 2020, Annex No. 1 to the Surety Agreement was signed and its scope was extended by liabilities incurred by PGE Dom Maklerski S.A. towards IRGiT on account of settlements of transactions concluded by Dom Maklerski on behalf of PGE Energia Ciepła S.A. and PGE Polska Grupa Energetyczna S.A. and by liabilities incurred by PGE GiEK S.A. towards IRGiT. Entering into the annex enabled the company to sign the agreement defining the rules for establishing financial security and allowing for the set-off of security deposits.

- In December 2020, EC Zielona Góra S.A. signed a new surety agreement with IRGiT and PGE Dom Maklerski S.A. The agreement entered into force on 1 January 2021 and is valid until 31 December 2022. The surety is issued for the amount of PLN 60 000 thousand and covers liabilities incurred by PGE Dom Maklerski S.A. towards IRGiT on account of settlements of transactions concluded by Dom Maklerski on behalf of PGE Energia Ciepła S.A. and PGE Polska Grupa Energetyczna S.A. and by liabilities incurred by PGE GiEK S.A. towards IRGiT.

- On 29 December 2020, the bank guarantee in the amount of PLN 30 000 thousand issued on behalf of PGE Polska Grupa Energetyczna S.A. by Bank BGK S.A. for IRGiT came into force. The guarantee secures the liabilities resulting from the surety agreements. The guarantee was valid until 12 January 2021.

- On 28 December 2018, the payment guarantee issued by Bank Pekao S.A. for the benefit of Polskie Sieci Elektroenergetyczne S.A. as a security of payments pursuant to the agreement for the provision of electricity transmission services came into force. The guarantee was valid until 27 December 2019. The contingent liability on this account was PLN 1 500 thousand. On 14 November 2019, Bank Pekao S.A. issued Annex No. 1 to the guarantee for PSE S.A. under which, the total amount of the guarantee increased to PLN 2 million as of 2 December 2019 and was extended as of 27 December 2019 until 23 December 2020. On 13 February 2020, Bank Pekao S.A. issued Annex No. 2 increasing the guarantee to the amount of PLN 3 500 thousand. On 22 September 2020, by Annex No. 3, the Bank extended the validity of the guarantee until 22 September 2021.

- On 5 October 2017, Bank Polska Kasa Opieki S.A., under a group agreement, opened a revolving line for the Company to issue bank guarantees up to the maximum total amount of PLN 30 000 thousand. The claim is secured with a *blank promissory note* up to the amount of PLN 36 000 thousand. The agreement ended on 5 October 2020, but it covers the guarantee specified above valid until 22 September 2021.

- In order to ensure the availability of the guarantee line after the expiry of the above agreement, on 6 April 2020, the subsidiary EC Zielona Góra S.A. and PGE Polska Grupa Energetyczna S.A. *entered into an arrangement concerning the rules of establishing security (bank guarantees) for the obligations of Elektrociepłownia Zielona Góra S.A.* The arrangement is valid until 1 January 2021 and enables the Company to incur liabilities in connection with providing security (bank guarantees issued at the request of PGE Polska Grupa Energetyczna S.A.) for obligations of EC Zielona Góra S.A. to third parties up to the maximum amount of PLN 10 000 thousand.

39. Future liabilities under investment agreements

The value of future liabilities in respect of the most relevant investment agreements entered into by the Group, not yet recognized in the statement of financial position as at 31 December 2020, amounted to PLN 142 112 thousand.

The Parent Company’s expenditures in the amount of PLN 26 658 thousand will be primarily allocated to:
- design and supply of heat centers with connection modules,
- execution of connections and heating networks,
- modernization of wet flue gas desulfurization and catalytic denitrification plants,
- repairs of turbine sets, transformers and generators in EC Wrocław and EC Czechnica,
- service works, periodic inspections, modernization of water boilers and auxiliary equipment,
- execution of construction design works for the New Czechnica project in Siechnice.

The subsidiary’s expenditures in the amount of PLN 115 454 thousand will be primarily allocated to:
- gas turbine modernization,
- reconstruction of the heat distribution system,
- delivery and execution of a heat and cooling station for Centrum Zdrowia Matki i Dziecka and the University Hospital in Zielona Góra.

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40. Transactions with related parties

a. Related parties

The Group is related to entities from PGE Group, state-owned companies and management personnel, including in particular members of the Management Board, members of the Supervisory Board and persons closely related to them.

b. Transactions with management personnel

Short-term employee benefits

Detailed payroll is presented in Note 3c *Employee benefits*. The total remuneration (total salaries and other benefits) received by the management and supervisory personnel are presented in the table below.

Table: Remuneration (total salaries and other benefits) earned by the Parent Company's management and supervisory personnel for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	For the year ended 31 December 2019
Management Board- salaries in the period of service	1 230	1 002
Management Board - potential benefits	237	530
Supervisory Board	294	299
	1 761	**1 831**

Detailed information regarding the remuneration of the members of the Management Board and the Supervisory Board is presented in the *Report on the Company's activities* in the chapter *Application of corporate governance*, item 11 *Remuneration system.*

Other information

In 2020 and 2019, the Company did not grant loans from social fund (ZFŚS) to members of the Management Board and the Supervisory Board.

c. Transactions with other related parties

Transactions with other related parties include in particular:

- steam coal and biomass supply services (Polska Grupa Górnicza S.A., Jastrzębska Spółka Węglowa S.A.),
- sale of electricity and trade in property rights, support for non-technical functions, consulting services and cash pooling services (PGE Energia Ciepła S.A., PGE Polska Grupa Energetyczna S.A., PGE Dom Maklerski S.A.),
- handling of coal landfill, handling of ash removal equipment, stoking, utilization of production waste, management of the waste landfill (PGE Ekoserwis S.A., entity owned by PGE Group),
- the sale and distribution of electric energy, purchase of gas, fuel oil, licence fees, railway transport (State Treasury Companies, including, among others, PGNiG S.A., Tauron Sprzedaż Sp. z o.o., Tauron Dystrybucja S.A., PSE S.A., LOTOS Group Companies, PKP Cargo S.A.).

In the opinion of the Parent Company's Management Board, all transactions with related parties are concluded on an arm's length basis.

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Table: Mutual receivables with other related parties as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019
PGE S.A. *(ultimate parent company)*	688 678	452 634
PGE Energia Ciepła S.A. *(parent company)*	15 280	48 241
Other related entities, including:	7 041	15 993
PGE Ekoserwis S.A.	*3 619*	*6 012*
Grupa PKP	*230*	*182*
PSE S.A.	*146*	*180*
PGE Dom Maklerski S.A.	*2 894*	*9 405*
	710 999	**516 868**
Trade receivables	73 849	52 433
Investment receivables	-	2 265
Cash pooling	630 655	448 989
Other receivables	6 495	13 181
	710 999	**516 868**

Table: Mutual liabilities with other related parties as at 31 December 2020 and 31 December 2019

	As at 31 December 2020	As at 31 December 2019
PGE S.A. *(ultimate parent company)*	18 154	14 204
PGE Energia Ciepła S.A. *(parent company)*	87 211	724
Other related entities, including:	42 475	38 803
PGE Ekoserwis S.A.	*1 447*	*3 986*
Polska Grupa Górnicza S.A.	*17 798*	*11 494*
Jastrzębska Spółka Węglowa S.A.	*705*	*3 033*
Grupa PKP	*842*	*550*
PZU S.A.	*459*	*3 103*
Tauron Dystrybucja S.A.	*996*	*176*
PGNiG S.A.	*16 465*	*15 974*
PGE Systemy S.A.	1 075	-
Grupa Azoty S.A.	281	-
PKN OrlenS.A.	688	-
Polimex Energetyka Sp. z o.o.	140	-
Instytut Automatyki Systemów Energetycznych sp. z o.o.	1 200	-
	147 840	**53 731**
Trade payables	145 489	49 811
Payables due to tangible assets acquisition	837	1 624
Cash pooling	1 364	-
Other payables	150	2 296
	147 840	**53 731**

Liabilities with the parent company PGE Energia Ciepła S.A. include forward transactions executed in December for the purchase of CO_2 emission rights in amount of PLN 82 768 thousand.

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Table: Revenues from transactions with related parties (including finance income) for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	**For the year ended 31 December 2019**
PGE S.A. *(ultimate parent company)*	515 619	54 349
PGE Energia Ciepła S.A. *(parent company)*	19 844	348 177
Other related entities, including:	231 573	227 606
PGE Ekoserwis S.A.	*384*	*2 179*
PGE Obrót S.A.	*1 528*	*8 635*
Grupa PKP	*726*	*522*
Tauron Dystrybucja S.A.	*123*	*132*
PSE S.A.	*3 283*	-
PGE Dom Maklerski S.A.	*224 484*	*211 735*
PGNiG S.A.	*189*	*216*
Enea Operator Sp. z o.o.	*205*	-
Poczta Polska S.A.	*193*	-
	767 036	**630 132**

Table: Costs from transactions with related parties (including financing costs) for the year ended 31 December 2020 and 31 December 2019

	For the year ended 31 December 2020	**For the year ended 31 December 2019**
PGE S.A. *(ultimate parent company)*	102 097	82 954
PGE Energia Ciepła S.A. *(parent company)*	217 484	74 803
Other related entities, including:	363 677	451 805
PGE Ekoserwis S.A.	*18 323*	*20 199*
Polska Grupa Górnicza S.A.	*117 322*	*209 426*
Jastrzębska Spółka Węglowa S.A.	*3 410*	*10 951*
PGE Paliwa Sp. z o.o.	*1 131*	*1 431*
PGE Obrót S.A.	*762*	*674*
Grupa PKP	*4 629*	*5 589*
PZU S.A.	*505*	*472*
Tauron Dystrybucja S.A.	*4 427*	*1 905*
PSE S.A.	*3 207*	*1 628*
PGE Dom Maklerski S.A.	*4 614*	*1 438*
PGNiG S.A.	*197 261*	*196 342*
Enea Operator Sp. z o.o.	*1 312*	*1 273*
PGE Systemy S.A.	*5 046*	-
Grupa Azoty S.A.	*1 012*	-
PKN OrlenS.A.	*1 558*	-
Państwowe Gospodarstwo Wodne Wody Polskie	*343*	-
Instytut Automatyki Systemów Energetycznych sp. z o.o.	*2 549*	-
LOTOS Paliwa Sp. z o.o.	*327*	-
Energopomiar Sp. z o.o.	*390*	-
	683 258	**609 562**

The State Treasury is the parent owner of PGE Polska Grupa Energetyczna S.A. Therefore, in accordance with IAS 24 *Disclosure of information on related entities*, State Treasury Companies are treated as related entities.

The largest transactions with State Treasury Companies concern the following companies: Polska Grupa Górnicza S.A., Jastrzębska Spółka Węglowa S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A., PKP Cargo S.A., PKN Orlen S.A., TAURON Dystrybucja S.A., Instytut Automatyki Systemów Energetycznych sp. z o.o.

41. Tax settlements

Tax duties and powers are set out in the Constitution, tax laws and ratified international agreements. According to the Tax Code, tax is defined as a public law, unpaid, compulsory and non-returnable cash payment to the State Treasury, a province, a district or a commune, as provided for in a tax act. Based on the subject criterion, taxes in Poland can be divided into five groups: taxation of income, taxation of turnover, taxation of assets, taxation of activities and other fees, not classified elsewhere.
From the point of view of the activities of business entities, the following forms of taxations are important: taxation of income (corporate income tax), taxation of turnover (value added tax, VAT, excise tax) and taxation of assets (real property tax and tax on means of transport). Other fees and contributions that can be classified as quasi-taxes should also be taken into account. They include, but are not limited to, social security contributions.
In 2020, the basic tax rates were as follows: corporate income tax rate: 19%, basic VAT rate: 23%, reduced VAT rates: 8%, 5%, 0%. Some goods and services are exempt from VAT.
Tax regulations of the tax system in Poland are subject to a large variability, high level of complexity and high potential penalties in case of committing a tax offence. Tax settlements and other regulatory areas of activity (e.g. customs or foreign exchange issues) may be inspected by the authorities which are authorized to impose fines and penalties with penal interest. Tax settlements may be inspected for a period of 5 years from the end of the calendar year in which the tax due date has passed.

a. Split payment in VAT, obligation to make payments to accounts reported to tax offices

The Group companies use funds received from counterparties in VAT accounts to pay its liabilities which include VAT. The amount of funds in the VAT accounts on a given day depends primarily on how many of the Company's counterparties use the split payment and the time relationships between the payment of receivables and liabilities. As at 31 December 2020, the balance of cash on VAT accounts was PLN 12 769 thousand.

According to the provisions that came into force on 1 January 2020, entrepreneurs are obliged to make payments to counterparties (active VAT taxpayers) for purchased goods or services with a value exceeding PLN 15 thousand only to the accounts of these counterparties, as reported to the tax office (the so-called white list). As a rule, payment to an account not reported to the tax office excludes the right to consider it a tax expense. The right to account for the expense as a deductible cost can be preserved only upon the notice to the tax authority, in a specified form and by a specified date, that a payment has been made to an account outside the white list. According to the regulations that came into force on 1 July 2020, the split payment excludes the sanctions resulting from the payment to an account not included in a white list. As the Group uses the split payment, the risk indicated above is mitigated.

b. Mandatory Disclosure Rules

According to new regulations introduced in 2019, it is necessary to report the tax scheme under the so-called Mandatory Disclosure Rules (MDRs). As a general rule, a tax scheme should be understood as an activity under which the tax benefit is the main or one of the main benefits. Events with so-called distinctive or other distinctive characteristics, as defined in the regulations, have been designated as a tax scheme. Three types of entities are subject to reporting obligations: promoting entities (*promotorzy*), supporting entities (*wspomagający*) and users (*korzystający*). MDRs are complex and imprecise in many areas, causing uncertainty about how they should be used in practice.

c. Uncertainty over tax settlements

The regulations concerning goods and services tax, corporate income tax and social insurance charges are subject to frequent changes. As a result of these changes, there are no appropriate points of reference, there are inconsistent interpretations and few established precedents which could be used. The applicable regulations also contain ambiguities which result in differences of opinion as to the legal interpretation of the tax regulations, both between the state authorities and between the State authorities and enterprises.
Tax settlements and other areas of activity (e.g. customs or foreign exchange issues) may be inspected by the authorities which are authorized to impose high penalties and fines, and all additional tax liabilities resulting from such inspections must be paid with high interest. As a result of these conditions, the tax risk in Poland is greater than that in countries with more mature tax systems. In consequence, the amounts presented and disclosed in financial statements may change in the future as a result of the final decision of a fiscal control authority.

The Tax Code contains the provisions of the General Anti-Abuse Rule (GAAR). GAAR is to prevent the rise and utilization of artificial legal structures created to avoid paying taxes in Poland. GAAR defines tax avoidance as an activity carried out first of all to obtain a tax benefit which is contradictory to the provisions of a tax act. According to GAAR, such an activity does not result in obtaining a tax benefit if the course of action was artificial. All the instances of the occurrence of the unjustified division of operations, the involvement of intermediaries without economic or financial justification, elements cancelling or offsetting each other, and other actions with an effect similar to that of those previously mentioned, may be treated as an argument in favor of the existence of artificial activities subject to the provisions of GAAR. The new regulations will require a lot more judgement in assessing the tax implications of individual transactions.
The GAAR clause should be applied to transactions carried out after it came into force and to transactions which were conducted before the GAAR clause came into force but for which, after the effective date of the clause, benefits were or still are being obtained. The implementation of the above regulations will enable the Polish fiscal control authorities to question the legal arrangements and schemes carried out by taxpayers, such as Group restructuring and reorganization.

The Group recognizes and measures current and deferred income tax assets or liabilities by applying the requirements of IAS 12 *Income Taxes* based on the taxable profit (tax loss), tax base, tax losses carried forward, unutilized tax relief and tax rates, taking into account an assessment of the uncertainty over tax settlements.

If there is an uncertainty as to whether or not and to what extent a tax authority will accept individual tax settlements in respect of transactions, the Group recognizes these settlements, taking into account the assessment of the uncertainty.

d. Property tax

Under property tax law, rail infrastructure and the land on which it is located (primarily rail sidings) is exempt from property tax. The main condition for exemption is that the definition of infrastructure is met and infrastructure is put into use by an independent carrier. This area is not clearly defined and thus generates disputes between the commune and the taxpayer. In September 2020, KOGENERACJA S.A. submitted requests for property tax exemption interpretations to three Communes in which it owns railroad infrastructure (Wrocław, Siechnice, Długołęka). The Company received the following responses:

- negative interpretation of the Długołęka Commune,
- partially negative interpretation of the Wrocław Commune (with respect to land),
- positive interpretation of the Siechnice Commune.

In December 2020, KOGENERACJA S.A. filed complaints with the Provincial Administrative Court (WSA) regarding negative interpretations of the Długołęka Commune and the Wrocław Commune.

In February 2021, the Company received from the Siechnice Commune a decision to change the interpretation from a positive to a negative one. In view of the above, KOGENERACJA S.A. filed a complaint with WSA regarding the negative interpretation of the Siechnice Commune.

42. Non-standard transactions

Impact of the COVID-19 pandemic on the operations of the KOGENERACJA S.A. Group

KOGENERACJA S.A. and its subsidiary EC Zielona Góra S.A. identify risk factors that may affect the Group's performance in relation to the COVID-19 pandemic on an ongoing basis. As of 31 December 2020, the impact on financial results remained limited. However, due to the dynamic situation and the lack of realistic predictions regarding the duration of the pandemic, it is currently not possible to accurately estimate the financial impact of the pandemic on the KOGENERACJA S.A. Group in future periods. The factors to be taken into account include the duration of the epidemic, its possible severity and scope, and its impact on Poland's economic growth. Mechanisms mitigating the negative impact of the pandemic on the Polish economy should also be introduced.

In connection with the outbreak of the pandemic, an economic slowdown was expected in the global economy and in Poland in 2020. It is reflected in, inter alia, the revised market forecasts of GDP, industrial production and investment.

As of 31 December 2020, the Group performed a detailed analysis of changes in the economic environment in connection with the coronavirus pandemic, the calculation of expected credit losses and liquidity management policies in order to assess if it is necessary to modify the estimates to include an additional element of risk due to current economic conditions and future projections.

As a result of the reduced level of economic activity, the Group recognizes the lower domestic electricity consumption risk which could result in lower revenues and margins from power generation, distribution and sales. For the manufacturing activity, the majority of sales were contracted in prior periods. Therefore, the negative impact of lower production volumes should be largely limited in the short term. The Group assumes the impact on contracting volumes and prices in future periods. However, it is currently not possible to estimate it. The actual impact will depend on the profile and changes in consumption, the duration of the pandemic, and its impact on the global economic downturn.

Furthermore, the KOGENERACJA S.A. Group recognizes the risk related to the increase in overdue receivables due to the expected deterioration in the customers' liquidity position. It will depend on the extent of the reduction in economic activity and on the effects of the government's shielding measures for entrepreneurs.

A greater need for cash may occur, irrespective of the impact on financial results. The receivables turnover ratio is likely to deteriorate. These effects will result in the need to incur additional financial liabilities, which may also affect the financial costs to be incurred by the Group.

No liquidity problems were observed as of the reporting date. The analysis did not reveal any material impact of the pandemic on expected credit losses at 31 December 2020. The Group analyzes market conditions on an ongoing basis and will update the models used to estimate expected credit losses if conditions deteriorate. To estimate expected credit losses, counterparties were divided into two groups: strategic counterparties which are internally assigned ratings based on a risk assessment model and other counterparties with expected credit losses estimated based on a provision matrix. If a deterioration in the collection of receivables is observed in any group of counterparties, more conservative assumptions in the model will be introduced be and the percentages indicating the repayment of receivables in each time interval in the provision matrix will be modified. In the event of overdue receivables over 90 days, an impairment allowance is created in the full amount. The aging of receivables and the amount of the impairment allowance are presented in Chapter III *Explanatory notes to the financial statements*, item 18.

The Group took a number of preventive measures to limit the risk of spreading the virus, protect the employees and ensure the continuity of its operations, including the following:

- procedures and guidelines to minimize face-to-face contact;
- temperature control of people staying on site;
- remote work and job rotation;
- raising awareness of basic principles of prevention and protection against the coronavirus;
- procedures to ensure the availability of the key personnel of the Group companies;
- recommendations to limit business travel and business meetings, and to use the means of communication instead, such as telephones, instant messaging and video conferencing;
- personal protective equipment (protective masks, gloves) and disinfectants for employees as well as sanitary and disinfection procedures;
- the Crisis Team to monitor the situation on an ongoing basis and take appropriate measures.

Thanks to appropriate remedial measures at an early stage of the pandemic and ongoing adjustment of the measures to the changing epidemiological conditions, KOGENERACJA S.A. and its subsidiary EC Zielona Góra S.A keep on producing electricity and heat, and ensure their stable supply.

Management considered negative scenarios regarding further development of the pandemic and its impact on the Company, conducted the analysis of financial and operational risks and hazards, and assessed whether there is any material uncertainty regarding events and conditions that may raise significant concerns about the Company's ability to continue as a going concern.

The analysis revealed that the COVID-19 pandemic does not threaten the Company's continued business operations for the foreseeable future.

By 31 December 2020, the KOGENERACJA S.A. Group incurred costs of PLN 945 thousand for the purchase of personal protection equipment (masks, overalls, face shields), disinfectants and cleaning agents, and disinfection of production facilities. In the second half of March 2020, the Parent Company's Management Board decided to limit the number of employees at EC Wrocław and EC Czechnica, introduced remote working for single-shift employees and changed the work system for shift workers to guarantee uninterrupted production of heat and electricity, and the health and safety of employees. These actions directly increased labor costs by PLN 747 thousand.
The total costs related to the coronavirus pandemic incurred by the KOGENERACJA S.A. Group amounted to PLN 1 692 thousand (of which the Parent Company: PLN 1 406 thousand; the subsidiary EC Zielona Góra S.A.: PLN 286 thousand).

43. Events after the reporting period

Subsequent to 31 December 2020, the following events occurred:

- On 1 March 2021, the Management Board of KOGENERACJA S.A. informed about the acceptance of the offer made by the consortium composed of Polimex Mostostal S.A. (Consortium Leader) and Polimex Energetyka sp. z o.o. (Consortium Partner) under the procedure entitled "Turnkey execution of a gas-steam power plant for Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. in Siechnice" and about its consent to enter into an agreement with the consortium after specific conditions are fulfilled. The conditions to be fulfilled include granting the Company an individual cogeneration bonus for Nowa EC Czechnica by the decision of the President of the Energy Regulatory Authority based on the Act of 14 December 2018 on the promotion of electricity from high-efficiency cogeneration and obtaining the necessary corporate approvals, including, inter alia, the approval of the General Meeting *(Current Report 2/2021*).

- On 1 March 2021, EC Zielona Góra S.A. held an Extraordinary General Meeting, which resolved on a compulsory buyout of minority shareholders representing in total less than 5% of the company's share capital. KOGENERACJA S.A. is obliged to purchase all the shares subject to the compulsory buyout. The compulsory buyout covers 8 849 shares of EC Zielona Góra S.A. The adoption of the resolution on the compulsory buyout of shares of minority shareholders constitutes the execution of the right of the majority shareholder provided for in Article 418 of the Code of Commercial Companies.
- On 3 February 2021, KOGENERACJA S.A. disclosed to the public selected preliminary consolidated financial and operating results for 2020 (*Current Report 3/2021*).

- On 5 March 2021, the Management Board of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. informed about convening the Extraordinary General Meeting on 1 April 2021. The main agenda of the meeting includes the adoption of a resolution on giving consent to the execution of a turnkey development investment consisting in the construction of a gas-steam power plant for Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. in Siechnice with a net value of PLN 1 277 022 thousand, provided that the President of the Energy Regulatory Office grants an individual cogeneration bonus for Nowa EC Czechnica, based on the Act of 14 December 2018 on the promotion of electricity from high-efficiency cogeneration (*Current Report 4/2021*).).

- On 12 March 2021, the President of the Energy Regulatory Office announced the results of the call for the individual cogeneration bonus, in accordance with the act on promotion of electricity from high-efficiency cogeneration. The offers of PGE Energia Ciepła S.A. and Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. won the call. The value of the individual co-generation bonus to be paid out to the participants between 2023 and 2039, will total over PLN 936 million, and the total volume of electricity generated from high-efficiency co-generation between 2023 and 1939 will exceed 18 TWh. The above amounts may change in the event that investment aid is granted to generators after the call is settled.

for the period from 1 January to 31 December 2020, in accordance with EU-adopted IFRS (in PLN thousand)

44. Adjustment of comparative information as at and for the period ended 31 December 2019

a. Consolidated statement of comprehensive income for the period ended 31 December 2019

	For the year ended 31 December 2019 previous period *(approved data)*	*Resteatments*	*For the year ended 31 December 2019* previous period *(transformed data)*
Revenue from sales	1 093 001	(512)	1 092 489
Cost of sales	(963 229)	52 453	(910 776)
Costs from compensation for stranded costs	(7 237)	-	(7 237)
Gross profit on sales	**122 535**	**51 941**	**174 476**
Other operating income	15 525	2 022	17 547
Selling and distribution expenses	(21 789)	(4 968)	(26 757)
General and administrative expenses	(5 414)	(48 146)	(53 560)
Other operating expenses	(6 843)	(849)	(7 692)
Operating profit	**104 014**	**-**	**104 014**
Finance income	10 669	-	10 669
including: interest income	*10 591*	-	*10 591*
Finance expenses	(8 233)	-	(8 233)
Net finance income	**2 436**	**-**	**2 436**
Profit before tax	**106 450**	**-**	**106 450**
Income tax	(22 623)	-	(22 623)
Net profit	**83 827**	**-**	**83 827**

The consolidated statement of comprehensive income reclassifies the following items:

- revenues from the sale of scrap metal from *Revenue from sales* to *Other operating income* (PLN 512 thousand),
- cost of sales from *Cost of sales* (PLN 4 968 thousand),
- general and administrative expenses from *Cost of sales* (PLN 48 146 thousand),
- the measurement of financial instruments related to the purchase and sale of CO_2 emission rights (for own purposes) from *Cost from sales* to *Other operating income* (PLN 746 thousand),
- inventory variances from *Cost of sales* to *Other operating income* (PLN 72 thousand) and *Other operating costs* (PLN 157 thousand),
- impairment loss on inventory and receivables from *Other operating income* to *Other operating costs* (PLN 220 thousand),
- costs of leased assets from *Other operating income* to *Other operating costs* (PLN 472 thousand).

The above changes had no effect on the Group's net profit.

for the period from 1 January to 31 December 2020, in accordance with EU-adopted IFRS (in PLN thousand)

b. Consolidated statement of financial position as at 31 December 2019

	As at 31 December 2019 previous period *(approved data)*	*Resteatments*	*As at 31 December 2019* previous period *(transformed data)*
ASSETS			
Long-term receivables	10 984	(5 058)	5 926
Other non-current assets	-	5 058	5 058
Trade and other receivables	157 336	443 245	600 581
Other current assets	-	5 744	5 744
Cash and cash equivalents	465 183	(448 989)	16 194

	As at 31 December 2019	*Resteatments*	*As at 31 December 2019*
Employee benefit liabilities	9 932	(7 425)	2 507
Long-term provisions	24 276	7 425	31 701
Deferred income and government grants	-	7 158	7 158
Trade and other payables	197 454	(7 955)	189 499
Employee benefit liabilities	17 865	(822)	17 043
Short-term provisions	101 463	1 619	103 082

The statement of financial position reclassifies the following items:

- deferred income from *Long-term receivables* to *Other non-current assets* (PLN 2 965 thousand),
- prepayments for fixed assets under construction from *Long-term receivables* to *Other non-current assets* (PLN 2 093 thousand),
- cash from cash pooling to *Trade and other receivables* (PLN 448 989 thousand),
- short-term deferred income from *Trade and other receivables* to *Other current assets* (PLN 5 744 thousand),
- post-employment employee benefits (retirement benefits and the write-off for the Social Fund) from *Liabilities due to employee benefits* to *Long-term provisions* (PLN 7 425 thousand) and *Short-term provisions* (PLN 1619 thousand),
- short-term deferred income from *Trade and other liabilities* to *Deferred income and government grants* (PLN 6 336 thousand).

for the period from 1 January to 31 December 2020, in accordance with EU-adopted IFRS (in PLN thousand)

c. Consolidated statement of financial position as at 1 January 2019

	As at 1 January 2019 previous period *(approved data)*	*Resteatments*	*As at 1 January 2019* previous period *(transformed data)*
Long-term receivables	11 395	(3 762)	7 633
Other non-current assets	-	3 762	3 762
Trade and other receivables	175 989	329 726	505 715
Other current assets	-	4 085	4 085
Cash and cash equivalents	352 746	(333 811)	18 935

	As at 1 January 2019 previous period *(approved data)*	*Resteatments*	*As at 1 January 2019* previous period *(transformed data)*
Employee benefit liabilities	9 526	(6 405)	3 121
Long-term provisions	18 556	6 405	24 961
Deferred income and government grants	-	10 896	10 896
Trade and other payables	164 110	(11 465)	152 645
Employee benefit liabilities	17 720	(699)	17 021
Short-term provisions	42 251	1 268	43 519

Separate statement of financial position as at 1 January 2019 reclassifies the following items:

- deferred income from *Long-term receivables* to *Other non-current assets* (PLN 1 669 thousand),
- prepayments for fixed assets under construction from *Long-term receivables* to *Other non-current assets* (PLN 2 093 thousand),
- cash from cash pooling to *Trade and other receivables* (PLN 333 811 thousand),
- short-term deferred income from *Trade and other receivables* to *Other current assets* (PLN 4 085 thousand),
- post-employment employee benefits (retirement benefits and the write-off for the Social Fund) from *Liabilities due to employee benefits* to *Long-term provisions* (PLN 6 405 thousand) and *Short-term provisions* (PLN 1 268 thousand),
- short-term deferred income from *Trade and other liabilities* to *Deferred income and government grants* (PLN 10 896 thousand).

C. Approval of the financial statements

These consolidated financial statements of the KOGENERACJA S.A. Group for the period from 1 January to 31 December 2020 were approved for publication by the Management Board of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. on 22 March 2021.

Wrocław, 22 March 2021

Signatures of Members of the Management Board of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.

....
Andrzej Jedut
President of the Management Board

....
Krzysztof Kryg
Vice-President of the Management Board

Signature of the person responsible for preparing the financial statements

....
Małgorzata Gołdyn
Head of the Finance Department